# HALF-YEARLY CONSOLIDATED REPORT AS AT 30 JUNE 2020

CRÉDIT AGRICOLE

# Crédit Agricole Italia Banking Group

# Half-yearly Consolidated Report as at 30 June

# 2020

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# Corporate Officers and Independent Auditors

## Board of Directors

### CHAIRMAN

Ariberto Fassati

### DEPUTY-CHAIRPERSONS

Xavier Musca

Annalisa Sassi(*)

### CHIEF EXECUTIVE OFFICER

Giampiero Maioli(*)

### DIRECTORS

Evelina Christillin(°)

François Edouard Drion(*)

Daniel Epron Annamaria Fellegara(°)

Lamberto Frescobaldi Franceschi Marini(*)

Nicolas Langevin

Hervé Le Floc'h

Paolo Maggioli

Michel Mathieu

Andrea Pontremoli(*)

Christian Valette(*)

(*) Members of the Executive Committee
(°) Independent Directors

## General Management

### VICE GENERAL MANAGERS

Roberto Ghisellini

Olivier Guilhamon

Vittorio Ratto

## Board of Auditors

### CHAIRMAN

Paolo Alinovi

### STANDING AUDITORS

Luigi Capitani

Maria Ludovica Giovanardi

Stefano Lottici

Germano Montanari

### ALTERNATE AUDITORS

Alberto Cacciani

Roberto Perlini

### MANAGER IN CHARGE OF THE PREPARATION OF CORPORATE ACCOUNTING DOCUMENTS

Pierre Débourdeaux

### INDEPENDENT AUDITORS

EY S.p.A.

# The Crédit Agricole Group

1°
FIRST

WORLD COOPERATIVE COMPANY

ASSET MANAGER IN EUROPE

BANCASSURER IN FRANCE

## Key figures of 2019

**51 MILLION**
CUSTOMERS

**47**
COUNTRIES

**142,000**
STAFF MEMBERS

**7.2 BLN €**
UNDERLYING NET INCOME

**115 BLN €**
EQUITY - GROUP SHARE

**15.9%***
CET1 RATIO

## Rating

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

* Following the Recommendation of the European Central Bank of 27 March 2020 on dividend distributions during the COVID-19 pandemic, Crdit Agricole S.A. decided to suspend the planned dividend distribution and to propose to the General Meeting of Shareholders of 13 May 2020 that the full profit for 2019 be allocated to an equity reserve; this will determine an increase in the CET1 ratio of approximately 20 bps.

# **The Crédit Agricole Group** in Italy

1°
FIRST

PLAYER IN THE ITALIAN
CONSUMER FINANCE MARKET *

3°
THIRD

ASSET MANAGER
IN ITALY**

## Key figures of 2019

**4.5 MILLION**
CUSTOMERS

**14,000**
STAFF MEMBERS

**846 MLN €*****
NET INCOME – GROUP SHARE

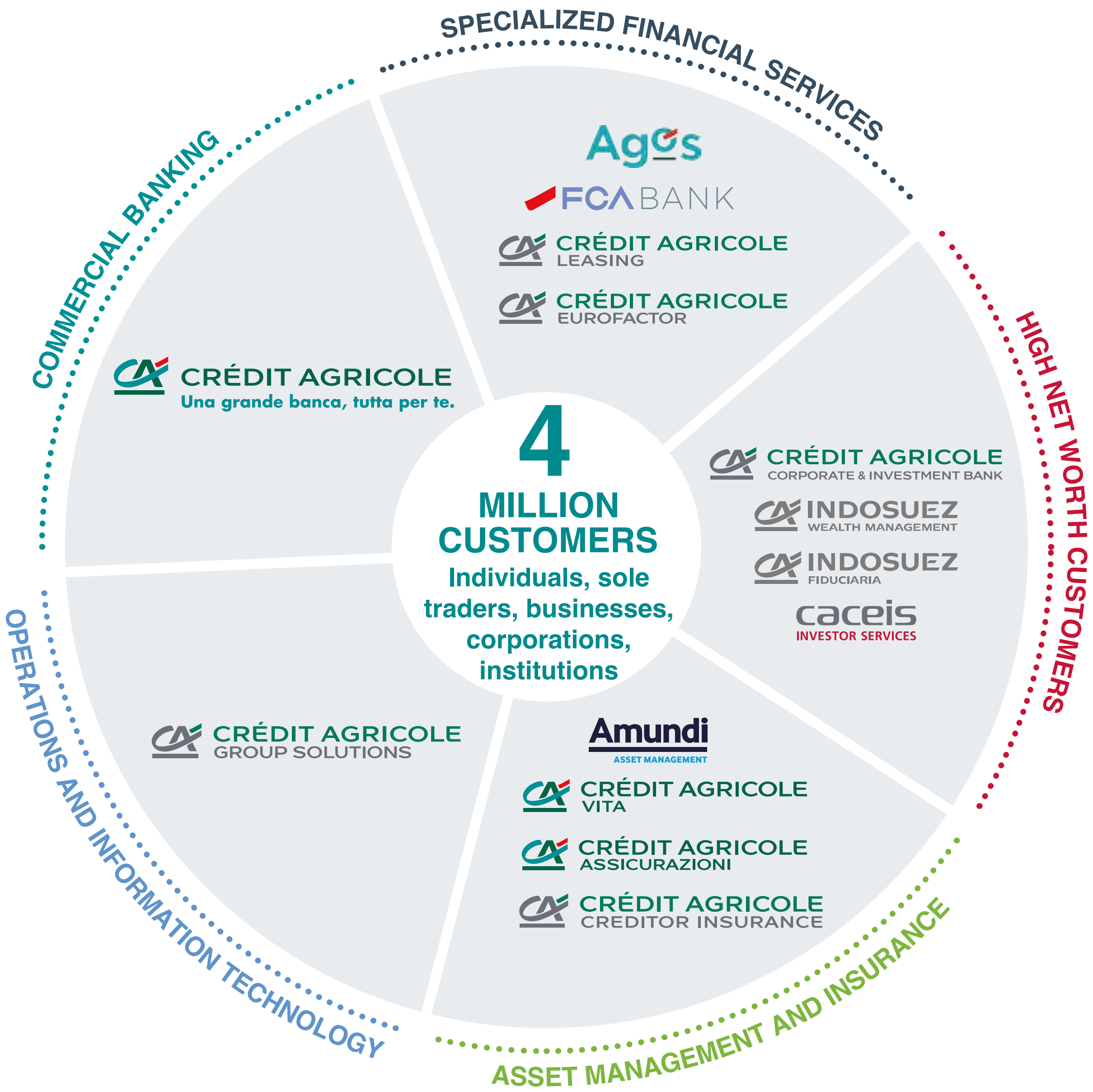
**3.5 BLN €**
NET OPERATING REVENUES

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

**76 BLN €**
LOANS TO CUSTOMERS

* Source: Agos and FCA Bank.
** Source: Assogestioni, "Mappa trimestrale del Risparmio Gestito", 4Q 2019. Data gross of duplications.
*** Of which 645 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.

**2 MILLION**
CUSTOMERS

**10,000**
STAFF MEMBERS

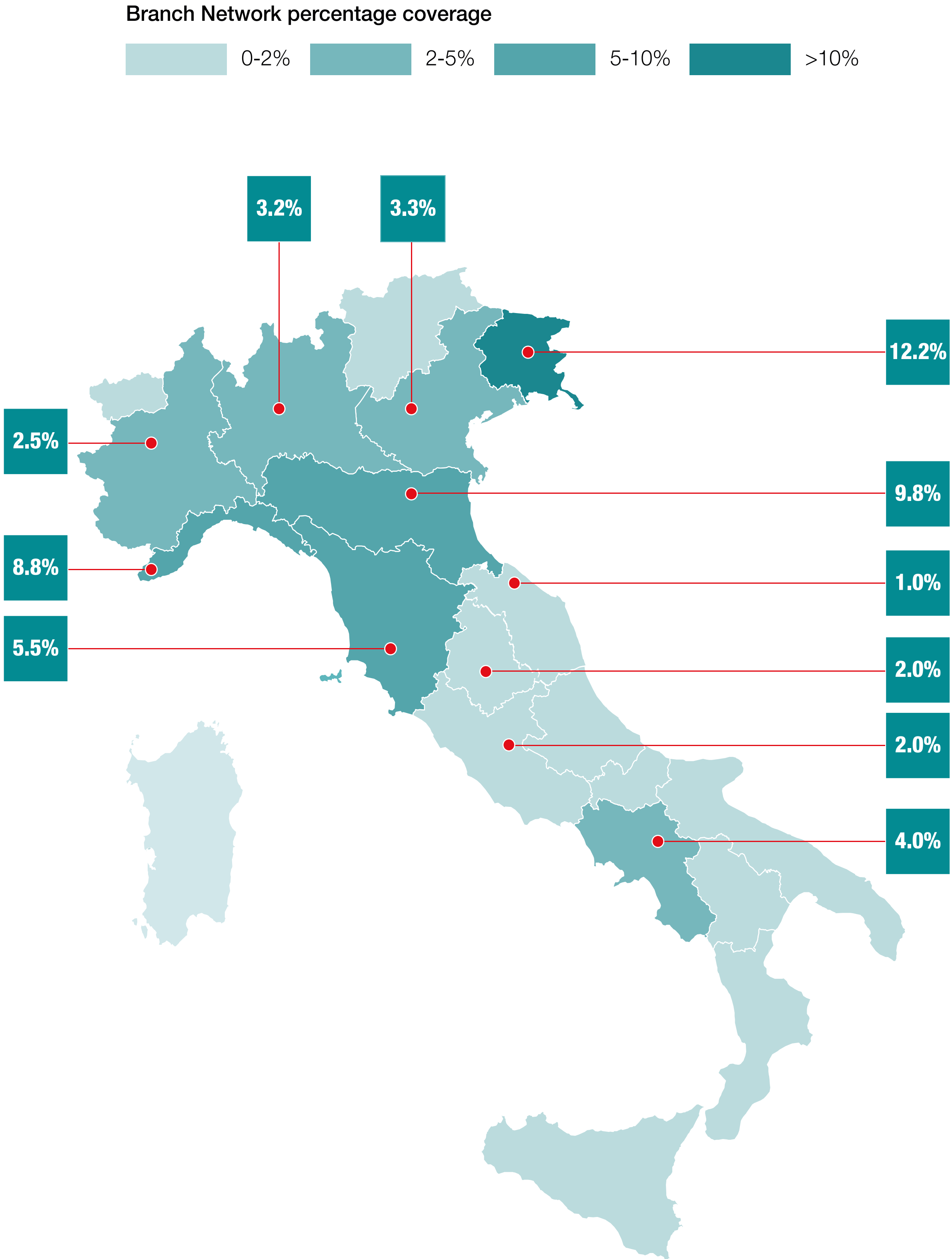
**314 MLN €**
NET INCOME - GROUP SHARE

**2 BLN €**
NET OPERATING REVENUES

OVER
**1,000**
POINTS OF SALE

OVER
**46 BLN €**
TOTAL LOANS

# Branch Network percentage coverage by Region




System figure – source: Bank of Italy, 31 March 2020
Group figure as at 30 June 2020

CRÉDIT AGRICOLE

Parent Company of the Crédit Agricole Italia Banking Group, it is strongly rooted in the communities it operates in and originated from local banks. In July 2019, Crédit Agricole Carispezia was merged into Crédit Agricole Italia, **extending its branch network to the main production centers**.

| | | |
|---|---|---|
| **829** POINTS OF SALE | **41.2 BLN €** WORTH OF LOANS | **109.9 BLN €** WORTH OF TOTAL FUNDING |

CRÉDIT AGRICOLE FRIULADRIA

In 2007, Crédit Agricole FriulAdria became part of the Group, with the objective of expanding its operations to cover the entire Triveneto Region. It has **16,000 mutual shareholders**, giving evidence of its strong bond with the local fabric; today it is a reference point for households and businesses in Northeast Italy.

| | | |
|---|---|---|
| **196** POINTS OF SALE | **8.0 BLN €** WORTH OF LOANS | **16.3 BLN €** WORTH OF 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. **At 30 June 2020, the loan portfolio amounted to approximately Euro 2Bln**.

CRÉDIT AGRICOLE GROUP SOLUTIONS

CAGS is the consortium company of the **Crédit Agricole Italia Banking Group** 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) | 30.06.2020 | 30.06.2019 | Changes | |
|---|---|---|---|---|
| | | | Absolute | % |
| Net interest income | 479,838 | 507,849 | -28,011 | -5.5 |
| Net fee and commission income | 411,413 | 448,186 | -36,773 | -8.2 |
| Dividend income | 10,378 | 11,270 | -892 | -7.9 |
| Net income from banking activities | 1,175 | 1,292 | -117 | -9.1 |
| Other operating income (expenses) | 10,825 | 7,214 | 3,611 | 50.1 |
| Net operating income | 913,629 | 975,811 | -62,182 | -6.4 |
| Operating expenses | -608,121 | -616,772 | -8,651 | -1.4 |
| Operating margin | 305,508 | 359,039 | -53,531 | -14.9 |
| Cost of risk (a) | -228,841 | -126,917 | 101,924 | 80.3 |
| Of which net value adjustments of loans | -224,549 | -123,700 | 100,849 | 81.5 |
| Net profit for the period | 96,824 | 156,310 | -59,486 | -38.1 |

| Balance Sheet highlights (°) (thousands of Euro) | 30.06.2020 | 31.12.2019 | Changes | |
|---|---|---|---|---|
| | | | Absolute | % |
| Loans to customers | 53,969,768 | 51,600,193 | 2,369,575 | 4.6 |
| Of which securities measured at amortized cost | 5,130,912 | 4,913,787 | 217,125 | 4.4 |
| Net financial Assets/Liabilities at fair value | 49,259 | 43,031 | 6,228 | 14.5 |
| Financial assets measured at fair value through other comprehensive income | 3,018,764 | 3,068,244 | -49,480 | -1.6 |
| Equity investments | 20,483 | 20,483 | - | - |
| Property, plant and equipment and intangible assets | 2,845,619 | 2,930,455 | -84,836 | -2.9 |
| Total net assets | 63,296,494 | 60,828,784 | 2,467,710 | 4.1 |
| Funding from Customers | 51,895,886 | 49,710,264 | 2,185,622 | 4.4 |
| Indirect funding from Customers | 72,277,684 | 71,294,531 | 983,153 | 1.4 |
| of which: asset management | 37,391,323 | 37,999,461 | -608,138 | -1.6 |
| Net due to banks | 1,020,076 | 1,360,306 | -340,230 | -25.0 |
| Equity | 6,489,563 | 6,443,796 | 45,767 | 0.7 |

| Operating structure | 30.06.2020 | 31.12.2019 | Changes | |
|---|---|---|---|---|
| | | | Absolute | % |
| Number of employees | 9,685 | 9,751 | -66 | -0.7 |
| Average number of employees (§) | 9,114 | 9,217 | -103 | -1.1 |
| Number of branches | 872 | 895 | -23 | -2.6 |

(°) Income statement and balance sheet data are those restated in the reclassified financial statements shown on pages 49 and 56.

(§) 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%

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

| Structure ratios (°) | 30.06.2020 | 31.12.2019 |
|---|---|---|
| Loans to customers /Total net assets | 77.2% | 76.8% |
| Direct funding from Customers/Total net assets | 82.0% | 81.7% |
| Asset management/Total indirect funding from Customers | 51.7% | 53.3% |
| Loans to Customers/ Direct funding from Customers | 94.1% | 93.9% |
| Total assets/Equity | 11.3 | 10.2 |

| Profitability ratios (°) | 30.06.2020 | 30.06.2019 |
|---|---|---|
| Net interest income/Net operating income | 52.5% | 52.0% |
| Net fee and commission income/Net operating income | 45.0% | 45.9% |
| Cost (*) / income ratio | 63.8% | 60.9% |
| Net income/Average equity (ROE) (a) | 3.0% | 5.1% |
| Net income/Average Tangible Equity (ROTE) (a) | 4.25% | 7.3% |
| Net profit/Total assets (ROA) | 0.3% | 0.5% |
| Net profit/Risk-weighted assets | 0.7% | 1.1% |

| Risk ratios (°) | 30.06.2020 | 31.12.2019 |
|---|---|---|
| Gross bad loans/Gross loans to Customers | 3.7% | 3.8% |
| Net bad loans/Net loans to Customers | 1.2% | 1.3% |
| Gross non-performing exposures/Gross loans to customers (gross NPE ratio) | 6.8% | 7.1% |
| Net non-performing exposures/Net loans to customers (net NPE ratio) | 3.2% | 3.5% |
| Impairments of loans/Net loans to Customers | 0.9% | 0.5% |
| Cost of risk(b)/Operating margin | 74.7% | 34.6% |
| Net bad debts/Total Capital (c) | 11.0% | 11.7% |
| Total Impairments of non-performing loans/Gross non-performing loans | 54.9% | 52.6% |

| Productivity ratios (°) (in income terms) | 30.06.2020 | 30.06.2019 |
|---|---|---|
| Operating expenses/No. of Employees (average) | 135 | 134 |
| Operating income/No. of Employees (average) | 202 | 213 |

| Productivity ratios (in financial terms) | 30.06.2020 | 31.12.2019 |
|---|---|---|
| Loans to Customers/No. of Employees (average) | 5,359 | 5,065 |
| Direct funding from Customers/No. of Employees (average) | 5,694 | 5,393 |
| Gross banking income (f) / No. of employees (average) | 18,983 | 18,193 |

| Capital and liquidity ratios | 30.06.2020 | 31.12.2019 |
|---|---|---|
| Common Equity Tier 1(d) /Risk-weighted assets (CET 1 ratio) | 12.6% | 12.5% |
| Tier 1 (e) /Risk-weighted assets (Tier 1 ratio) | 15.1% | 15.0% |
| Total Capital (c)/Risk-weighted assets (Total capital ratio) | 18.1% | 18.1% |
| Risk-weighted assets (Euro thousands) | 28,734,474 | 28,550,146 |
| Liquidity Coverage Ratio (LCR) | 304% | 204% |

(°) The Ratios are based on the balance sheet and income statement data of the reclassified financial statements shown on pages 49 and 56.
(*) 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.
(f) Loans to Customers + Direct Funding + Indirect Funding

# Half-yearly Report on Operations

## THE MACROECONOMIC SCENARIO AND THE FINANCIAL SYSTEM

### INTERNATIONAL MACROECONOMIC SCENARIO IN THE FIRST HALF OF 2020[1]

**The first half of 2020 featured the spread of the Covid-19 epidemic** and the restrictive measures deployed by the various States to contain it. This went along with the shock on oil prices, with the benchmark US crude oil prices trading with negative prices for the first time in history on the futures markets.

After being identified in January 2020 in China, the virus spread rapidly throughout the world, to such an extent that the WHO declared it a Pandemic in March. Since its beginning, the pandemic, which spread with different timeline and impacts to the various areas of the world, reached approximately 14 million people and the most severely affected countries were the United States, with nearly 4 million confirmed cases, and Brazil, with approximately 2 million. In Asia, besides China – which was the Covid-19 epicenter – India was also severely hit, with 1 million confirmed cases. In Europe, which reported the first cases in the western hemisphere, there have been over 3 million cases. However, thanks to the social distancing measures deployed by the European countries against the virus spread, the number of cases is now stable and gradually decreasing.

In the Euro Area, the costs resulting from the lockdown have been very high and unevenly distributed over the Area. The most affected countries have been France, Spain and Italy – which are highly exposed to the sectors that have been more severely hit by the drop in trade volumes and to tourism – whereas Germany seems to have experienced a lesser drop.

With these uncertainty factors, the risk of a world and European recession has increased. Therefore, in the last few months, Central Banks have firmly responded with accommodative monetary policies, in order to ensure liquidity in the economic system, also supported by highly expansionary public expenditure policies, such as grants, state guarantees and unemployment shock absorbers.

In May, when social distancing measures were eased, economic activities started to progressively reopen. The flattening of the curve of the Covid-19 spread in most European Countries, along with the start of summer, has given rise to some optimism among experts about possible recovery starting in the second half of the year, although some uncertainties have remained, as well as material differences, on the speed at which each State will return to before-Covid-19 activity levels.

### Monetary policies

Subsequent to the uncertainties in the economic situation, the main Central Banks are continuing to implement different **monetary policies**:

- The **Fed** decreased the rates on Fed funds by 150 basis points setting the range at 0.00%-0.25% vs. 1.50%-1.75% of the end of 2019, and extended its Quantitative Easing program to a potentially unlimited level. Furthermore, besides having started a program for primary and secondary market purchases of investment-grade securities, the Fed has authorized banks to fully use their capital and liquidity buffers and has lowered the rate on short-term financing operations extending the duration of the loans to 90 days;
- The **European Central Bank** decided to keep its **policy rates unchanged**, but, in order to ensure liquidity on the markets, besides increasing its Private Sector Purchase Programme by Euro 120 billion and keeping its APP monthly pace, it announced the Pandemic Emergency Purchase Programme (PEPP), with the initial horizon until at least June 2021 and extending up to Euro 1,350 billion, deviating from the capital key. To

1 Source: Prometeia, Forecast Report (July 2020).

support the real economy, through the Single Supervisory Mechanism (SSM) the prudential requirements for the banking system have been eased, in order to free capital buffers and its targeted longer-term refinancing operations (TLTRO III) have been strengthened;
- In order to respond to the supply shock generated by the Covid-19 epidemic, the **Chinese Central Bank** reduced the cost of debit by 10 basis points and injected 800 billion Yuan directly in the system. The only stimulus measures that were deployed consisted in wider margins for bond issues by local governments, intended for infrastructure projects;
- The **Bank of England** reduced the bank rate by 65 basis points to 0.10%, planned a Quantitative Easing programme of GBP 200 billion and injected liquidity in the system for GBP 15 billion (the most robust injection since the 2009 crisis).

## Main economies[1]

The **Gross World Product is expected to decrease by -5.2% in 2020**, down vs. 2019 (+3.0%).

The international scenario features uncertainty and the various risk factors that may contribute to weakening the present equilibrium have reflected, albeit with different intensity, in the various geographical areas:
- In Q1 2020, the **United States**[2] posted a decrease in annualized growth of approximately -5.1%, with a marked drop vs. +2.1% in the previous quarter. Economic indicators show stabilization of the macroeconomic scenario after the marked slowdown in the first months of 2020, but there are no elements giving signs of any restart: in April 2020, industrial output decreased by -11.2%, in May 2020 consumer confidence dropped by -34% vs. January 2020, in May 2020 the unemployment rate increased to 13.3%, whereas the employment rate increased to 52.8% vs. 51.3% in the previous month;
- In **China**, the GDP of Q1 2020 shrank by -6.8%2 from a year before, posting its worst performance since 1992. However, in May 2020, consumer prices increased by +2.4% from a year before. The most recent economic indicators show a recovery trend vs. the first quarter, which was heavily impacted by the restrictive measures deployed: in May industrial output rose by +4.4% YOY, after considerably slowing down in February and March by -13.5% and -1.1%, respectively, mainly due to the closure of the Hubei region, which is key in the manufacture of cars and car parts, as well as to the labour force shortages as workers could not go back to their workplaces which made it impossible to operate at normal capacity in other regions of the Country. The Purchasing Managers' Index (PMI) has returned to above 50 points, after collapsing in February to approximately 40 points, because of the disruption in production chains of small and medium enterprises upstream the production processes;
- In Q1 2020 the **Indian** economy grew by +3.1%2 YOY, down by 10 tenths vs. the previous quarter. In March 2020, inflation increased by +5.9%, at a slower pace vs. +7.4% at the end of 2019. Investments grew by little over +3%, being affected by the political uncertainty climate that went on for months;
- In Q1 2020, **Brazil's** GDP shrank by approximately -0.2%2, slowing down vs. +1.6% growth in the previous quarter. In May 2020, consumer inflation increased by approximately +2.1%, at a slower pace vs. +4.5% at the end of 2019. Household consumption started to grow again thanks to the progressive improvement in the labour market, whereas investments shrank again. The freezing of the Chinese economy due to Covid-19 and the expectations of more difficult exports subsequent to the Phase1 agreement between the USA and China caused business confidence to decrease;
- For **Russia**, the data of Q1 2020 report the economy growing by +1.6%2, at a slower pace vs. +2.1% in Q4 2019. Several factors contributed to this fall. The increase in VAT impacted on consumption, as it markedly slowed down retail sales. Household confidence gives evidence that such weakness may continue, due to the concerns on financial conditions and on prices. The labour market has shown favourable signs, with the unemployment rate continuing to decrease;
- In the first three months of 2020, the economy of the **United Kingdom**[3] shrank by -2.0% vs. Q4 2019 and by -1.6% YOY. The GDP figure for the first quarter mostly reflects the -5.8% drop in production in March 2020, especially in services (down by -1.9%), the construction sector (down by -2.6%) and output (down by -2.1%), which posted the fourth consecutive quarterly decrease. Also due to social distancing measures, household consumption decreased by -1.7% QOQ, the biggest drop since 2008. **Brexit** negotiations are continuing, but uncertainty remains. The transition period has remained unchanged with its expiry of 31 December 2020; however the British Prime Minister stated that he wants to close the treaties by September 2020.

2 Source: ABI Monthly Outlook (June 2020).
3 Source: Office for National Statistics, GDP monthly estimate (May 2020).

# EURO AREA

In Q1 2020, **the Euro Area GDP**[4] posted a negative growth, slowing down by **-3.6%** vs.Q4 2019, due to the Covid-19 pandemic.

Within the Euro Area, having regard to same period, **Germany** slowed down by -2.2%, while **France** slowed down by -5.3%.

In April 2020, **industrial output** decreased by -29% YOY (down by -19% vs. the previous month). **Retail sales** also slowed down, shrinking by -19.8% YOY in April 2020.

**The unemployment rate**, which came to 7.3% in April 2020, posted a slight decrease vs. April 2019, when it was 7.6%, thanks to the measures deployed by governments to support employment.

# THE ITALIAN ECONOMY

**In Q1 2020, the Italian GDP shrank by -5.3%**[5] **vs. the previous quarter,** markedly decreasing vs. Q4 2019 (+0.2%), due to the measures deployed to control the pandemic, which had a material impact on economic activities. The Italian economy has been affected by a decrease in added value across all sectors of the economy, especially as regards demand, with marked negative contributions both from domestic demand (gross of inventories) and from the net foreign component .

**Household expenditure**[4] has unevenly reflected the developments in the lockdown. In March, retail sales collapsed (down by -21.3%), because of non-food trade in free fall (down by -36.5%) whereas food sales remained essentially stable (down by -0.4%). Conversely, e-commerce performed very well, posting a marked increase (up by +20.7%).

In Q1 2020, consumer households' **disposable income** decreased by -1.6%[7] vs. the previous quarter, whereas its YOY decrease was -1.1%. Concomitantly and vs. Q4 2019, households' final **consumption expenditure** decreased by -6.4%, whereas **propensity to save** increased by 4.6% coming to an estimated figure of 12.5%.

In June 2020, **consumer confidence**[6] came to 100.6, improving vs. the figure posted in May (94.3, the lowest figure since December 2013), but remained lower than the 110.6 figure of December 2019: specifically, the income component dropped from 120.0 (Dec. 2019) to 87.2, and the future one from 111.8 (Dec, 2019) to 105.6. **Business confidence** had a similar performance, recovering vs. May 2020, with all indexes on the increase. However, the trend vs. December 2019 shows some decreases, namely market services coming to 51.7 (vs. 100.6 in Dec. 2019), retail commerce to 79.1 (vs. 110.2 in Dec. 2019), and construction to 124.0 (vs. 140.1 in Dec. 2019). The figure for the manufacturing sector, which has experienced a relatively more modest drop, decreased vs. Dec. 2019 by -19%: indeed, this figure went from to 98.1 to 79.8.

In Q1 2020, the **general government**[7] posted a ratio of net borrowing to GDP of 10.8% (7.1% in Q1 2019). The weight of primary balance on the Gross Domestic Product also increased, coming to 7.8% vs. 4.2% in Q1 2019.

4 Source: Eurostat, GDP and main components (June 2020).
5 Source: ISTAT (the Italian National Institute of Statistics) Monthly Report on the Italian economy (June 2020).
6 Source: ISTAT (the Italian National Institute of Statistics) consumer and business confidence (June 2020)
7 Source: ISTAT, Quarterly Non-financial accounts for General Government (June 2020).

The measures deployed to contain Covid-19 entailed the forced interruption of activities in many sectors and production levels have been showing some recovery only since May. Indeed, in May 2020, the **industrial output**[8] bounced back increasing by +42.1% vs. April; however, production levels are still being affected by the consequences of the epidemic and the index decreased YOY by -20.3%. All the main economic activity sectors have been showing downward trends, with lesser decreases in the output of basic pharmaceutical products and pharmaceutical preparations (down by -4.2%) and in electric energy, gas, steam and air supply (down by -5.2%).

In Q1 2020, **investments**[9]. sharply decreased by -8.1%, bucking the 2019 trend, which, albeit slowing down, had posted a +1.4% increase. Specifically, expenditure for machinery markedly shrank (down by -12.4%), driven by the considerable decrease in means of transport (down by -21.5%), and in construction (down by -7.9%).

The spread of the Covid-19 epidemic in Italy and in its main partner Countries has caused trade to shrink, both actually and in trend, to an extent that had never been seen from the establishment of the European Single Market in 1993. In the three-month period between February and April 2020, **foreign trade**[10] decreased vs. the previous three-month period by -18.9% as regards exports and by -18.3% as regards imports. In the month of April alone, foreign trade posted a net conjunctural decrease that breaks down as follows: Exports down by -34.9%, imports down by -18.5%.

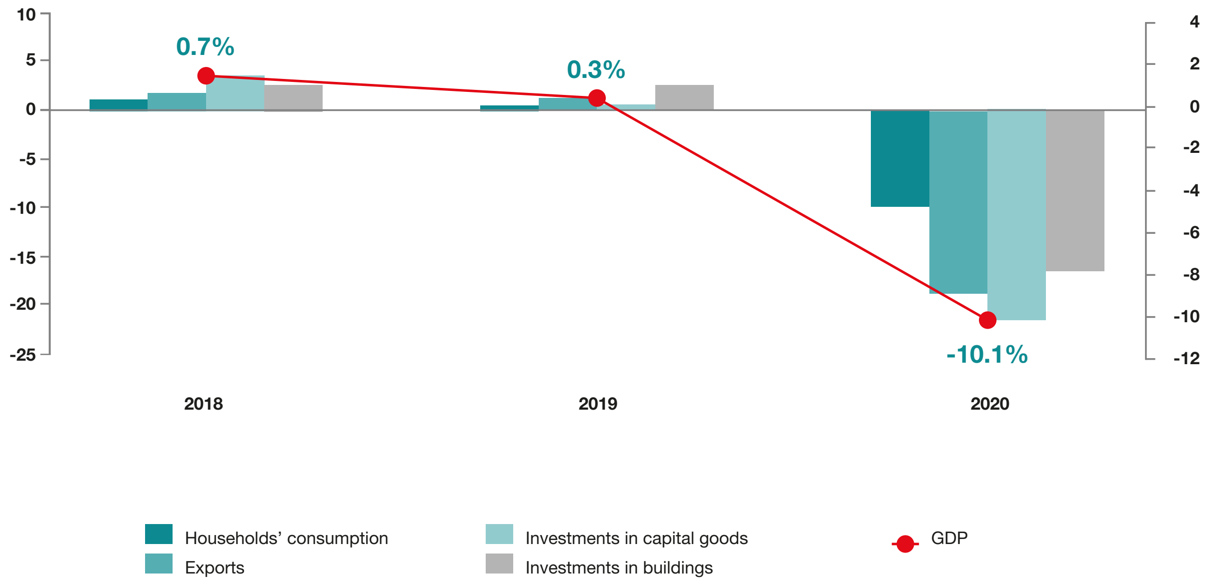
In the first five months of 2020, low inflation continued (-0.1%): in May 2020 **consumer prices**[11] decreased by -0.2% YOY. This deflationary development was mainly caused by the performance of prices of non-regulated energy products, which decreased by -12.2%.

The labour market has been showing marked weaknesses: in May 2020, the **unemployment rate**[12], reflecting a considerable recomposition between unemployed and inactive individuals and the decrease in worked hours, came to 7.8%, down by -2.2% vs. May 2019, mainly due to a much lower number of individuals looking for work (active), which went down by 22.3%. Indeed, the **employment rate**, which came to 57.6% (May 2020), shrank YOY by 1.5 percentage points, whereas the number of inactive individuals increased from 34.8% in January 2020 to 37.3% in the latest survey.

The Italian economy, for which manufacture and export are highly important, has been affected, as and maybe more than other European Countries, by the slowdown in world trade, as well as by Italy's high government debt. The first data for 2020 have confirmed that recession has started and, subsequent to the deployment of the restrictive measures to control the health emergency, the main institutions have reviewed their expectations about the Italian economy for 2020: The Bank of Italy expects the Italian economy to fall by -9.2% (bouncing back by +4.8% in 2021), the International Monetary Fund[13] expects it to shrink by -12.8% (bouncing back by +6.3% in 2021), the OECD[14] expects it down by -11.3% (bouncing back by +7.7% in 2021) and the European Central Bank expects it to shrink by -9.2% (bouncing back by +4.8% in 2021). Overall, there is consensus on a strong contraction in 2020 in the baseline scenario and on strong rebound in 2021.

8 Source: ISTAT (the Italian National Institute of Statistics) Industrial Production (May 2020)
9 Source: ISTAT (the Italian National Institute of Statistics) Italy's economic outlook 2020-2021 (June 2020)
10 Source: ISTAT, Foreign trade and import prices (May 2020).
11 Source: ISTAT (the Italian National Institute of Statistics), Consumer Prices (May 2020)
12 Source: ISTAT (the Italian National Institute of Statistics) Employment and Unemployment (May 2020)
13 Source: IMF, WEO update (June 2020).
14 Source: OECD Economic outlook (June 2020).

***Italy: GDP and its components***




Source: Prometeia, Forecast Report (July 2020)

## THE BANKING SYSTEM

In the first half of 2020, the banking system is expected to experience a general decrease in profitability, caused by an unfavourable performance of the yield curve, by a decrease in fee and commission income because of the lockdown, and by an increase in the cost of credit, which has been impacted by non-recurring provisions due to the Covid-19 effect.

Indeed, the system has increased its provisions with a prudential approach and the exceptional measures deployed should ensure that the increase in the loan impairment rates be curbed, which, in the first half of the year, remained very low.

Capitalization has been affected by several factors but, overall, has remained stable. Worth to be specifically mentioned is the positive effect of the suspended distribution of 2019 dividends, which has been offset by the capital absorption for new loans and by the increase in the spread on government securities.

The health emergency has prompted the supervisory authorities to deploy measures supporting the banking system in order to ensure continuity in their function of financing the real economy:

- The ECB, through the **Single Supervisory Mechanism, has granted flexibility in the application of the prudential framework**, allowing banks to operate temporarily below the level of capital conservation buffer (CCB, equal to 2.5% since 2019), below the level of capital defined by the Pillar 2 Guidance (P2G) and below the Liquidity Coverage Ratio (LCR);
- It was decided to bring forward the application of the **Pillar 2 Requirement (P2R)** diversification rules laid down in **CRD V** (Article 104a), which would have entered into force at the end of 2020. In accordance with these measures, banks are allowed to partially use Additional Tier 1 (AT1) and Tier 2 instruments to meet the Pillar 2 Requirement (P2R), up to a maximum of 18.75% and 25% of the P2R, respectively;
- **Some flexibility features in the treatment of non-performing loans** have been introduced, in order to mitigate the procyclical effects of IFRS9 and to allow banks to get the highest possible benefit government guarantees and from the moratoria on payments granted by the Member States' governments. In this regard, a **waiver** has also been envisaged for the **calendar provisioning** application in case the loans backed by state guarantees or under any moratorium become Non Performing Exposure (NPE) and flexibility will also be granted in the implementation of plans for the disposal of non-performing loans;

Furthermore:

- The **ECB has made a number of modifications to the terms and conditions of its new targeted longer-term refinancing operations (TLTRO III):** the maximum total amount that a bank may borrow has increased from 30% to 50% of its stock of eligible loans(net of the amount already obtained in previous tender procedures for TLTROs); the voluntary repayment option may be exercised as soon as after 12 months, rather than after 24 months, and the maximum take-up for each operation (before it was equal to one third of the total amount). For the operations taking place between 24 June 2020 and 23 June 2021, the interest rate on all **TLTRO** operations will be 50 basis points below the average rate applied in the Eurosystem's main refinancing operations over the same period (0.00%), and will be 50 basis points below the average interest rate on the deposit facility with the Central Bank prevailing over the same period (-0.50%) for the banks whose eligible net lending reaches the lending performance threshold. For this period, the benchmark net lending shall be calibrated based on the amounts of eligible loans between 1 April 2020 and the end of March 2021;

- After expanding its Quantitative Easing to Euro 120 billion for 2020 and after deciding to keep its net purchases under the asset purchase programme (APP) at a monthly pace of Euro 20 billion, the ECB **announced its Pandemic Emergency Purchase Programme (PEPP)**, a temporary asset purchase programme of private and public sector securities, which will run until June 2021 within which the ECB will purchase securities up to a total amount of Euro 1,350 billion;
- The ECB also deployed measures to support liquidity: **the tender procedures for its pandemic emergency longer-term refinancing operations (PELTRO)**. All banks may participate in PELTROs, irrespective of having already taken out the maximum total amount they are entitled to borrow under the TLTRO programme, the interest rate shall be fixed and 25 basis points below the average interest rate on the Eurosystem's main refinancing operations prevailing over the same period of the respective PELTRO, they will be seven in total and carried out on monthly basis;
- The European Commission has been discussing a **favourable treatment of State Guarantees within Calendar Provisioning** (Article 47 CRR), whereby the state guarantees granted during the crisis will be considered equivalent to those granted by Official Export Credit Agencies.

After the progressive flattening of the **BTP/Bund spread** around 160 bps at the end of 2019, the health emergency and the resulting financial crisis caused the spread to reach a peak of over 300 bps during the most critical period, which then went down to about 170 bps. Concomitantly, the prices of the main Italian banking securities lost -40% vs. the beginning of the year.

The banking sector has proved strong in terms of capital, although the figures for the first months report shrinking profitability, due to the deterioration of the macroeconomic scenario, which was affected by the restrictive measures deployed by the Italian Government to curb the Covid-19 spread, as well to a considerable increase in prudential writedowns of loans.

Lending to households and businesses grew at a slower pace, demand has remained cautious because of the uncertainties on the Country's economic situation, despite benchmark interest rates remaining low (in June 2020 3M Euribor was -0.42% and 10Y IRS -0.18%).

In the banking system, monetary policies continue to support lending development[2]:1

- The stock of **net bad loans**, which came to Euro 26.2 billion in April 2020, decreased by -19.5% vs. April 2019. Specifically, they decreased by -70.5% vs. their peak of Euro 89 billion at the end of November 2015. The weight of net bad loans on total loans came to 1.51% in April 2020, decreasing from 1.87% recorded in April 2019;
- In May 2020, **loans to households and businesses** increased by +1.5% YOY. Specifically, total loans to businesses increased by +1.7% YOY, while loans to households went up by +1.1% YOY. On the other hand, mortgage loans increased by +1.9% YOY (up by +2.1% vs. March 2020);
- **The interest rates on loans** to customers have continued in their downward trend: the average interest rate on total loans was 2.40% in May 2020 (2.57% in May 2019). **The average rate on new home loans** came to 1.33% (1.85% in May 2019) and **the average rate on new loans to businesses** came to 1.07% (1.43% in May 2019);
- In May 2020, **direct funding (deposits of resident customers and bonds**) came to Euro 1,871 billion, increasing vs. December 2019 by €57 billion (up by €105 billion YOY), i.e. up by +3.16% (+6.0% YOY). The analysis by component shows the difference in weight between short and medium-long term sources: 88% for customers' deposits and 12% for bonds, subsequent to the different recomposition towards deposits, to the detriment of the bond component. Indeed, the bond component decreased by -3.8% vs. December 2019 (down by -4.2% YOY), whereas deposits increased by +4.2% (up by +7.6% YOY);
- The **average interest rate on funding** was 0.55% in May 2020 (0.63% in May 2019). The interest rate on deposits came to 0.36% (vs. 0.38% in May 2019) and that on bonds came to 2.02% (vs. 2.37% in May 2019);

- In May 2020, the **spread** the average rate on loans and the average rate on funding from households and non-financial corporations came to 185 basis points (187 bps in April 2020), decreasing by 12 basis points YOY;
- As regards the **asset management industry**[15], in May 2020 its net inflows decreased by €4.5 billion, albeit with an increasing trend in the March-May three-month period. The financial crisis triggered by the spread of the health emergency in the second half of February has led to a general risk-off phase, which resulted in total assets under management decreasing to €2,210 billion in April 2020, from €2,307 billion in December 2019.

## Covid-19 Emergency – Initiatives deployed by the Group

On 30 January 2020, the World Health Organization (WHO) declared the outbreak of COVID-19, commonly called Coronavirus, a Public Health Emergency of International Concern and its spreading has caused the slowdown or interruption of economic and business activities in many sectors.

Since the very beginning, the Crédit Agricole Italia Banking Group has complied with all government provisions to deploy all prevention measures and ensure safety of its personnel, customers and vendors, while continuing to operate and implementing initiatives aimed at providing support to its customers and communities.

Specifically, the Crédit Agricole Italia Banking Group has put its Customer centrality and closeness commitment into practice through continuity of all key services for all customer segments and on all channels, thanks to service innovation, digital tools and technologies available with which it can ensure proactive management of relationships, while fully securing everyone's safety. Likewise, the Crédit Agricole Italia Banking Group has again proved that it stands by its communities with many support initiatives during the weeks of the emergency, aimed at providing tangible help.

Prompt response was given to the emergency by setting up task forces in charge of managing human resources, business activities and lending management.

### Initiatives in terms of organization and safety to protect employees and customers

All measures and all actions fit to ensure the health and safety of employees, of customers and of the Bank could be deployed and implemented thanks to the immediate setting up of a specific task force. The task force implemented a structured and prompt plan for periodic communication to all personnel about behaviours, rules and tools, including: the design of standard protocols to manage contingencies, the activation of a toll-free number for health-related information and the creation of a database to trace possible infections, the suspension of all travels and commutes, regulation of access to strategic and management sites, strict instructions for entering branches and the distribution of personal protective equipment.

Approximately 45% of branches was closed to the public in the lockdown period: in terms of access to branches, they were closed in the afternoon throughout Italy, with set rules to enter, with specific regard to the mandatory personal protective equipment and limited number of people allowed in at the same time.

To ensure the most appropriate safety measures, the number of employees present at the branches was reduced indicatively to 50%, with the only exception of cases in which proved organizational needs and response to customers required otherwise. Furthermore, hygiene and sanitation products available at branches and central offices were increased. The organization of employees' shifts ensured the fewest possible travels and commutes and protection of the most vulnerable categories and families with small children.

In compliance with the provisions issued by the Italian government and in order for people not to commute, the smart working mode was expanded (100% of central departments' personnel worked from home); as regards training, the possibility have training in an Easy Learning mode was given to a larger number of people during the emergency period.

15 Source: Assogestioni (the Italian National Association of Asset Management Firms), Asset Management Monthly Map, May 2020

## Initiatives to support the community

The Bank has also proved true to its commitment of closeness and proximity to the community: several initiatives were finalized in the emergency period to provide concrete help.

With an achieved target of over €1.5 million, the fundraising campaign in favour of the Italian Red Cross was successfully completed. The companies of the Crédit Agricole Group in Italy started the initiative with a donation of over one million Euros for the purchase of equipment and special vehicles for emergency and medical transportation. This important contribution opened the fundraising campaign, which went live on CrowdForLife, with the objective of supporting the "Time of Kindness" project, whereby the Italian Red Cross provided more than 147 thousand services, from the start of the emergency, to deliver medications, supplies and food to those in need. Part of the funds raised on CrowdForLife (about 22% of the total amount) came from the many initiatives promoted among the employees of the Crédit Agricole Group in Italy.

Furthermore, thanks to its relationships with businesses and individuals, Crédit Agricole Italia purchased 82 assisted ventilation and intensive care monitoring machines, which were donated to many hospitals in the Emilia-Romagna, Liguria and Tuscany Regions, in synergy with its shareholders Cariparma, Piacenza e Vigevano, Carispezia and San Miniato Foundations, and with companies based in the area. In addition to the aforementioned initiatives, contributions were given to the Solidarity Fund for Households of the Catholic Church Curia of Lodi and to the Diocese of Parma for activities to help vulnerable people. Contributions have been allocated to support the Cesena section of the Italian Red Cross in purchasing healthcare materials, while, to the Veneto and Friuli sections, 128 thousand pairs of gloves, 10 thousand masks and approximately 2 thousand overalls were donated. Other fundraising actions, at local level, were launched on the Group's crowdfunding portal, in cooperation with Fondazione Cariparma.

## Initiatives to support customers

To ensure business continuity, a remote advisory approach has been adopted, with activities that concerned the strengthening and management of 100% of digital leads, the use of digital channels to communicate with Customers and the free-of-charge activation of the Home Banking solution, as well as the management of pensions of Customers that do not use debit cards.

The Bank has developed its strategy to support businesses in coping with the emergency with bespoke solutions, including subsidized payment terms for instalments, dedicated credit lines, loans with pre-set amounts, targeted repricing and bilateral zeroing of credit rates. Furthermore, it has engaged in a continuous process for designing solutions able to support its Retail Customers to meet any contingencies generated by the pandemic.

The support program comprises solutions to ensure liquidity to all the Group's Customers, also through the measures implemented by Italian Liquidity Decree Law of 8 April 2020 and the law enacting it. The Group has allocated an amount of €4 billion reserved to all businesses and to be used for medium-term loans backed by the guarantees given by the Central Guarantee Fund and by SACE with the "Garanzia Italia" program. Immediate response has been given to applications for loans up to €30 thousand submitted by businesses, including those with revenue below €3.2 million. This measure aims at supporting both investments and working capital in order to help the production recovery of businesses.

An amount of €2 billion was allocated to ensure immediate liquidity to the businesses that are customers of the Group, in order to support their working capital needs, thanks to flexible use of the credit lines already granted.

As early as in March 2020, the Crédit Agricole Italia Banking Group started to implement specific solutions for its customers requesting to suspend repayment of loans and mortgage loans, concomitantly extending their maturity by the suspension period, with no additional fees, commissions or other charges. In the following months, the solutions to suspend repayment have been made progressively compliant with the applicable legislation entered into force and with the agreements between the Italian Banking Association (ABI) and trade associations, which the Group immediately signed in order to ensure the highest possible protection to its Customers.

All this has been possible thanks to the Group's Customer-focused Universal Banking Model, which features strong synergy between the Crédit Agricole Italia Banking Group and all the companies of Crédit Agricole in Italy.

A complete and innovative approach to support the supply chain development and the working capital needs of businesses, thanks to highly-qualified specialist services supporting the customers in the realization of their investment projects.

## PERFORMANCE OF OPERATIONS

In a scenario that was, for most of the half-year, affected by the health emergency, the Crédit Agricole Italia Banking Group achieved a net profit of Euro 97 million, down by 38% vs. the first half of the previous year. This performance was affected by the effects of months of lockdown and by a macroeconomic scenario with interest rates decreasing even further, the recognition of additional adjustments on the cost of credit subsequent to the worsening of the economic scenario, higher expenses incurred to manage the health emergency, as well as the contributions to the Italian banking system, albeit partially offset by the cost-management actions implemented and by considerable capital gains from property disposal. Net of non-recurring effects, the net profit for period would be Euro 149 million, decreasing by 13% vs. 2019.

## THE PERFORMANCE OF BALANCE SHEET AGGREGATES

### LOANS TO CUSTOMERS

The crisis triggered by the Covid-19 pandemic is generating effects also on performance of loans to households and businesses. Specifically, loans to businesses have increased more considerably subsequent to the higher needs for liquidity caused by the interruption of productive activities: businesses' access to credit has also been made easier by the extensive state guarantees on the granted loans.

In H1 2020, the Crédit Agricole Italia Banking Group lent a total of Euro 3.7 billion vs. Euro 2.9 billion in H1 2019: this amount includes approximately Euro 0.8 billion (over 23 thousand applications processed) of so-called loans under the Italian Liquidity Decree Law, i.e. with State guarantees.

As at 30 June 2020, the stock of net loans to Customers came to Euro 48.8 billion, increasing by 4.6% (i.e. up by €2.2 billion) vs. 31 December 2019. The higher increase was posted on long-maturity technical forms (up by €1.2 billion) as well as on advances and short-term credit facilities (up by €1.6 billion), whereas the marked slowdown in productive activities generated a decreases in the use of credit facilities on current accounts (down by €0.6 billion).

Volumes increased mainly through methods preserving loan riskiness to a wider extent; net non-performing loans (which came to €1.6 billion) decreased by €83 million vs. 31 December 2019; credit quality, expressed also as the weight of gross non-performing loans on total loans to Customers, showed a 6.8% weight, decreasing from 7.1% as at the end of 2019. Because of higher and prudential provisions, the coverage ratio, i.e. the ratio of cumulative value adjustments to the amount of gross non-performing loans increased to 54.9% vs. 52.6% as at 31 December 2019; specifically, the coverage ratio of bad loans increased to 69.6% (vs. 67.6%) and that of Unlikely to Pay increased to 38.1% (vs. 35.8%). As regards performing loans, the revision of the Forward Looking central scenarios defined by the Parent Company Crédit Agricole entailed total value adjustments increasing by approximately €44 million, which reflected in a higher coverage ratio up from 0.5 to 0.6 percentage points.

### FUNDING FROM CUSTOMERS

Total funding increased, coming to Euro 124 billion as at 30 June 2020, up by €3.1 billion (up by +2.6% vs. the same figure at the end of 2019). Because of the profound economic and financial uncertainty of the past few months and as a consequence of the sharp fall in consumption and investments, liquid forms of funding increased: indeed, the increase in due to Customers (up by +2%) was driven by current accounts (up by €1,237 million, i.e. +3.2%).

In order to stabilize long-term funding, seizing the opportunities generated by the favourable market conditions in January, a dual-tranche issue of covered bonds for a total of €1.25 billion with 8-year and 25-year maturities: the latter tranche, for an amount of €750 million, is the issue of covered bonds with the longest maturity ever made in Italy. The orders amounted to over €3 billion and were made mostly by international investors, which gives evidence of the trust placed in Crédit Agricole Italia.

Overall, direct funding came to Euro 51.9 billion, increasing by €2.2 billion (i.e. up by +4.4%) vs. 31 December 2019. Indirect funding as at 30 June 2020 came to €72.3 billion, increasing by €983 million, i.e. up by 1.4% vs. 31 December 2019, thanks to the increase in assets under administration, which benefited from net inflows mostly from institutional customers.

The asset under management component of indirect funding came to €37.4 billion, decreasing by 1.6%, i.e. by €0.6 billion, with over €1 billion resulting from the decrease in stock prices, which, however, rebounded after the considerable drop occurred in the first weeks after the pandemic outbreak. The weight of insurance products on total assets under management increased (54% up by +1 point vs. 31 December 2019).

## NET INTERBANK POSITION

As at 30 June 2020, the net interbank position reported debt of Euro 1.0 billion including due to Central Banks for TLTRO loans amounting to €6.9 billion.

Targeted Longer-Term Refinancing Operations provide financing to Eurosystem credit institutions with maturities longer than one year and are designed to improve the functioning of the monetary policy transmission mechanism by stimulating bank lending to the real economy.

In March 2020, In March 2020, in order to address the adverse impact of the Covid-19 emergency, the ECB Governing Council introduced more favourable conditions for its TLTROs, applying in the period between 24 June 2020 and 23 June 2021. At the same meeting, the ECB Governing Council raised the borrowing allowance to 50 per cent of the stock of eligible loans as at 28 February 2019, removed the bid limits per operation and introduced an early repayment option after one year from the settlement of each operation. In April 2020, the ECB Governing Council decided to recalibrate TLTRO-III conditions through a further reduction in the interest rates and an improvement of the incentive mechanism.

Given the above, in H1 2020 the Group repaid early the loans it had obtained in 2016 and 2017 for a total of €4 billion and took out new TLTRO loans for a total of €6.9 billion.

## EQUITY

As at 30 June 2020, equity amounted to Euro 6.5 billion, increasing by Euro 46 million vs. 31 December 2019. The increase resulted from the profit accrued in half-year, net of the decrease in valuation reserves (fair value of financial assets through other comprehensive income) and in the reserve for interest on Additional Tier 1 instruments.

It is pointed out that, in compliance with the recommendation made by the European Central Bank that supervised banks retain 2019 profits to strengthen own funds, in order to put the financial system in the best possible conditions to absorb the economic impacts generated by the pandemic, the General Meeting of the Shareholders of Crédit Agricole Italia resolved not to distribute dividends, retaining the 2019 earnings to further strengthen its capital, with even stronger commitment to providing support to households and businesses.

## OWN FUNDS

Subsequent to the Covid-19 emergency, the European Central Bank decided, among other measures, to bring forward the application of Article 104a of CRD 5 (which was originally supposed to enter into force on 28 December 2020) authorizing Banks to meet their Pillar 2 Requirements (P2R) with 75% of CET1. Subsequent to that decision, with a letter of 8 April 2020, the Regulator communicated the revised consolidated minimum capital requirements assigned to the Crédit Agricole Italia Banking Group, which are to be constantly complied with in 2020, setting them as follows:

- 7.98% for the CET1 ratio (vs. 8.75% previously in force)
- 9.81% for the Tier1 ratio (vs. 10.25% previously in force)
- 12.25% for the Total Capital ratio (as previously in force)

As at 30 June 2020, the Common Equity Tier 1 ratio came to 12.6%, slightly increasing vs. the figure for the previous period (12.5% as at 31 December 2019). This increase reports the changes in the book value of the related equity items, including the retained earnings for the half-year, along with lower deductions for other intangible assets and for the shortfall (excess of expected losses vs. value adjustments).

The Tier 1 ratio came to 15.1%, slightly increasing vs. 15.0% as at 31 December 2019.
The Total Capital ratio came to 18.1%, unchanged vs. the figure as at the end of 2019.
Risk-weighted assets (RWAs) came to Euro 28,734 billion, slightly increasing vs. 31 December 2019, and benefited from the extension in the scope of application of the discount factor on SMEs decided by the Regulator.
In short, having kept, once more in H1 2020, the consolidated Common Equity Tier 1 ratio above the SREP requirements of 7.98% (CET1 required) is evidence of the Crédit Agricole Italia Banking Group's widely acknowledged capital strength and quality.

## PROFIT OR LOSS

Income for 1H 2020 came to €914 million, down by -6.4% vs. the previous year, being impacted by the measures deployed curb the pandemic spreading (the lockdown), which provided for the closure of many productive activities and for heavy restrictions to mobility, as well as by the further accommodative measures deployed by Central Banks, which drove interest rates to new all-time lows.

The downward trend of bank lending rates triggered an increase in requests for repricing of outstanding loans to Customers, which, along with the lower returns on financial uses, especially on the most liquid assets, caused net interest income to decrease, coming to €480 million (down by -5.5%).

In H1, net fee and commission income came to Euro 411 million, down by 8.2% YOY, despite showing, in the first months of 2020, a marked increase vs. 2019. However, the months of lockdown reversed this trend: the decrease was similar (-8%) both in traditional fees and commissions because of the reduction in the commercial banking business operations (collections and payments, e-money, recovery of expenses for transactions, origination of loans), and in management, intermediation and advisory services, where the decrease, which was larger in income from product placement (asset management, policies, consumer loans) was mitigated by recurring and maintenance fees and commissions.

Received dividends came to Euro 10.4 million vs. Euro 11.3 million in 2019: this decrease was driven by the decision not to distribute dividends made by most financial Intermediaries.

The profit from financial activities came to Euro 1.2 million, vs. Euro 1.3 million in the previous year.

Other net operating income came to Euro 10.8 million, increasing by Euro 3.6 million vs. 2019 and report also the finalization of the settlement agreement about the liability action against the former directors of Cassa di Risparmio di Rimini. The balance also reports the adjustment price component (amounting to €9.8 million) regarding the sale of the equity investment in in CA Vita made in previous years.

Operating expenses came to Euro 608 million, decreasing by Euro -9 million (down by -1.4% YOY). Personnel cost (Euro 352 million) decreased by Euro 13 million YOY and benefited from the turnover effect, the release of provisions that had become excess, from lower indirect personnel costs, also subsequent to the high weight of the smart working mode.

Other administrative expenses came to Euro 171 million, decreasing by Euro 1 million, despite the impact of a Euro 14 million increase in costs: for Euro 11 million these higher costs were for the measures deployed to address the Covid-19 health emergency (purchase of personal protective equipment, extraordinary sanitization of the premises, maintenance and works on the systems, laptops for employees in order to increase work from home and larger service activities to handle applications for loans backed by State guarantees), whereas, for Euro 3 million, higher costs report the contributions to the banking system (SRF). The aforementioned higher costs were offset by the cost control policies (reduction in discretional expenses and renegotiation of contract agreements), along with natural savings generated by the lockdown (lower travelling expenses, lower costs for external processing). The "depreciation and amortization" item came to Euro 85 million, increasing by Euro 6 million (up by + 7%) as the investment provided for in the 2019/2022 MTP became operational.

Because of the decreased in income, the cost/income ratio, net of the contributions to the Italian banking system (Euro 25.2 million in 2020) increased from 60.9% as at 30 June 2019 to 63.8 % (62.6% net of the higher costs to address the Covid-19 pandemic).

Net provisions for risks and charges came to Euro 3.7 million, essentially in line with the same figure for H1 2019.

The rapid deterioration in the economic scenario, albeit expected to progressively recover from 2021, has been addressed with a more prudential provisioning policy, which led to increase adjustments of loans to Euro 225 million (up by €101 million, i.e. +81%); this allocation includes higher adjustments of performing loans (up by Euro 54 million, of which €47 million on stage 2) due to the revision of the “Forward Looking” scenarios, as centrally defined by the French Parent Company, and higher coverage of non-performing loans, which absorbed Euro 165 million (vs. Euro 121 million in 2019), especially on Unlikely to Pay (UTP).

The ratio that expresses the annualized cost of credit risk (the ratio of the relevant adjustments taken to the Income Statement to net loans to Customers) came to 92 bps vs. 54 bps in H1 2019.

Furthermore, in H1 2020, real estate transactions were carried out in order to make property management more efficient, which generated capital gains totalling Euro 66 million.

Profit net of taxes (Euro 41 million) and net of minority interests (Euro 4 million) came to Euro 97 million, vs. Euro 156 million in 2019 (down by -38.1%).

Comprehensive income as at 30 June 2020 came to Euro 73 million and consisted of the profit for the period (Euro 101 million, gross of minority interests) and of the value changes in assets directly recognized in equity reserves, decreasing by Euro 24 million (mostly reporting the fair value changes in securities held), net of minority interests (Euro 4 million).

# OTHER INFORMATION

## Risks and uncertainties

The policies for the monitoring, management and control of risks remain key and priority pillars based on which Banks will have to measure both against one another and against domestic and international markets.

It cannot but be reasserted once again that the Bank and its Management are constantly focused on this matter, also in order to respond to and implement the many and important recommendations that the competent authorities (national and international) issue in this regard.

Indeed, the Bank’s governance bodies are fully aware that sustainable development and growth absolutely require also an effective analysis of the risks which the Bank is exposed to and of the relating uncertainties, in terms of impacts that these risks could have on the Group’s financial position, cash flows and performance. Effective management and mitigation of the same risks to acceptably low levels are another crucial requirement for sustainable growth, also in order to protect savings (and, with them, Customers’ confidence) on the one hand, and loans (healthy and drivers of growth) on the other.

The Management believes that the present overall performance of the domestic and international economies (financial and real) is such as to require, in addition to monetary and real policy measures to be adopted by supranational and national bodies (with the purpose of boosting the present weak recovery), also appropriate policies for constant enhancement of the monitoring of risks and uncertainties, such as the ones implemented by the Bank. The Management is indeed fully aware that financial players must constantly implement growth and development policies that, at the same time, focus on the safeguarding and protection of the interests of all Stakeholders, without shirking, because of this very reason, the institutional role that the Bank as such plays both in terms of support to the economic and social fabric of its Customer Enterprises, and in terms of enhancement of that key factor for development and success which consists in effective and prudential management of savings.

The Covid-19 epidemic is an uncertainty factor in the future macroeconomic scenario in which the Group will operate.

# EVENTS OCCURRED AFTER THE REPORTING DATE AND OUTLOOK

From 30 June 2020 to the date of approval of this half-yearly report and condensed consolidated financial statements, no events occurred that could materially affect the structure of the Crédit Agricole Italia Banking Group.

# Crédit Agricole Italia Banking Group

## Condensed Consolidated Financial Statements H1 2020

# Financial Statements

## CONSOLIDATED BALANCE SHEET

| Assets | | 30.06.2020 | 31.12.2019 |
|---|---|---|---|
| 10. | Cash and cash equivalents | 271,172 | 370,059 |
| 20. | Financial assets measured at fair value through profit or loss | 140,156 | 125,010 |
| | a) financial assets held for trading; | 78,318 | 97,400 |
| | b) financial assets designated at fair value | - | - |
| | c) other financial assets mandatorily measured at fair value | 61,838 | 27,610 |
| 30. | Financial assets measured at fair value through other comprehensive income | 3,018,764 | 3,068,244 |
| 40. | Financial assets measured at amortized cost | 63,806,611 | 56,343,788 |
| | a) due from banks | 9,836,843 | 4,743,595 |
| | b) loans to customers | 53,969,768 | 51,600,193 |
| 50. | Hedging derivatives | 1,013,561 | 759,816 |
| 60. | Fair value change of financial assets in macro-hedge portfolios (+/-) | 141,632 | 119,729 |
| 70. | Equity investments | 20,483 | 20,483 |
| 80. | Reinsurers' share of technical provisions | - | - |
| 90. | Property, Plant and Equipment | 965,150 | 1,017,849 |
| 100. | Intangible assets | 1,880,469 | 1,912,606 |
| | - of which goodwill | 1,575,536 | 1,575,536 |
| 110. | Tax assets | 1,441,506 | 1,504,346 |
| | a) current | 279,159 | 304,325 |
| | b) deferred | 1,162,347 | 1,200,021 |
| 120. | Non-current assets held for sale and discontinued operations | 5,207 | - |
| 130. | Other assets | 519,523 | 412,429 |
| **Total assets** | | **73,224,234** | **65,654,359** |

| Liabilities and Equity | | 30.06.2020 | 31.12.2019 |
|---|---|---|---|
| 10. | Financial liabilities measured at amortized cost | 62,984,929 | 56,003,022 |
| | a) Due to banks | 10,858,129 | 6,105,259 |
| | b) Due to Customers | 41,810,151 | 40,795,173 |
| | c) Debt securities issued | 10,316,649 | 9,102,590 |
| 20. | Financial liabilities held for trading | 90,897 | 81,980 |
| 30. | Financial liabilities designated at fair value | - | - |
| 40. | Hedging derivatives | 445,357 | 509,730 |
| 50. | Fair value change of financial liabilities in macro-hedge portfolios (+/-) | 485,769 | 421,173 |
| 60. | Tax liabilities | 177,082 | 275,107 |
| | a) current | 93,132 | 184,715 |
| | b) deferred | 83,950 | 90,392 |
| 70. | Liabilities associated with non-current assets held for sale and discontinued operations | - | - |
| 80. | Other liabilities | 1,975,395 | 1,316,885 |
| 90. | Employee severance benefits | 120,466 | 123,894 |
| 100. | Provisions for risks and charges | 309,733 | 335,516 |
| | a) commitments and guarantees given | 33,595 | 33,656 |
| | b) post-employment and similar obligations | 35,359 | 37,325 |
| | c) other provisions for risks and charges | 240,779 | 264,535 |
| 110. | Technical provisions | - | - |
| 120. | Valuation reserves | -85,563 | -62,199 |
| 130. | Redeemable shares | - | - |
| 140. | Equity instruments | 715,000 | 715,000 |
| 150. | Reserves | 1,666,219 | 1,379,853 |
| 160. | Share premium reserve | 3,117,848 | 3,117,840 |
| 170. | Capital | 979,235 | 979,233 |
| 180. | Treasury shares (-) | - | - |
| 190. | Minority interests (+/-) | 145,043 | 143,256 |
| 200. | Profit (Loss) for the period (+/-) | 96,824 | 314,069 |
| **Total liabilities and equity** | | **73,224,234** | **65,654,359** |

# CONSOLIDATED INCOME STATEMENT

| Items | | 30.06.2020 | 30.06.2019 |
|---|---|---|---|
| 10. | Interest and similar income | 442,644 | 472,356 |
| | Of which: interest income calculated with the effective interest method | 441,066 | 470,342 |
| 20. | Interest and similar expense | 36,102 | 35,700 |
| **30.** | **Net interest income** | **478,746** | **508,056** |
| 40. | Fee and commission income | 428,365 | 464,870 |
| 50. | Fee and commission expense | (17,945) | (20,531) |
| **60.** | **Net fee and commission income** | **410,420** | **444,339** |
| 70. | Dividends and similar income | 10,378 | 11,270 |
| 80. | Net profit (loss) on trading activities | 5,243 | 4,844 |
| 90. | Net profit (loss) on hedging activities | (4,689) | (4,318) |
| 100. | Profit (losses) on disposal or repurchase of: | 1,541 | (4,362) |
| | a) financial assets measured at amortized cost | 900 | (4,273) |
| | b) financial assets measured at fair value through other comprehensive income | 590 | - |
| | c) financial liabilities | 51 | (89) |
| 110. | Net profit (loss) on other financial assets and liabilities measured at fair value through profit and loss | (29) | (134) |
| | a) financial assets and liabilities designated at fair value | - | - |
| | b) other financial assets mandatorily measured at fair value | (29) | (134) |
| **120.** | **Net interest and other banking income** | **901,610** | **959,695** |
| 130. | Net losses/recoveries for credit risk on: | (221,391) | (116,499) |
| | a) financial assets measured at amortized cost | (220,553) | (116,589) |
| | b) financial assets measured at fair value through other comprehensive income | (838) | 90 |
| 140. | Profits/Losses on contract modifications without derecognition | (589) | (581) |
| **150.** | **Net income from banking activities** | **679,630** | **842,615** |
| 160. | Net premium income | - | - |
| 170. | Other net insurance income/expenses | - | - |
| **180.** | **Net income from banking activities and insurance activities** | **679,630** | **842,615** |
| 190. | Administrative expenses: | (659,965) | (682,643) |
| | a) personnel expenses | (352,077) | (364,995) |
| | b) other administrative expenses | (307,888) | (317,648) |
| 200. | Net provisions for risks and charges | (3,971) | (144) |
| | a) commitments and guarantees given | (307) | 3,101 |
| | b) other net provisions | (3,664) | (3,245) |
| 210. | Net adjustments of/recoveries on property, plant and equipment | (40,029) | (38,486) |
| 220. | Net adjustments of/recoveries on intangible assets | (44,633) | (40,570) |
| 230. | Other operating expenses/income | 135,874 | 138,829 |
| **240.** | **Operating costs** | **(612,724)** | **(623,014)** |
| 250. | Profit (losses) on equity investments | 9,761 | 12,522 |
| 260. | Profit (losses) from property, plant and equipment and intangible assets measured at fair value | - | - |
| 270. | Impairment on goodwill | - | - |
| 280. | Profit (losses) on disposals of investments | 66,135 | 351 |
| **290.** | **Profit (Loss) before tax from continuing operations** | **142,802** | **232,474** |
| 300. | Taxes on income from continuing operations | (41,444) | (69,795) |
| **310.** | **Profit (Loss) after tax from continuing operations** | **101,358** | **162,679** |
| 320. | Profit (Loss) after tax from discontinued operations | - | - |
| **330.** | **Profit (Loss) for the period** | **101,358** | **162,679** |
| 340. | Profit (Loss) for the period attributable to minority interests | (4,534) | (6,369) |
| **350.** | **Profit (Loss) for the period attributable to the Parent Company** | **96,824** | **156,310** |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| Items | | 30.06.2020 | 30.06.2019 |
|---|---|---|---|
| **10.** | **Profit (Loss) for the period** | **101,358** | **162,679** |
| | **Other comprehensive income net of tax not reclassified to profit or loss** | | |
| 20. | Equity securities designated at fair value through other comprehensive income | (3,450) | (2,352) |
| 30. | Financial liabilities designated at fair value through profit or loss (changes in own credit rating) | - | - |
| 40. | Hedging of equity securities designated at fair value through other comprehensive income | - | - |
| 50. | Property, Plant and Equipment | - | - |
| 60. | Intangible assets | - | - |
| 70. | Defined-benefit plans | 778 | (1,676) |
| 80. | Non-current assets held for sale and discontinued operations | - | - |
| 90. | Share of valuation reserves on equity investments measured using the equity method | - | - |
| | **Other comprehensive income after tax reclassified to profit or loss** | | |
| 100. | Hedges of investments in foreign operations | - | - |
| 110. | Exchange rate differences | - | - |
| 120. | Cash flow hedges | - | - |
| 130. | Hedging instruments (non-designated elements) | - | - |
| 140. | Financial assets (other than equity securities) measured at fair value through other comprehensive income | (21,484) | 24,096 |
| 150. | Non-current assets held for sale and discontinued operations | - | - |
| 160. | Share of valuation reserves on equity investments measured using the equity method | - | - |
| **170.** | **Total other comprehensive income after taxes** | **(24,156)** | **20,068** |
| **180.** | **Comprehensive income (Item 10+170)** | **77,202** | **182,747** |
| 190. | Consolidated comprehensive income attributable to Minority Interests | 3,846 | 6,647 |
| **200.** | **Consolidated comprehensive income attributable to the Parent Company** | **73,356** | **176,100** |

It is pointed out that the inclusion in comprehensive income of the item reporting “Financial assets measured at fair value through other comprehensive income” entails strong volatility, which must be taken into account when analyzing the table. The change resulted mainly from the market performance of the Italian Government Security portfolio.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS AT 30 JUNE 2020

| | Share capital: ordinary shares | Share premium reserve | Reserves: Income reserves | Reserves: other | Valuation reserves | Equity instruments | Treasury shares | Profit (Loss) for the period | Equity |
|---|---|---|---|---|---|---|---|---|---|
| **GROUP SHAREHOLDERS' EQUITY AS AT 31 DEC. 2019** | 979,233 | 3,117,840 | 1,394,343 | - 14,490 | - 62,199 | 715,000 | - | 314,069 | 6,443,796 |
| **MINORITY INTEREST AS AT 31 DEC. 2019** | 40,417 | 87,250 | 1,891 | 2,939 | - 1,328 | - | - | 12,087 | 143,256 |
| CHANGE TO OPENING BALANCES | - | - | - | - | - | - | - | - | - |
| GROUP SHAREHOLDERS' EQUITY AS AT 1 JANUARY 2020 | 979,233 | 3,117,840 | 1,394,343 | - 14,490 | - 62,199 | 715,000 | - | 314,069 | 6,443,796 |
| MINORITY INTERESTS AS AT 1 JANUARY 2020 | 40,417 | 87,250 | 1,891 | 2,939 | - 1,328 | - | - | 12,087 | 143,256 |
| ALLOCATION OF NET PROFIT FOR THE PREVIOUS YEAR | - | - | - | - | - | - | - | - | |
| Reserves | - | - | 326,156 | - | - | - | - | - 326,156 | - |
| Dividends and other allocations | - | - | - | - | - | - | - | - | - |
| CHANGES FOR THE PERIOD | - | - | - | - | - | - | - | - | - |
| Changes in reserves | - | - | - 202 | - | - | - | - | - | - 202 |
| Transactions on equity | - | - | - | - | - | - | - | - | - |
| Issue of new shares | 2 | 8 | - | - | - | - | - | - | 10 |
| Purchase of treasury shares | - | - | - | - | - | - | - | - | - |
| Change in equity instruments | - | - | - 25,811 | - | - | - | - | - | - 25,811 |
| Charity | - | - | - 1,500 | - | - | - | - | - | - 1,500 |
| Consolidation adjustments | - | - | - | - | - | - | - | - | - |
| Shares and rights on shares of the Parent Company assigned to employees and directors | - | - | - | - | - | - | - | - | - |
| Changes in equity interests | - 362 | - 1,415 | - 472 | - | 104 | - | - | - | - 2,145 |
| Comprehensive income | - | - | - | - | - 24,156 | - | - | 101,358 | 77,202 |
| **GROUP SHAREHOLDERS' EQUITY AS AT 30 JUNE 2020** | 979,235 | 3,117,848 | 1,680,709 | - 14,490 | - 85,563 | 715,000 | - | 96,824 | 6,489,563 |
| **MINORITY INTERESTS AS AT 30 JUNE 2020** | **40,055** | **85,835** | **13,696** | **2,939** | **- 2,016** | **-** | **-** | **4,534** | **145,043** |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS AT 30 JUNE 2019

| | Share capital: ordinary shares | Share premium reserve | Reserves: | | Valuation reserves | Equity instruments | Treasury shares | Profit (Loss) for the period | Equity |
|---|---|---|---|---|---|---|---|---|---|
| | | | Income reserves | other | | | | | |
| **GROUP SHAREHOLDERS' EQUITY AS AT 31 DEC. 2018** | **962,672** | **3,117,708** | **1,280,626** | **- 14,509** | **- 142,181** | **715,000** | **-** | **273,898** | **6,193,214** |
| **MINORITY INTEREST AS AT 31 DEC. 2018** | **64,976** | **98,636** | **6,595** | **2,939** | **- 5,805** | **-** | **-** | **18,155** | **185,496** |
| CHANGE TO OPENING BALANCES | - | - | - | - | - | - | - | - | - |
| GROUP SHAREHOLDERS' EQUITY AS AT 1 JANUARY 2019 | 962,672 | 3,117,708 | 1,280,626 | - 14,509 | - 142,181 | 715,000 | - | 273,898 | 6,193,214 |
| MINORITY INTERESTS AS AT 1 JANUARY 2019 | 64,976 | 98,636 | 6,595 | 2,939 | - 5,805 | - | - | 18,155 | 185,496 |
| ALLOCATION OF NET PROFIT FOR THE PREVIOUS YEAR | - | - | - | - | - | - | - | - | |
| Reserves | - | - | 151,683 | - | - | - | - | - 151,683 | - |
| Dividends and other allocations | - | - | - | - | - | - | - | - 140,370 | - 140,370 |
| CHANGES FOR THE PERIOD | - | - | - | - | - | - | - | - | - |
| Changes in reserves | - | - | 48 | - | - | - | - | - | 48 |
| Transactions on equity | - | - | - | - | - | - | - | - | - |
| Issue of new shares | 16,561 | 127 | - | - | - | - | - | - | 16,688 |
| Purchase of treasury shares | - | - | - | - | - | - | - | - | - |
| Change in equity instruments | - | - | - 26,057 | - | - | - | - | - | - 26,057 |
| Charity | - | - | 500 | - | - | - | - | - | 500 |
| Consolidation adjustments | - | - | - | - | - | - | - | - | - |
| Shares and rights on shares of the Parent Company assigned to employees and directors | - | - | - | - | - | - | - | - | - |
| Changes in equity interests | - 24,238 | - 10,449 | 8,264 | - | 26 | - | - | - | - 26,397 |
| Comprehensive income | - | - | - | - | 20,068 | - | - | 162,679 | 182,747 |
| **GROUP SHAREHOLDERS' EQUITY AS AT 30 JUNE 2019** | **979,233** | **3,117,835** | **1,419,742** | **- 14,509** | **- 124,468** | **715,000** | **-** | **156,310** | **6,249,143** |
| **MINORITY INTERESTS AS AT 30 JUNE 2019** | **40,738** | **88,187** | **1,917** | **2,939** | **- 3,424** | **-** | **-** | **6,369** | **136,726** |

# CONSOLIDATED STATEMENT OF CASH FLOWS

| | | 30.06.2020 | 30.06.2019 |
|---|---|---|---|
| **A.** | **OPERATING ACTIVITIES** | | |
| **1.** | **Operations** | **472,329** | **568,566** |
| - | profit (loss) for the period (+/-) | 96,824 | 156,310 |
| - | gains (losses) on financial assets held for trading and financial assets/liabilities measured at fair value through profit or loss (-/+) | 3,639 | 7,504 |
| - | Gains/losses on hedging activities (-/+) | 3,563 | 66,748 |
| - | Net losses/recoveries for credit risk (+/-) | 200,155 | 90,127 |
| - | Net adjustments of/recoveries on property, plant and equipment and intangible assets (+/-) | 84,662 | 79,056 |
| - | Net provisions for risks and charges and other costs/revenues (+/-) | 3,971 | 144 |
| - | taxes, levies and tax credits not settled (+) | 41,444 | 69,795 |
| - | Net adjustments /recoveries on discontinued operations net of tax effect (-/+) | - | - |
| - | Other adjustments (+/-) | 38,071 | 98,882 |
| **2.** | **Cash flow generated/absorbed by financial assets** | **-7,786,980** | **-1,181,966** |
| - | Financial assets held for trading | 15,443 | -19,704 |
| - | Financial assets designated at fair value | - | - |
| - | Financial assets mandatorily measured at fair value | -34,227 | 461 |
| - | Financial assets measured at fair value through other comprehensive income | 23,813 | -41,922 |
| - | Financial assets measured at amortized cost | -7,677,095 | -1,091,891 |
| - | Other assets | -114,914 | -28,910 |
| **3.** | **Cash flow generated/absorbed by financial liabilities** | **7,097,144** | **701,614** |
| - | Financial liabilities measured at amortized cost | 6,713,945 | 553,550 |
| - | Financial liabilities held for trading | 8,917 | 21,125 |
| - | Financial liabilities designated at fair value | - | - |
| - | Other liabilities | 374,282 | 126,939 |
| **Net cash flow generated/absorbed by operating activities** | | **-217,507** | **88,214** |
| **B.** | **INVESTING ACTIVITIES** | | |
| **1.** | **Cash flow generated by:** | **161,751** | **24,712** |
| - | sales of equity investments | 9,761 | 12,522 |
| - | dividend received on equity investments | 10,378 | 11,270 |
| - | sales of property, plant and equipment | 141,612 | 920 |
| - | sales of intangible assets | - | - |
| - | sales of business units | - | - |
| **2.** | **Cash flow absorbed by:** | **-15,553** | **-10,654** |
| - | purchases of equity investments | - | - |
| - | purchases of property, plant and equipment | -2,797 | -1,446 |
| - | purchases of intangible assets | -12,756 | -9,208 |
| - | purchases of business units | - | - |
| **Net cash flows generated/absorbed by investing activities** | | **146,198** | **14,058** |
| **C.** | **FUNDING ACTIVITIES** | | |
| - | issues/purchases of treasury shares | -1,767 | 16,688 |
| - | issues/purchases of equity instruments | -25,811 | -26,057 |
| - | distribution of dividends and other | - | -140,370 |
| **Net cash flows generated/absorbed by funding activities** | | **-27,578** | **-149,739** |
| **NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS FOR THE YEAR** | | **-98,887** | **-47,467** |

**RECONCILIATION**

| Financial Statement items | 30.06.2020 | 30.06.2019 |
|---|---|---|
| Opening cash and cash equivalents | 370,059 | 295,958 |
| Total net increase/decrease in cash and cash equivalents for the year | -98,887 | -47,467 |
| Cash and cash equivalents: foreign exchange effect | - | - |
| **Closing cash and cash equivalents** | **271,172** | **248,491** |

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

Consistently with the amendment to IAS 7, adopted with Commission Regulation (EU) 2017/1990 of 6 November 2017, to be applied as from the commencement date of the first financial year starting on or after 1 January 2017, the disclosures required by paragraph 44 B in order to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

| | 31.12.2019 | Changes from financing cash flows | Changes from obtaining or losing control of subsidiaries or other businesses | Fair value changes | Other changes | 30.06.2020 |
|---|---|---|---|---|---|---|
| Liabilities arising from financing activities | 56,085,002 | 6,722,413 | - | 268,411 | - | 63,075,826 |

# Note to the half-yearly condensed consolidated financial statements

## ACCOUNTING POLICIES

### 1. STANDARDS AND METHODS APPLICABLE WITHIN THE GROUP, ASSUMPTIONS AND ESTIMATES USED

#### *1.1 Applicable standards and comparability*

The half-yearly condensed consolidated financial statements of the Crédit Agricole Italia Banking Group as at 30 June 2020 were prepared and presented in compliance with IAS 34 "Interim Financial Reporting", which lays down the minimum information content and identifies the accounting standards and measurement bases to be applied to half-yearly condensed financial statements.

The accounting standards and interpretations used to prepare the half-yearly condensed consolidated financial statements, having regard to the classification, recognition, measurement and derecognition of assets and liabilities, as well as to recognition of the relevant revenues and costs, are the same ones used by the Crédit Agricole Italia Banking Group to prepare its consolidated financial statements as at 31 December 2019, which were prepared and presented in compliance with the IAS/IFRS issued by the International Accounting Standards Board (IASB) and the related interpretations given by the IFRS Interpretations Committee (IFRIC) and endorsed by the European Commission, in accordance with Regulation (EC) No. 1606/2002 of 19 July 2002.

As regards the standards and principles that have not been amended vs. those used to prepare the financial statements as at 31 December 2019, please, see the relevant information given in the 2019 Annual Report.

### INTERNATIONAL ACCOUNTING STANDARDS ENDORSED BY THE EUROPEAN UNION IN FORCE IN 2020

In compliance with IAS 8, the table below reports the new international accounting standards or the amendments to standards already in force, along with the Regulations endorsing them, that shall mandatorily be applied for reporting periods starting on or after 1 January 2020.

| Standards, amendments or interpretations | Publication date | Date of first application |
|---|---|---|
| Amendments to IAS 1 and IAS 8: Definition of Material | 10 December 2019 (EU No. 2019/2104) | 1 January 2020 |
| Amendments to IAS 39, IFRS 7 e IFRS 9 – Interest rate benchmark reform | 16 January 2020 (EU No. 2020/34) | 1 January 2020 |
| Amendments to References to the Conceptual Framework in IFRS Standards<br>The amendments aim at updating, in existing Standards, references to, and quotes from, the previous version of the Conceptual Framework so that they refer to the revised Conceptual Framework. | 6 December 2019 (EU No. 2075/2019) | 1 January 2020 |
| Amendments to IFRS 3 – Business Combinations<br>Aimed at resolving the difficulties experienced by entities in actual application of the definition of "business" | 22 April 2020 (EU No. 551/2020) | 1 January 2020 |

As regards new standards and amendments thereto entered into force for reporting period starting on or after 1 January 2020, the related information is given below, although the Group has not found any material impacts on its Half-yearly Condensed Consolidated Financial Statements as at 30 June 2020.

## Benchmark Rate Reform

Following the decision made by the Financial Stability Board to gradually replace the IBOR rates with "alternative" interest rates ("Reforming Major Interest Rate Benchmarks"), compliant with the EU Benchmark Regulation, the Group started to work towards the transition for the contracts that may be impacted by the reform.

As a user of critical benchmark rates, the Crédit Agricole Group is very much aware of the importance of benchmark rates and of the challenges entailed by their evolution within the reforms underway.

The "Benchmarks" project of the Crédit Agricole Group has been designed to manage the benchmark transition for the Group, both with a proactive approach, bringing forward the replacement of benchmark rates, and by providing for robust fall-back clauses, either already included or to be included in its contracts. The project has also been designed to oversee compliance of the entities of the Crédit Agricole Group with the Benchmark Regulation (BMR).

As regards the transition from EONIA to €STR, the terms have been set by the "Working Group on Euro Risk-Free Rates", for which the ECB provides the secretariat: EONIA will disappear after 3 January 2022, the date of its last publication.

As regards the other benchmark rates, especially EURIBOR and LIBOR, specific Work Groups are continuing their activities, at the Financial System level and with the support provided by the competent Authorities, in order to identify replacement rates calculated based on Risk-Free Rates (RFR) and to draft fall-back clauses to be added to contracts. Market associations, such as ISDA and LMA, are working towards the same objective. At this stage, works are underway and some uncertainties remain about methodological choices or arrangements that will be adopted, as well as on the transition timetable.

The hedging relationships of the Crédit Agricole Italia Banking Group are indexed to EURIBOR, which is a critical benchmark rate under the BMR.

In order for the hedging relationships impacted by the benchmark rate reform to continue in force despite the uncertainties about the timetable and the methods for transition from the present benchmark rate to the ones replacing them, in September 2019 IASB issued some amendments to IAS 39, IFRS 9 and IFRS 7, which were endorsed by the EU on 15 January 2020.

The amendments provide some reliefs, which shall apply to all hedging relationships directly affected by interest rate benchmark reform. A hedging relationship is 'directly affected' if the reform gives rise to uncertainties about the timing and/or the amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument. The reliefs shall be mandatorily applied. The amendments to IAS 39, the standard that the Group uses for hedge accounting, concern the following:

- For the prospective assessment of hedge effectiveness, it is assumed that the benchmark on which the hedged cash flows are based (whether or not it is contractually specified) and/or the benchmark on which the cash flows of the hedging instrument are based, are not altered as a result of IBOR reform.
- For the retrospective assessment of hedge effectiveness, to allow the hedge to pass the assessment even if the actual results of the hedge are temporarily outside the 80%-125% range, during the period of uncertainty arising from IBOR reform.
- For a hedge of a benchmark portion (rather than a risk component under IFRS 9) of interest rate risk that is affected by IBOR reform, the requirement that the portion is separately identifiable need be met only at the inception of the hedge.

The amendments shall be applied retrospectively. However, any hedge relationships that have previously been de-designated cannot be reinstated upon application, nor can any hedge relationships be designated with the benefit of hindsight.

The Group shall apply these amendments until the uncertainty arising from IBOR reform is present with respect to the timing and amount of benchmark-based cash flows of the hedging instruments and, in this scope, believes that all its hedging contracts as at 30 June 2020 may benefit from them.

As at 30 June 2020, the hedging instruments of the Crédit Agricole Italia Banking Group affected by the benchmark rate reform had a notional amount of Euro 27.989 billion.

## INTERNATIONAL ACCOUNTING STANDARDS ENDORSED BY THE EUROPEAN UNION ENTERING INTO FORCE IN 2020

### Amendment to IFRS 16 – Covid-19-Related Rent Concessions

It is pointed out that, in the first half of 2020, IASB approved an amendment to IFRS 16 Leases. The amendment has the objective of neutralizing any changes in rent payments resulting from Covid-19-related rent concessions under agreements between lessors and lessees. Without this amendment, IFRS 16 would have required lessees to redetermine their lease liabilities to lessors and the right-of-use assets under liabilities and assets, respectively, in their financial statements. However, this exemption shall apply only to modifications in rent payments up to 30 June 2021 and intended to mitigate the effects of Covid-19.

Specifically, the amendment exempts lessees from the obligation to assess whether Covid-19-related incentives are contractual modifications, allowing them, as an alternative, to be recognized as “negative variable rent” and, therefore, in the income statement.

In order for the exemption to apply, all the following conditions shall be met:
- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021;
- There are no substantive changes to other terms and conditions of the lease.

A lessee that chooses to apply the practical expedient is required to disclose it in its financial report.

This amendment is expected to be endorsed by the European Union in the second half of 2020.

The standards and interpretations issued by IASB but not yet endorsed by the European Union are not applicable to the half-yearly condensed consolidated financial statements of the Crédit Agricole Italia Banking Group as at 30 June 2020.

### 1. General Preparation Principles

The condensed consolidated financial statements consist of:
- the Balance Sheet;
- the Income Statement;
- the Statement of Comprehensive Income;
- the Statements of Changes in Equity;
- the Statement of Cash Flows;
- the Explanatory Notes.

The Half-yearly Condensed Consolidated Financial Statements have been prepared using the Euro as the reporting currency; the amounts are expressed in thousands of Euro, where not otherwise specified.

These Half-yearly Condensed Consolidated Financial Statements, as the Annual Report and Financial Statements as at 31 December 2019, were prepared on a going-concern basis.

The preparation of the Half-yearly Condensed Consolidated Financial Statements entails the use of estimates and assumptions to determine some cost and revenue components, as well as to measure assets and liabilities. For information on such estimates and assumptions, please see the 2019 Annual Report.

Although some measurement processes, especially the most complex ones, such as the assessment of any asset impairment, are generally exhaustively carried out within the preparation of the Annual Report and Financial Statements, the economic effects generated by the Covid-19 epidemic and the uncertainties in the future macroeconomic scenario in which the Group will operate have required a thorough analysis and weighting of the new economic situation in the models for measuring the recoverable amount of the Group’s assets. More information is given in the "Significant events in the period" paragraph below. It is reported that, as regards the measurement of losses on impairment of financial assets, the measurement of the fair value of financial instruments, the impairment test on goodwill and the analysis of recoverability of deferred tax assets, the estimates and assumptions related thereto and used to prepare the half-yearly consolidated financial statements may change subsequent to new information becoming available in the next months of 2020, and based on its reliability, on the impacts generated by the Covid-19 spread.

## 2. Scope and Method of Consolidation

### *2.1 Scope of consolidation*

In addition to the Parent Company, Crédit Agricole Italia S.p.A., the consolidation perimeter includes its subsidiaries and associates specified below.

In accordance with IFRS 10, Subsidiaries are companies in which Crédit Agricole Italia S.p.A., directly or indirectly, holds at the same time:
- the power to influence the Investee's relevant activities, i.e. the activities that significantly affect the investee's returns;
- exposure and/or rights to variable returns of the Investee;
- the ability to exercise its power over the Investee to affect the amount of its returns.

The companies in which Crédit Agricole Italia S.p.A., directly or indirectly, holds over 50% of the rights to vote in the General Meeting of Shareholders are considered subsidiaries.

Control exists also where the Group, even though not holding the majority of the voting rights, has sufficient rights to unilaterally manage and direct the investee's relevant activities or where it holds:
- Substantial potential voting rights through underlying call options or convertible instruments;
- Rights that result from contractual agreements and that, combined with its voting rights, make the Group actually able to manage and direct production processes, other management or financial activities, i.e. activities that significantly affect the investee's returns;
- Power to affect, under the investee's articles of association or other agreements, its governance and decision-making processes concerning relevant activities;
- The majority of voting rights under formally executed agreements with other holders of voting rights (for example, voting agreements and shareholders' agreements).

Special-purpose entities/special-purpose vehicles (SPE/SPV) have also been included, when the requirements are met, also irrespective of the existence of a majority shareholding.

Associates, i.e. subject to significant influence, are companies in which Crédit Agricole Italia holds, directly or indirectly, at least 20% of the voting rights or has the power to participate in determining the financial and operating policies of the Investee, despite holding less than 20% of the voting rights, due to specific legal ties such as being party to shareholders' voting agreements.

**Likewise, despite holding at least a 20% equity investment, significant influence may not be exercised due to legal ties, voting agreements or other relevant elements that affect the entity's governance.**

The methods used to consolidate the data of subsidiaries (line-by-line consolidation) are the same ones used to prepare the Annual Report and Consolidated Financial Statements as at 31 December 2019.

### *3.2 Equity investments in subsidiaries*

The following table shows the equity investments included within the scope of consolidation, reporting:

- The method of consolidation;
- The type of control;
- The Investee Company;
- The percentage of voting rights held by the Investor.

| Company name | Headquarters | Type of control (1) | Equity investment | | Actual % of votes available % |
|---|---|---|---|---|---|
| | | | Investor | % held | |
| A. Companies | | | | | |
| Parent Company | | | | | |
| Crédit Agricole Italia S.p.A. | Parma, Italy | | | | |
| A1. Companies consolidated on a line-item basis | | | | | |
| 1. Crédit Agricole FriulAdria S.p.A. | Pordenone, Italy | 1 | Crédit Agricole Italia S.p.A. | 81.76% | 82.15% (2) |
| 2. Crédit Agricole Leasing Italia S.r.l. | Milan, Italy | 1 | Crédit Agricole Italia S.p.A. | 85.00% | 85.00% |
| 3. Sliders S.r.l. | Milan, Italy | 1 | Crédit Agricole Italia S.p.A. | 100.00% | 100.00% |
| 4. Mondo Mutui Cariparma S.r.l. | Milan, Italy | 4 | Crédit Agricole Italia S.p.A. | 19.00% | 19.00% |
| 5. Crédit Agricole Italia OBG S.r.l. | Milan, Italy | 1 | Crédit Agricole Italia S.p.A. | 60.00% | 60.00% |
| 6. Credit Agricole Group Solutions S.c.p.a. | Parma, Italy | 1 | Crédit Agricole Italia S.p.A. | 89.10% | 89.10% |
| | | | Crédit Agricole FriulAdria S.p.A. | 8.75% | 8.75% |
| | | | Crédit Agricole Leasing Italia S.r.l. | 1.19% | 1.19% |
| 7. Crédit Agricole Real Estate Italia S.r.l. | Parma, Italy | 1 | Crédit Agricole Italia S.p.A. | 100.00% | 100.00% |
| 8. Agricola Le Cicogne S.r.l. | Faenza, Italy | 1 | Crédit Agricole Italia S.p.A. | 50.01% | 50.01% |
| 9. San Piero Immobiliare Srl | Cesena, Italy | 1 | Crédit Agricole Italia S.p.A. | 100.00% | 100.00% |
| 10. San Giorgio Immobiliare S.r.l. | Cesena, Italy | 1 | Crédit Agricole Italia S.p.A. | 100.00% | 100.00% |
| 11. Le Village by CA Parma S.r.l. | Parma, Italy | 1 | Crédit Agricole Italia S.p.A. | 66.67% | 66.67% |

(2) The percentage has been calculated taking account of the treasury shares held by the Bank as at the reporting date.

### *3.3 Joints ventures and investees subject to significant influence*

| Company name | Headquarters | Type of control (1) | Equity investment | Availability | |
|---|---|---|---|---|---|
| | | | Investor | % held | % of actual votes available |
| **Consolidated using the equity method** | | | | | |
| 1. Fiere di Parma S.p.A. | Parma, Italy | 8 | Crédit Agricole Italia S.p.A. | 32.42% | 32.42% |
| 2. Le Village by CA Milano S.r.l. | Milan, Italy | 8 | Crédit Agricole Italia S.p.A. | 38.91% | 38.91% |

(1) Type of control:
1 = Majority of the voting rights in the General Meeting of Shareholders
2 = dominant influence in the Extraordinary General Meeting of Shareholders
3 = agreement with other shareholders
4 = other forms of control
5 = unitary management pursuant to Article 26, paragraph 1, of Italian Legislative Decree No. 87/92
6 = unitary management pursuant to Article 26, paragraph 2, of Italian Legislative Decree No. 87/92 7= joint control
8 = significant influence

(2) The percentage has been calculated taking account of the treasury shares held by the Bank as at the reporting date.

# SIGNIFICANT EVENT IN THE REPORTING PERIOD

## *Covid-19 – Accounting impacts and expected scenarios*

In compliance with the recommendations provided by ESMA and upheld by CONSOB on relevant significant information on the Covid-19 situation to be given in the financial reporting as at 30 June 2020, in the paragraph below full information is given on the impacts generated by the Covid-19 epidemic on the income statement, on specific verifications carried out about asset recoverability and on the material uncertainties and risks affecting continuance as a going concern resulting from the pandemic. As regards the measurement of losses for impairment of financial assets, the measurement of the fair value of financial instruments, impairment testing of goodwill and the analysis on recoverability of deferred tax assets, the estimates and assumptions related thereto and used to prepare the half-yearly consolidated financial statements may change subsequent to new information becoming available in the next months of 2020, and based on its reliability, on the impacts generated by the Covid-19 spread and on the evolution of the national and international macroeconomic scenario.
The Half-yearly Consolidated Financial Statements as at 30 June 2020 have been prepared on a going-concern basis, since the Group is believed to continue in operation in the foreseeable future. Despite the very complex and constantly evolving scenario, the analyses carried out based on the information currently available have given evidence that the Group will be able to address the risks and uncertainties stemming from the Covid-19 spread and from the present economic situation.

In the Covid-19 health crisis, the Crédit Agricole Italia Banking Group has deployed measures aimed at addressing this unprecedented situation. In order to provide support to its Customers, whose activities would be affected by Covid-19, the Group has proactively participated in the measures aimed at propping up the economy, deploying a structured action program for households and businesses.

## *Loans guaranteed by the State*

Reasserting the Group's commitment to providing tangible response and its will to stand by those Customers that have been worst hit by the health emergency, the program comprises solutions to ensure liquidity to all the Group's Customers, also through the measures laid down by Italian Liquidity Decree Law of 8 April 2020 and the law enacting it:

- For SMEs, sole traders, store keepers, and small businesses, loans up to Euro 30,000 have been made available, with full and free-of-charge guarantee given by the Central Guarantee Fund, with maximum duration of 120 months, with repayment of the principal portion starting 24 months after drawdown, at very advantageous conditions;
- On the other hand, for corporate banking customers, loans have been made available with amounts up to 25% of the customer's revenue, with maximum duration of 72 months, with repayment of the principal portion starting up to 24 months after drawdown, with the prior assessment by the Central Guarantee Fund (for corporations with revenue up to Euro 3.2 million), with gives guarantees free of charge up to 90%, or backed by SACE guarantees (for corporations with revenue up to Euro 5 billion). The interest rate is set based on the standard processes, taking into account the state guarantee.

In accordance with the relevant accounting principles, these loans are recognized at amortized cost. As at 30 June 2020, the Crédit Agricole Italia Banking Group had participated in the origination of loans backed by state guarantees for an amount of over Euro 800 million.

## *Moratoria*

As early as in March 2020, the Crédit Agricole Italia Banking Group started to implement specific solutions for its customers requesting to suspend repayment of loans and mortgage loans, concomitantly extending their maturity by the suspension period, with no additional fees, commissions or other charges. In the following months, the solutions to suspend repayment have been made progressively compliant with the applicable legislation entered into force and with the agreements between the Italian Banking Association (ABI) and trade associations, which the Group immediately signed in order to ensure the highest possible protection to its Customers. Therefore, households and individuals may suspend payment of the full instalment of home loans for a period up to 18 months, under the measure provided for by the so-called "Fondo Gasparrini" (which provides for a state measure on part of the interest due by the customer) or suspend the repayment of the principal portion only of home loans and other loans for 6 months, which may be extended by another 6 months, opting for the measure laid down in the Agreement between the Italian Banking Association (ABI) and trade associations. On the other hand, corporations may suspend repayment of the principal portion of loans for 12 months under the measures laid down in the ABI Credit Agreement, whereas SMEs may suspend also the full instalment until 30 September 2020 under the measure laid down by the "Cura Italia" Decree Law of 17 March 2020 and the law enacting it. Furthermore, the Group has signed another ABI agreement in favour of local government bodies and, however, provides those of its customers that are not entitled to the aforementioned measures with specific solutions it has designed for the purpose. All the above-reported initiatives do not generate impacts on revenues (in case of full instalment suspension, the collection of interest is postponed). As at 30 June 2020, the amount of the loans the repayment of which had been suspended was over Euro 7 billion; furthermore, in compliance with the applicable legislation, the amounts authorized on other credit lines have been frozen until 30 September 2020 totalling over Euro 2 billion.

## Expected Credit Loss (ECL) estimate and governance

The Risk Management and Permanent Controls Department is responsible for defining the methodological framework and for supervising the process for ECL-related impairment of exposures and provisioning.

The calculation of impairment of performing assets is represented within the overall cost of credit process, which is coordinated by the Unlikely to Pay (UTP) Management Division.

To define the IFRS 9 parameters required to calculate ECL, the Crédit Agricole Italia Banking Group has primarily relied on its internal rating system and on the other regulatory processes already implemented. The assessment of credit risk is based on an expected loss model and extrapolation based on reasonable future scenarios. All information that is available, pertinent, reasonable and justifiable, including forward-looking information, shall be taken into account.

Impairment on the performing loans portfolio is calculated using a tool that is centralized on CA.sa. Group Information Systems, using the information and parameters of each entity as inputs.

Therefore, in compliance with the requirements set down by the standard, in order to estimate parameters, a set of forward-looking scenarios is used, each one of which is weighted by the related probability of occurrence. In agreement with the Parent Company Crédit Agricole S.A., the Crédit Agricole Italia Banking Group uses four different macroeconomic scenarios: Considering the recent developments linked to the health emergency, these scenarios can be summarized as follows:

- Favorable scenario: fast recovery (V-shaped);
- Baseline Scenario: gradual recovery (U-shaped);
- Adverse Scenario: double-dip recession (W-shaped);
- Severely adverse scenario: no recovery (L-shaped).

The weights to be given to the four scenarios – which may change each time the parameters are re-estimated – have been set for the Crédit Agricole Group as a whole (Crédit Agricole SA Economic Research Department – ECO) and validated by CA.sa. Group IFRS9 Guidance Committee, on which the Risk Management and Permanent Controls Department of the CA Italia Group also sits.

The Crédit Agricole Group updates the estimate of parameters at least yearly; as pointed out above, the evolution in the macroeconomic scenario has required also an interim verification with the updating of the reference parameters.

The ECL calculation formula combines the probability of default (PD), Loss Given Default (LGD) and Exposure At Default (EAD) parameters.

As already pointed out, these parameters have also been defined broadly based on the internal models used as part of the regulatory framework (where any), although they had to be adjusted in order to determine an ECL fully compliant with IFRS 9. Indeed, the standard requires a Point-in-Time analysis as at the reporting date, while taking account of the historical loss data and forward-looking macroeconomic data. Therefore, based on the above, the accounting approach is different from the prudential framework, where analyses are multiyear and Through the Cycle to estimate the Probability of Default (PD); moreover, such analyses shall include the Downturn in the estimate of the Loss Given Default (LGD), whereas this effect is not envisaged in the IFRS 9 LGD.

ECLs are calculated according to the type of product concerned, i.e. financial instruments or off-balance sheet instruments.

Expected credit losses are discounted at the effective interest rate (EIR) used for the initial recognition of the financial instrument.

The models and parameters used are backtested at least annually.

## Multi-scenario calculation

To estimate the parameters used in calculating the forward-looking scenarios at the June 2020 reporting date, the weights set by the Parent Company Crédit Agricole S.A. were the following:

- Favorable Scenario (V-shaped): 84%;
- Baseline Scenario (U-shaped): 10%;
- Adverse Scenario (W-shaped): 5%;
- Severely Adverse Scenario (L-shaped): 1%;

After the publication and analysis of ECO parameters by the CA.sa IFRS9 work group, it was decided to apply a higher weight to the Favorable scenario (84%), with the remaining marginal weights subdivided among the other three scenarios. This setting has been deemed the one best representing the macroeconomic scenario to which the performing portfolio credit risk will be exposed in the set budget and MTP time horizon, with specific regard to the measures deployed to prop up the economy by Central Governments and by Supranational Authorities aimed at curbing the effects of the global health emergency on the real economy.

The main macroeconomic indicators taken into account to define the scenarios help to get a clearer view of the ECO forecasts.

| | Main macroeconomic indicators for 2020-2022 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Favorable Scenario (V-shaped) | | | Central Scenario (U-shaped) | | | Adverse Scenario (W-shaped) | | | Adverse/Severely Adverse Scenario (bdgt. (L-shaped)) | | |
| | 2020 | 2021 | 2022 | 2020 | 2021 | 2022 | 2020 | 2021 | 2022 | 2020 | 2021 | 2022 |
| Italy GDP | -8.90% | 6.70% | 2.10% | -9.95% | 4.70% | 1.85% | -17.20% | 2.30% | 4.50% | -18.50% | -0.97% | 6.79% |
| EU GDP | -7.42% | 6.39% | 2.57% | -8.50% | 5.54% | 2.37% | -17.83% | 4.49% | 6.65% | -17.38% | -0.10% | 6.65% |
| Industrial Production Index (IPI) | -16.00% | 6.00% | 3.40% | -20.00% | 5.00% | 2.80% | -26.00% | 3.40% | 5.00% | -26.00% | -10.00% | 9.00% |
| Investments in Buildings | -15.00% | 2.50% | 10.00% | -17.00% | -5.50% | 10.00% | -22.00% | -6.00% | 16.00% | -27.00% | -7.00% | 11.00% |
| Investments in machinery | -13.00% | -1.50% | 10.00% | -14.50% | -3.80% | 8.00% | -19.00% | -4.50% | 12.50% | -26.00% | -12.00% | 15.00% |
| Public expenditure | 1.76% | 1.48% | -0.35% | 1.76% | 1.48% | -0.35% | 1.80% | 2.00% | -0.10% | 1.80% | 2.00% | -0.10% |

The main underlying assumptions are:

- The Baseline Scenario (U-shaped) envisages ITALY GDP decreasing by -9.95% with gradual recovery between 2020 and 2021, but more robust starting from 2022.
- The Favorable Scenario (V-shaped) is considered a variation of the Baseline Scenario (U-shaped), with economic recovery a little more robust at the end of 2020 and in 2021, after the lockdown in the first months of 2020. Limited degradation of production capacity, thanks to the measures supporting businesses, with ITALY GDP decreasing by -8.90%.
- The Adverse Scenario (W-shaped) envisages relapsing in September/October 2020 with gradual recovery starting from the year end. ITALY GDP decreasing by -17.20%.
- The Severely Adverse Scenario (L-shaped) is considered a variation of the Adverse Scenario (W-shaped) and envisages a long-standing decrease in consumption due to lockdown. It envisages recovery starting in the second-half of 2021, but with consumption lower than it was before the lockdown. ITALY GDP decreasing by -18.50%.

## Sensitivity analysis

Within the revision of the parameters used for the IFRS9 calculation of the Q2 2020 figures, the Crédit Agricole Italia Banking Group estimated the sensitivity of the ECL figure to the different macroeconomic scenarios given by the Crédit Agricole Group Economic Research Department – ECO, which is a specialist in macroeconomic studies.

To estimate the impact from the different scenarios identified, the maximum weighting was associated to each scenario, each time zeroing the contribution from the others in determining the forward-looking risk parameters and, thus, assessing the marginal contribution of each scenario to the final result.

Sensitivity was estimated on the December 2019 data in a lab environment and later applied to the half-year report closing data. The application of the observed variations to the June 2020 calculation results for the CAI Group is summarized in the table below, which shows the range of figures that can obtained with the above-described method.

| | Exposure | EAD | ECL Multi-scenario | Sensitivity analysis: ECL per single scenario | | | |
|---|---|---|---|---|---|---|---|
| | | | | Favorable Scenario (V-shaped) | Central Scenario (U-shaped) | Adverse Scenario (W-shaped) | Severely Adverse Scenario (L-shaped)) |
| June 2020 | 71,329 | 69,901 | 305 | 295 | 314 | 414 | 485 |
| Stage1 | 67,836 | 66,500 | 99 | 93 | 102 | 167 | 220 |
| Stage2 | 3,493 | 3,401 | 206 | 202 | 212 | 247 | 266 |

The ECL figure under the simulated scenarios may vary from Euro 295 million under the favorable scenario (V-shaped) to Euro 485 million under the Severely Adverse Scenario (L-shaped). The recognized amount of Euro 305 million reflects the weights on the Favorable and Central Scenarios. The multi-scenario figure of Euro 305 million, obtained applying the aforementioned weights, is more conservative than the one that would be obtained with total weighting of the gradual recovery scenario (GDP -9.95%, Need Euro 294 million) but significant lower that the figures for scenarios that are – for the time being – as extreme as unlikely (W-shaped and L-shaped scenarios).

## Impairment testing of goodwill

Complying with the indications contained in ESMA Public Statement of 20 May 2020 on the assessment of Impairment of non-financial assets, the Group tested for impairment, in accordance with IASs/IFRSs, the goodwill resulting from the purchases of Crédit Agricole FriulAdria, of the 180 Crédit Agricole Italia branches and of the 29 Crédit Agricole FriulAdria branches (made in 2007), of the 81 Crédit Agricole Italia branches and of the 15 Crédit Agricole FriulAdria branches (made in 2011), of CALIT (made in 2009) and of Crédit Agricole Carispezia (made in 2011), to assess any impairment. The goodwill paid within the four transactions described above was allocated as follows:

| CGU | Goodwill (€/ /thousand) |
|---|---|
| Retail+Private Banking segment | 1,502,324 |
| Corporate banking (Mid-corp+Large-corp) segment | 73,212 |

These CGUs have been identified consistently with the Segment Reporting made in the Annual Report and Consolidated Financial Statements. The value in use of each CGU was determined in accordance with the method adopted by the Crédit Agricole Group, i.e. using the Discounted Cash Flow Method (discount of future profit and losses), and compared with the relevant carrying amount (book value), which was calculated as the sum of goodwill, intangible assets and own funds absorbed.

For the calculation of future cash flows, starting from the 2020 expected performance, a model has been used, which consists of two stages:

- For the first stage (2020-2025), the latest available estimates were used, updated in June 2020 and relating to the 2020 FY, which reflect the economic scenarios updated with the Covid-19 emergency and to the medium and long-term financial forecasts for 2021-2024. For the test purposes, 2025, as the terminal year whose flows are projected to infinity in the logic of the model used, represents an economic-financial forecast with an "normalized" economic cycle: volumes are consistent with 2024 and interest rates are normalized;
- The second stage considers the Terminal Value: the cash flow after taxes for the last year was, therefore, projected into perpetuity using a long-term growth rate "g" (2.00%). This rate is consistent with the industry measurement practices.

Allocated own funds have been measured at Group level, at a rate of 8.98% of RWA (vs. 9.75% in 2019), in compliance with the new SREP requirements in force for 2020 and as revised by the ECB in order to address the Covid-19 emergency. With this measure, the ECB brought forward the application of Article 104a of the CRD 5 (which was supposed to enter into force on 28 December 2020), which authorizes banks to cover their Pillar 2 Requirements (P2R), which amount to 1.75% for the Crédit Agricole Italia Banking Group, with at least 56.25% of CET1. Therefore, the implementation of the new measure has automatically decreased CET1 requirements by 77bps.

The cash flows (after taxes) thus determined have then been discounted at a rate (ke) calculated based on the Capital Asset Pricing Model (i.e. based on a risk-free rate plus the product of the beta coefficient multiplied by the risk premium), totalling 9.00% (vs. 9.20% used for the impairment test for the 2019 Annual Report and Financial Statements).

The ke rate applied is the same for all CGUs identified, since no appreciable differences have been detected between them in terms of risks taken.

The components of the discount rate ke and the relating comparison with the parameters used in 2019 are reported below:

| | 06/2020 | 12/2019 |
|---|---|---|
| Remuneration of capital (ke) | 9.00% | 9.20% |
| - of which risk-free rate | 2.91% | 3.16% |
| - of which Beta | 1.2 | 1.2 |
| - of which risk premium | 5.05% | 5.05% |

With Beta yields being equal, the risk-free rate – calculated as the long-term average yield of the ten-year Italian Treasury Bonds (Italian acronym; BTP) – decreased, mainly subsequent to the gradual decrease in the average yield of government securities; the risk premium, which was calculated as the 10-year average of the risk premium in the Italian stock exchange, was stable.

For all CGUs (Retail/Private Banking and Mid-Corporate/Large-Corporate) the calculation produced a value in use higher than their respective book values.

Sensitivity to variations in the used parameters was also analyzed. Specifically, this sensitivity analysis was developed calculating the threshold levels of each parameter above which impairment would arise.

The analysis results have shown that, as regards risk premium, the book value is equal to the value in use at a much higher level than the one used for the test (5.61% for the Retail/Private Banking CGU, 6.11 for the Mid-Corporate/Large-Corporate CGU); likewise, this happens for the risk-free rate (3.58% for the Retail/Private Banking CGU, 4.18% for the Mid-Corporate/Large-Corporate CGU).

Lastly, it was verified at which discounting rate the value in use becomes equal to the book value. This analysis showed that the book value is equal to the value in use only with a marked increase in the discounting rate ke (9.68% for the Retail/Private Banking CGU and 10.23% for the Mid-Corporate/Large-Corporate CGU). Lastly, should the long-term growth rate "g" be set to zero, the value in use would remain higher than the book value for both CGUs.

## Deferred Tax Assets (DTA): probability test

Given the specific situation generated by the Covid-19 emergency and the possible consequent effects on expected profitability, the estimated performance of recoveries of the recognized Deferred Tax Assets has been verified.

For such verification, profits and losses for tax purposes in the coming FYs were simulated, starting from the assumed profit or losses for those FYs and taking into account, for that purpose, the increases and decreases that can be estimated, as well as the release of temporary differences, both positive and negative, that are expected to be released in that period as already estimated within the preparation of the 2019 financial statements.

In addition to the recovery of the aforementioned temporary differences, those calculations have shown that it will be possible to recover the DTAs relating to the recognized tax losses reasonably by the 2025 FY.

As relevant, regarding the DTAs concerning the Italian corporate income tax (IRES), it is to be pointed out that the companies of the Crédit Agricole Group in Italy are members of a tax consolidation scheme pursuant to Article 117 et seq. of Italian Presidential Decree 917/86, which includes also other resident entities that are directly or indirectly controlled by Crédit Agricole S.A..

### Property disposals

Along with the progressive growth in size of the Crédit Agricole Italia Banking Group, its portfolio of owned properties increased; given this situation, the Group started, within the implementation of its business plan, a project for the optimization of its property portfolio aimed at monitoring the target market developments and at reducing the costs for the management of that portfolio, both by leasing out properties and by selectively selling them in case of opportunities to  get good value from the assets and to decrease capital absorption.

The real estate market in Milan has long been the most active and strong in Italy, driven by structural or, however, long-term factors, as well as by massive urban regeneration actions. Milan has been continuing to attract institutional investors, operating in the main European markets and interested mainly in so-called prime properties.

Given this background, in June 2020 Crédit Agricole Italia finalized the sale of the owned building located in Milan, on Via Armorari to Allianz Real Estate. The buyer was selected after a competitive procedure, which started in January 2020, and after an appropriate due diligence phase.

This transaction achieved the purpose of seizing the favourable period in the real estate market, while divesting an important asset of the Group. More specifically, it was a sale-leaseback transaction, whereby, concomitantly with the transfer of the property ownership, a lease contract was signed for the entire building, which, therefore, will remain one of the most important premises of Crédit Agricole Italia in Milan.

In accordance with IFRS16, the sale-leaseback transaction generated a gross capital gain of approximately Euro 65 million, which was recognized in the Income Statement as at 30 June 2020 under item “280. Gains and losses on disposal of investments”, net of the recognized right of use under the nine-year lease contract, which may not be renewed and was signed concomitantly with the sale, and of the related liability, amounting to Euro 14 million and Euro 42 million, respectively.

In 2019, the Group started to implement a plan for the reorganization of the central premises of Crédit Agricole FriulAdria, aimed at rationalizing the use of the buildings and at facilitating any opportunity to generate value from owned properties. Within such plan, in H1 2020 Crédit Agricole FriulAdria finalized the sale of a building located in Pordenone, generating a gross capital gain of Euro 1.3 million, which was recognized in the Income Statement under item “280. Gains and losses on disposal of investments”.

## OTHER ASPECTS

### OPTION FOR THE ITALIAN NATIONAL TAX CONSOLIDATION

In March 2016, the formal notice was sent to the *Agenzia delle Entrate* (the Italian Inland Revenue Agency) with which, effective from 2015, the option was exercised for the national tax consolidation of the Crédit Agricole SA Group in Italy, pursuant to Article 6 of Italian Legislative Decree No. 147 of 14 September 2015. In accordance with this regime, also the Italian “sister” companies, whose controlling Company is resident in an EU Member State, may exercise the option for consolidated taxation. At present, 24 Companies of the Group have opted to join the tax consolidation scheme and, having been designated by Crédit Agricole S.A., Crédit Agricole Italia has undertaken the role of Consolidating Entity.

### OPTION FOR THE VAT GROUP

In November 2018, the option for a VAT Group scheme pursuant to Article 1, paragraph 24 of Italian Law no. 232 of 11 December 2016 was exercised, with effects as of 1 January 2019; the VAT Group consists of the subsidiaries of CA Cariparma having at the same time financial, economic and organisational links in force between them, as provided for by Italian Ministerial Decree of 6 April 2018 and by Circular no. 19/2018.

The VAT Group initially consisted of 14 CA entities and Crédit Agricole Italia is the VAT Group Representative Member. To date, the VAT Group consists of 11 entities.

Thanks to this scheme, the member entities operate, for VAT purposes, as a single taxable person in their transactions with external companies, with a single VAT registration number. The main advantage generated by the exercise of this option is that, in general, the transactions between the Group member entities are not subject to VAT.

## OTHER INFORMATION

### TAX-RELATED DISPUTES

In past years, a dispute started regarding registration tax with *Agenzia delle Entrate* (the Italian Inland Revenue Agency), which reclassified the transfers of branches from Intesa Sanpaolo to Crédit Agricole Italia and Crédit Agricole FriulAdria carried out in 2007 and the subsequent transfer of the received equity investments, as well as the similar transaction finalized in 2011 again with the Intesa Sanpaolo Group, as sales of business units.

Although the Group firmly believes and reasserts that its doings were fully lawful, evidence of which was given also by the favourable judgements issued, it was assessed, for risk mitigation purposes only, at CASA Group level, to exercise the option provided for by Italian Decree Law 119/2018 (the so-called “Tax Amnesty”) whereby the possibility was given to settle some tax disputes paying a lower tax amount and with no penalties and no interest.

Out of the set of disputes, only those regarding a transfer made in 2011 have remained open, for a tax amount of Euro 11.7 million plus interest, for which it was deemed appropriate not to exercise the tax amnesty option, as the taxes paid while the court decision was pending have never been refunded. For this dispute, Crédit Agricole Italia has a provision of approximately Euro 1.15 million.

A dispute started in 2014 subsequent to non-payment to Crédit Agricole Italia of part of the specific tax account receivable provided for by Italian Decree Law 185/2008 for the amounts credited by it to Customers relating to the State contribution on floating-rate mortgage loans that were taken out by 31 October 2008.

Consequently, Crédit Agricole Italia had to pay an amount of Euro 1.3 million and started a specific dispute.

However, the first-instance judgement has confirmed the claim of the *Agenzia delle Entrate* as to the tax amount, while it overruled the penalty claim. Continuing such dispute was deemed appropriate, based on the valid arguments put forward, and, at the end of July 2016, an appeal was filed with the competent Court of second instance, against which the *Agenzia delle Entrate* submitted its counter-arguments

Subsequent to the merger by absorption of the Banks acquired at the end of 2017, as well as of Crédit Agricole Carispezia in July 2019, Crédit Agricole Italia took over all the legal rights and obligations of the absorbed entities and, therefore, also those regarding tax disputes.

Some disputes concerning registration tax on legal deeds are pending, for a total amount of Euro 0.34 million, regarding the absorbed Cassa di Risparmio di Rimini. Several disputes are awaiting first-instance court proceedings, whereas for others litigation is continuing. Considering also that, over time, the Group obtained that the several claims be cancelled, sound arguments are believed to exist to successfully appeal against the claim made by the *Agenzia delle Entrate* and, therefore, no specific provision has been allocated in this regard.

As to the disputes taken over from Crédit Agricole Carispezia, which was absorbed in July 2019, it is reported that a dispute is still pending on the 2013 taxable base for the Italian Regional Tax on Productive Activities (IRAP) for a total amount of tax, penalties and interest claimed of Euro 0.177 Mln. On this claim, with judgement issued in July 2019, the first-instance Tax Commission upheld the arguments of the Bank. However, the *Agenzia delle Entrate* has filed appeal.

A claim of the same type was made in October 2019 also for the fiscal year 2014, for which Crédit Agricole Italia, as the surviving entity after the merger by absorption, received a verification notice claiming an amount for tax, penalties and interest of Euro 0.236 Mln, against which litigation was started.

Believing that there are sound grounds to defend the Bank's doing, evidence of which was given also by the favourable first-instance judgement, no provision has been allocated for this dispute.

Moreover, in 2017 a verification notice was served to Crédit Agricole FriulAdria concerning the 2012 fiscal year and claiming the ineligibility of some expenses for the defence of employees within criminal proceedings. The claimed amount is approximately Euro 0.03 million. Even though the amount is modest, considering the strength of its arguments and the importance of the principle that it wants to assert, the Bank decided to start litigation and obtained a favourable first-instance judgement, which has been appealed against by the *Agenzia delle Entrate*. The second-instance judgement is pending.

In the first half of 2018, Crédit Agricole Leasing was subject to a general tax audit, which ended with the service of a Report of Verification (PVC) whereby the *Agenzia delle Entrate* challenged VAT application on certain boat leases, for the 2013 and 2014 fiscal years. In October 2018, as regards the 2013 fiscal year, a verification notice was served claiming a total amount of approximately Euro 350 thousand; specifically, the Agency denied the non-applicability of VAT to leases of boats (for boats intended to be used on the high-seas) due to the alleged lack of documentation giving evidence that the requirement of navigation on the high seas was met. The Company started litigation and the first-instance judgement, which was issued in 2019, cancelled the claimed penalties but upheld the claimed tax amount. The Company has deemed it appropriate to continue the litigation.

In June 2019, it was served a similar verification notice regarding the fiscal year 2014 for a total amount of Euro 670 thousand, against which the Company started litigation. The first-instance judgement is pending.

For these claims, the Company allocated a provision of Euro 150 thousand, also considering possible recourse against customers.

The Company has a set of pending disputes regarding the Italian town property tax (IMU) in terms of taxpayer, for property lease contracts that were terminated, in the cases where the Company was not given back the asset. As it is certain of being in the right, the Company has not allocated any provision for this dispute.

Lastly, it is reported that, in 2019, Crédit Agricole Leasing resolved several disputes with the Lombardy Region Government regarding road tax. Only one dispute, started in 2016 and entailing a modest amount, is still pending.

# Balance sheet aggregates

Balance sheet figures at 30 June 2020 are reported below with the comparison figures for the previous year. The changes in these aggregates have been commented on in the Half-yearly Report on Operations.

## Reclassified Consolidated Balance Sheet

| Assets | 30.06.2020 | 31.12.2019 | Changes | |
|---|---|---|---|---|
| | | | Absolute | % |
| Net financial Assets/Liabilities at fair value | 49,259 | 43,031 | 6,228 | 14.5 |
| Financial assets measured at fair value through other comprehensive income | 3,018,764 | 3,068,244 | -49,480 | -1.6 |
| Loans to Customers | 53,969,768 | 51,600,193 | 2,369,575 | 4.6 |
| Equity investments | 20,483 | 20,483 | - | - |
| Property, plant and equipment and intangible assets | 2,845,619 | 2,930,455 | -84,836 | -2.9 |
| Tax assets | 1,441,506 | 1,504,346 | -62,840 | -4.2 |
| Other assets | 1,951,095 | 1,662,032 | 289,063 | 17.4 |
| **Total assets** | **63,296,494** | **60,828,784** | **2,467,710** | **4.1** |

| Liabilities | 30.06.2020 | 31.12.2019 | Changes | |
|---|---|---|---|---|
| | | | Absolute | % |
| Net due to banks | 1,020,076 | 1,360,306 | -340,230 | -25.0 |
| Funding from Customers | 51,895,886 | 49,710,264 | 2,185,622 | 4.4 |
| Net financial liabilities/assets at fair value | - | - | - | 100.0 |
| Tax liabilities | 177,082 | 275,107 | -98,025 | -35.6 |
| Other liabilities | 3,138,645 | 2,436,645 | 702,000 | 28.8 |
| Specific-purpose provisions | 430,199 | 459,410 | -29,211 | -6.4 |
| Capital | 979,235 | 979,233 | 2 | - |
| Equity instruments | 715,000 | 715,000 | - | - |
| Reserves (net of treasury shares) | 4,784,067 | 4,497,693 | 286,374 | 6.4 |
| Valuation reserves | -85,563 | -62,199 | 23,364 | 37.6 |
| Equity attributable to minority interests | 145,043 | 143,256 | 1,787 | 1.2 |
| Profit (Loss) for the period | 96,824 | 314,069 | -217,245 | -69.2 |
| **Total equity and net liabilities** | **63,296,494** | **60,828,784** | **2,467,710** | **4.1** |

# Reconciliation of the official and reclassified balance sheets

| Assets | 30.06.2020 | 31.12.2019 |
|---|---|---|
| **Net financial assets/liabilities at fair value** | **49,259** | **43,031** |
| 20 a. Financial assets held for trading | 78,318 | 97,400 |
| 20 b. Financial assets designated at fair value | - | - |
| 20 c. Financial assets mandatorily measured at fair value | 61,838 | 27,611 |
| 20. Financial liabilities held for trading | - 90,897 | - 81,980 |
| 30. Financial liabilities designated at fair value | - | - |
| **Financial assets measured at fair value through other comprehensive income** | **3,018,764** | **3,068,244** |
| 30. Financial assets measured at fair value through other comprehensive income | 3,018,764 | 3,068,244 |
| **Loans to Customers** | **53,969,768** | **51,600,193** |
| 40 b. Loans to Customers | 53,969,768 | 51,600,193 |
| **Equity investments** | **20,483** | **20,483** |
| 70. Equity investments | 20,483 | 20,483 |
| **Property, plant and equipment and intangible assets** | **2,845,619** | **2,930,455** |
| 90. Property, Plant and Equipment | 965,150 | 1,017,849 |
| 100. Intangible assets | 1,880,469 | 1,912,606 |
| **Tax assets** | **1,441,506** | **1,504,346** |
| 110. Tax assets | 1,441,506 | 1,504,346 |
| **Other asset items** | **1,951,095** | **1,662,032** |
| 10. Cash and cash equivalents | 271,172 | 370,059 |
| 130. Other assets | 519,523 | 412,428 |
| 50. Hedging derivatives (Assets) | 1,013,561 | 759,816 |
| 60. Fair value change of financial assets in macro-hedge portfolios | 141,632 | 119,729 |
| 120. Non-current assets held for sale and discontinued operations | 5,207 | - |
| **Total assets** | **63,296,494** | **60,828,784** |

| Liabilities | 30.06.2020 | 31.12.2019 |
|---|---|---|
| **Net due to banks** | **1,020,076** | **1,360,306** |
| 40 a. Due from banks | - 9,836,843 | - 4,743,595 |
| 10 a. Due to banks | 10,858,129 | 6,105,259 |
| To deduct: Lease liabilities | - 1,210 | - 1,358 |
| Funding from Customers | 51,895,886 | 49,710,264 |
| 10 b) Due to Customers | 41,810,151 | 40,795,173 |
| To deduct: Lease liabilities | - 230,914 | - 187,499 |
| 10 c) Debt securities issued | 10,316,649 | 9,102,590 |
| Net financial liabilities/assets at fair value | - | - |
| 20. Financial liabilities held for trading | - | - |
| 30. Financial liabilities designated at fair value | - | - |
| Tax liabilities | 177,082 | 275,107 |
| 60. Tax liabilities | 177,082 | 275,107 |
| Liabilities associated with non-current assets held for sale and discontinued operations | - | - |
| Other liabilities | 3,138,645 | 2,436,645 |
| 10 a. Due to banks: of which lease liabilities | 1,210 | 1,358 |
| 10 b. Due to customers: of which lease liabilities | 230,914 | 187,499 |
| 40. Hedging derivatives (Liabilities) | 445,357 | 509,730 |
| 50. Fair value change of financial liabilities in macro-hedge portfolios | 485,769 | 421,173 |
| 80. Other liabilities | 1,975,395 | 1,316,885 |
| **Specific-purpose provisions** | **430,199** | **459,410** |
| 90. Employee severance benefits | 120,466 | 123,894 |
| 100. Provisions for risks and charges | 309,733 | 335,516 |
| **Capital** | **979,235** | **979,233** |
| 170. Capital | 979,235 | 979,233 |
| **Equity instruments** | **715,000** | **715,000** |
| 140. Equity instruments | 715,000 | 715,000 |
| **Reserves (net of treasury shares)** | **4,784,067** | **4,497,693** |
| 150. Reserves | 1,666,219 | 1,379,853 |
| 160. Share premium reserve | 3,117,848 | 3,117,840 |
| 180. Treasury shares (+/-) | - | - |
| **Valuation reserves** | **- 85,563** | **- 62,199** |
| 120. Valuation reserves | - 85,563 | - 62,199 |
| **Minority interests** | **145,043** | **143,256** |
| 190. Minority interests | 145,043 | 143,256 |
| **Profit (Loss) for the period** | **96,824** | **314,069** |
| 200. Profit (Loss) for the period | 96,824 | 314,069 |
| **Total liabilities and equity** | **63,296,494** | **60,828,784** |

## Loans to Customers

| Items | 30.06.2020 | 31.12.2019 | Changes | |
|---|---|---|---|---|
| | | | Absolute | % |
| - Current accounts | 1,860,486 | 2,431,718 | -571,232 | -23.5 |
| - Mortgage loans | 30,081,221 | 28,838,102 | 1,243,119 | 4.3 |
| - Advances and credit facilities | 15,333,873 | 13,769,973 | 1,563,900 | 11.4 |
| - Non-performing loans | 1,563,276 | 1,646,613 | -83,337 | -5.1 |
| **Loans to Customers** | **48,838,856** | **46,686,406** | **2,152,450** | **4.6** |
| Securities measured at amortized cost | 5,130,912 | 4,913,787 | 217,125 | 4.4 |
| **Total Loans to Customers** | **53,969,768** | **51,600,193** | **2,369,575** | **4.6** |

## Loans to customers: credit quality

| Items | 30.06.2020 | | | 31.12.2019 | | |
|---|---|---|---|---|---|---|
| | Gross exposure | Total adjustments | Gross exposure | Gross exposure | Total adjustments | Gross exposure |
| - Bad loans | 1,875,356 | 1,304,818 | 570,538 | 1,859,129 | 1,256,758 | 602,371 |
| - Unlikely to Pay | 1,545,229 | 589,487 | 955,742 | 1,583,992 | 566,769 | 1,017,223 |
| - Past-due/overlimit loans | 41,976 | 4,979 | 36,997 | 30,495 | 3,475 | 27,020 |
| **Non-performing loans** | **3,462,561** | **1,899,284** | **1,563,277** | **3,473,616** | **1,827,002** | **1,646,614** |
| Performing loans – stage 2 | 3,184,916 | 198,482 | 2,986,434 | 2,774,753 | 159,490 | 2,615,263 |
| Performing loans – stage 1 | 44,371,418 | 82,272 | 44,289,146 | 42,502,049 | 77,520 | 42,424,529 |
| Performing loans | 47,556,334 | 280,754 | 47,275,580 | 45,276,802 | 237,010 | 45,039,792 |
| **Loans to Customers** | **51,018,895** | **2,180,038** | **48,838,857** | **48,750,418** | **2,064,012** | **46,686,406** |
| Securities measured at amortized cost | 5,136,549 | 5,638 | 5,130,911 | 4,919,636 | 5,849 | 4,913,787 |
| **Total** | **56,155,444** | **2,185,676** | **53,969,768** | **53,670,054** | **2,069,861** | **51,600,193** |

## Funding from Customers

| Items | 30.06.2020 | 31.12.2019 | Changes | |
|---|---|---|---|---|
| | | | Absolute | % |
| - Deposits | 1,443,684 | 1,687,289 | -243,605 | -14.4 |
| - Current and other accounts | 39,872,265 | 38,635,246 | 1,237,019 | 3.2 |
| - Other items | 263,288 | 285,139 | -21,851 | -7.7 |
| **Due to Customers** | **41,579,237** | **40,607,674** | **971,563** | **2.4** |
| **Debt securities issued** | **10,316,649** | **9,102,590** | **1,214,059** | **13.3** |
| **Total direct funding** | **51,895,886** | **49,710,264** | **2,185,622** | **4.4** |
| **Indirect funding** | **72,277,684** | **71,294,531** | **983,153** | **1.4** |
| **Total funding** | **124,173,570** | **121,004,795** | **3,168,775** | **2.6** |

Total subordinated deposits came to Euro 860,737 thousand, whereas total Lower tier II instruments came to Euro 147,221 thousand.

## Indirect funding

| Items | 30.06.2020 | 31.12.2019 | Changes | |
|---|---|---|---|---|
| | | | Absolute | % |
| - Asset management products | 16,674,549 | 17,316,598 | -642,049 | -3.7 |
| - Insurance products | 20,716,774 | 20,682,863 | 33,911 | 0.2 |
| **Total assets under management** | **37,391,323** | **37,999,461** | **-608,138** | **-1.6** |
| **Assets under administration** | **34,886,361** | **33,295,070** | **1,591,291** | **4.8** |
| **Indirect funding** | **72,277,684** | **71,294,531** | **983,153** | **1.4** |

## Securities

| Items | 30.06.2020 | 31.12.2019 | Changes | |
|---|---|---|---|---|
| | | | Absolute | % |
| **Financial assets and liabilities measured at fair value through profit or loss** | | | | |
| - Debt securities | 94 | 93 | 1 | 1.1 |
| - Equity securities and units of collective investment undertakings | 61,945 | 51,536 | 10,409 | 20.2 |
| - Loans | - | - | - | - |
| - Derivative financial instruments with positive FV | 78,117 | 73,381 | 4,736 | 6.5 |
| **Total assets** | **140,156** | **125,010** | **15,146** | **12.1** |
| - Derivative financial instruments with negative FV | 90,897 | 81,980 | 8,917 | 10.9 |
| **Total liabilities** | **90,897** | **81,980** | **8,917** | **10.9** |
| **Net Total** | **49,259** | **43,030** | **6,229** | **14.5** |
| **Financial assets measured at fair value through other comprehensive income** | | | | |
| - Debt securities | 2,775,481 | 2,821,007 | -45,526 | -1.6 |
| - Equity securities | 243,283 | 247,237 | -3,954 | -1.6 |
| - Loans | - | - | - | - |
| **Total** | **3,018,764** | **3,068,244** | **-49,480** | **-1.6** |

## Government securities held

| | 30.06.2020 | | |
|---|---|---|---|
| | Nominal value | Book value | Revaluation reserve |
| **Financial assets held for trading** | | | |
| Italian Government securities | 11 | 15 | X |
| Argentinian Government securities | 47 | - | X |
| **Financial assets through other comprehensive income** | | | |
| Italian Government securities | 2,544,000 | 2,775,481 | -15,395 |
| **Financial assets carried at amortized cost** | | | |
| Italian Government securities | 4,667,000 | 4,953,467 | X |
| **Total** | **7,211,058** | **7,728,963** | **-15,395** |

## Specific-purpose provisions

| Items | 30.06.2020 | 31.12.2019 | Changes | |
|---|---|---|---|---|
| | | | Absolute | % |
| Employee severance benefits | 120,466 | 123,895 | -3,429 | -2.8 |
| Provisions for risks and charges | 309,733 | 335,515 | -25,782 | -7.7 |
| a) commitments and guarantees given | 33,596 | 33,657 | | |
| b) post-employment and similar obligations | 35,359 | 37,325 | -1,966 | -5.3 |
| c) other provisions for risks and charges | 240,778 | 264,533 | -23,755 | -9.0 |
| **Total specific-purpose provisions** | **430,199** | **459,410** | **-29,211** | **-6.4** |

# Equity

| Items | 30.06.2020 | 31.12.2019 | Changes | |
|---|---|---|---|---|
| | | | Absolute | % |
| Share capital | 979,235 | 979,233 | 2(*) | - |
| Share premium reserve | 3,117,848 | 3,117,840 | 8(*) | - |
| Reserves | 1,666,219 | 1,379,853 | 286,366 | 20.8 |
| Equity instruments | 715,000 | 715,000 | - | - |
| Reserve for valuation of financial assets through other comprehensive income | - 35,952 | - 11,790 | 24,162 | |
| Reserves from valuation of actuarial gains (losses) relating to defined-benefit pension plans | - 49,611 | - 50,409 | - 798 | -1.6 |
| Treasury shares | - | - | - | - |
| Net profit for the period | 96,824 | 314,069 | - 217,245 | -69.2 |
| **Total (book) equity** | **6,489,563** | **6,443,796** | **45,767** | **0.7** |

(*) The change resulted from the exercise of warrants on shares of the former Cassa di Risparmio di Cesena.

# Distribution of the profit for 2019

In compliance with the recommendation made by the European Central Bank that supervised banks retain 2019 profits to strengthen own funds, in order to put the financial system in the best possible conditions to absorb the economic impacts generated by the pandemic, the General Meeting of the Shareholders of Crédit Agricole Italia resolved not to distribute dividends, retaining the 2019 earnings to further strengthen its capital, with even stronger commitment to providing support to households and businesses.

# Own Funds

| Own Funds and capital ratios | 30.06.2020 | 31.12.2019 |
|---|---|---|
| **Common Equity Tier 1 (CET1)** | **3,620,153** | **3,562,191** |
| Additional Tier 1 (AT1) | 728,649 | 726,323 |
| **Tier 1 (T1)** | **4,348,801** | **4,288,514** |
| Tier 2 (T2) | 860,605 | 873,394 |
| **Own Funds** | **5,209,406** | **5,161,908** |
| **Risk-weighted assets** | **28,734,474** | **28,550,146** |
| of which by credit and counterparty risks and by the risk of value adjustment of the loan | 25,634,640 | 25,359,672 |
| CAPITAL RATIOS | | |
| **Common Equity Tier 1 ratio** | **12.6%** | **12.5%** |
| **Tier 1 ratio** | **15.1%** | **15.0%** |
| **Total Capital ratio** | **18.1%** | **18.1%** |

# PROFIT OR LOSS

In the following statements, the Income Statement figures as at 30 June 2020 are given and compared to the figures referring to the same period last year. The changes in these aggregates have been commented on in the Half-yearly Report on Operations.

The figures reported in the next pages are expressed in thousands of Euros.

## Reclassified Consolidated Income Statement

| | 30.06.2020 | 30.06.2019 | Changes | |
|---|---|---|---|---|
| | | | Absolute | % |
| Net interest income | 479,838 | 507,849 | -28,011 | -5.5 |
| Net fee and commission income | 411,413 | 448,186 | -36,773 | -8.2 |
| Dividend income | 10,378 | 11,270 | -892 | -7.9 |
| Net income from banking activities | 1,175 | 1,292 | -117 | -9.1 |
| Other operating income (expenses) | 10,825 | 7,214 | 3,611 | 50.1 |
| **Net operating income** | **913,629** | **975,811** | **-62,182** | **-6.4** |
| Personnel expenses | -352,077 | -364,995 | -12,918 | -3.5 |
| Administrative expenses | -171,382 | -172,721 | -1,339 | -0.8 |
| Depreciation of property, plant and equipment and amortization of intangible assets | -84,662 | -79,056 | 5,606 | 7.1 |
| **Operating expenses** | **-608,121** | **-616,772** | **-8,651** | **-1.4** |
| **Operating margin** | **305,508** | **359,039** | **-53,531** | **-14.9** |
| Impairment on goodwill | - | - | - | - |
| Net provisioning for risks and charges | -3,664 | -3,246 | 418 | 12.9 |
| Net impairments of loans | -224,549 | -123,700 | 100,849 | 81.5 |
| Net impairments of financial assets | -628 | 29 | -657 | |
| Profit (loss) on other investments | 66,135 | 351 | 65,784 | |
| **Profit (loss) on continuing operations before taxes** | **142,802** | **232,473** | **-89,671** | **-38.6** |
| Taxes on income from continuing operations | -41,444 | -69,794 | -28,350 | -40.6 |
| Gain (Loss) from discontinued operations after taxes | - | - | - | - |
| **Net profit for the period** | **101,358** | **162,679** | **-61,321** | **-37.7** |
| Profit for the period attributable to minority interests | -4,534 | -6,369 | -1,835 | -28.8 |
| **Profit for the period attributable to the Parent Company** | **96,824** | **156,310** | **-59,486** | **-38.1** |

# Reconciliation between the Official and Reclassified Income Statements

| | 30.06.2020 | 30.06.2019 |
|---|---|---|
| **Net interest income** | **479,838** | **507,849** |
| 30. Net interest income | 478,746 | 508,056 |
| 90. Net profit (loss) on hedging activities: of which amortized cost effect of hedging of debt instruments | (8) | (989) |
| 230. Calit IAS gain | 1,100 | 782 |
| **Net fee and commission income** | **411,413** | **448,186** |
| 60. Net fee and commission income | 410,420 | 444,339 |
| 200. Other operating expenses/income: of which Commission income from Fast Loan Application Processing | 993 | 3,847 |
| **Dividends and similar income = item 70** | **10,378** | **11,270** |
| **Net income from banking activities** | **1,175** | **1,292** |
| 80. Net profit (loss) on trading activities | 5,243 | 4,844 |
| 90. Net profit (loss) on hedging activities | (4,689) | (4,318) |
| 90. Net profit (loss) on hedging activities: of which amortized cost effect of hedging of debt instruments | 8 | 989 |
| 100. Profit (loss) on disposal or repurchase of: a) securities classified as financial assets measured at amortized cost | 1 | - |
| 100. Profit (loss) on disposal or repurchase of:: b) financial assets measured at fair value through other comprehensive income | 590 | - |
| 100. Profit (loss) on disposal or repurchase of: c) financial liabilities | 51 | (89) |
| 110. Net profit (loss) on other financial assets and liabilities measured at fair value through profit or loss | (29) | (134) |
| **Other operating income (expenses)** | **10,825** | **7,214** |
| 230. Other operating expenses/income | 135,874 | 138,829 |
| 250. Gains (Losses) on equity investments of which Price Adjustment for disposal of equity investments | 9,761 | 12,522 |
| To deduct: expenses recovered | (130,327) | (136,981) |
| To deduct: recovered expenses for the management of non-performing loans | (2,390) | (2,527) |
| To deduct: Commission income from Fast Loan Application Processing | (993) | (3,847) |
| To deduct: Calit IAS profit | (1,100) | (782) |
| **Net operating income** | **913,629** | **975,811** |
| **Personnel expenses = item 190 a)** | **(352,077)** | **(364,995)** |
| **Administrative expenses** | **(171,382)** | **(172,721)** |
| 190. Administrative expenses: b) other administrative expenses | (307,888) | (317,648) |
| 230. Other operating expenses/income: of which expenses recovered | 130,327 | 136,981 |
| 190. Administrative expenses: b) other administrative expenses: of which expenses for the management of non-performing loans | 6,179 | 7,946 |
| **Depreciation of property, plant and equipment and amortization of intangible assets** | **(84,662)** | **(79,056)** |
| 210. Net adjustments of/recoveries on property, plant and equipment | (40,029) | (38,486) |
| 220. Net adjustments of/recoveries on intangible assets | (44,633) | (40,570) |
| **Operating expenses** | **(608,121)** | **(616,772)** |
| **Operating margin** | **305,508** | **359,039** |
| **Impairment on goodwill = item 270** | **-** | **-** |
| **Net provisioning for risks and charges = Item 200 b) other net provisioning** | **(3,664)** | **(3,246)** |
| **Net impairments of loans** | **(224,549)** | **(123,700)** |
| 100. Profit (loss) on disposal or repurchase of: a) financial assets measured at amortized cost | 900 | (4,273) |
| To deduct profit (loss) on disposal or repurchase of: a) securities classified as financial assets measured at amortized cost | (1) | - |
| 130. Net adjustments for credit risk of: a) financial assets measured at amortized cost | (220,553) | (116,589) |
| To deduct: net adjustments for credit risk of: a) securities classified as financial assets measured at amortized cost | (210) | 61 |
| 140. Profits/Losses on contract modifications without derecognition | (589) | (581) |
| 190. Administrative expenses: b) other administrative expenses: of which expenses for the management of non-performing loans | (6,179) | (7,946) |
| To deduct: recovered expenses for the management of non-performing loans | 2,390 | 2,527 |
| 200. Net provisioning for risks and charges: a) commitments and guarantees given | (307) | 3,101 |
| **Impairment of securities** | **(628)** | **29** |
| 130. Net adjustments for credit risk of: a) securities classified as financial assets measured at amortized cost | 210 | (61) |
| 130. Net adjustments for credit risk of:: b) financial assets measured at fair value through other comprehensive income | (838) | 90 |
| **Profit (loss) on other investments** | **66,135** | **351** |
| 250. Profit (losses) on equity investments | 9,761 | 12,522 |
| to deduct Profits (Losses) on equity investments: of which Price Adjustment on disposal of equity investments | (9,761) | (12,522) |
| 260. Profit (losses) from property, plant and equipment and intangible assets measured at fair value | - | - |
| 280. Profit (losses) on disposals of investments | 66,135 | 351 |
| **Profit (loss) on continuing operations before taxes** | **142,802** | **232,473** |
| **Taxes on income from continuing operations = item 300** | **(41,444)** | **(69,794)** |
| **Profit for the period** | **101,358** | **162,679** |
| Profit for the period attributable to minority interests | (4,534) | (6,369) |
| **Profit for the period attributable to the Parent Company** | **96,824** | **156,310** |

## Net interest income

| Items | 30.06.2020 | 30.06.2019 | Changes | |
|---|---|---|---|---|
| | | | Absolute | % |
| Business with customers | 396,412 | 416,404 | -19,992 | -4.8 |
| Business with banks | 312 | 1,362 | -1,050 | -77.1 |
| Debt securities issued | -47,111 | -43,928 | 3,183 | 7.2 |
| Spreads on hedging derivatives | 94,972 | 83,453 | 11,519 | 13.8 |
| Financial assets held for trading | 3 | 81 | -78 | -96.3 |
| Securities measured at amortized cost | 29,930 | 32,649 | -2,719 | -8.3 |
| Securities through other comprehensive income | 7,140 | 19,708 | -12,568 | -63.8 |
| Other net interest income | -1,821 | -1,881 | -60 | -3.2 |
| **Net interest income** | **479,838** | **507,849** | **-28,011** | **-5.5** |

## Net fee and commission income

| Items | 30.06.2020 | 30.06.2019 | Changes | |
|---|---|---|---|---|
| | | | Absolute | % |
| - guarantees given | 3,185 | 2,790 | 395 | 14.2 |
| - collection and payment services | 25,211 | 28,461 | -3,250 | -11.4 |
| - current accounts | 103,698 | 111,047 | -7,349 | -6.6 |
| - debit and credit card services | 12,379 | 14,209 | -1,830 | -12.9 |
| **Commercial banking business** | **144,473** | **156,507** | **-12,034** | **-7.7** |
| - securities intermediation and placement | 98,318 | 102,193 | -3,875 | -3.8 |
| - intermediation in foreign currencies | 1,891 | 2,305 | -414 | -18.0 |
| - asset management | 3,376 | 4,029 | -653 | -16.2 |
| - distribution of insurance products | 127,134 | 135,706 | -8,572 | -6.3 |
| - other intermediation/management fee and commission income | 14,121 | 21,918 | -7,797 | -35.6 |
| **Management, intermediation and advisory services** | **244,840** | **266,151** | **-21,311** | **-8.0** |
| **Tax collection services** | **-** | **-** | **-** | |
| **Other net fee and commission income** | **22,100** | **25,527** | **-3,427** | **-13.4** |
| **Total net fee and commission income** | **411,413** | **448,186** | **-36,773** | **-8.2** |

## Net income from banking activities

| Items | 30.06.2020 | 30.06.2019 | Changes | |
|---|---|---|---|---|
| | | | Absolute | % |
| Activities on interest rates | 1,345 | 1,506 | -161 | -10.7 |
| Stocks | 13 | 20 | -7 | -35.0 |
| Foreign exchange | 3,934 | 3,209 | 725 | 22.6 |
| Commodities | 1 | 20 | -19 | -95.0 |
| **Total profit (losses) on financial assets held for trading** | **5,293** | **4,755** | **538** | **11.3** |
| **Total profit (losses) on assets held for hedging** | **-4,681** | **-3,330** | **1,351** | **40.6** |
| Net profit (loss) on financial assets and liabilities measured at fair value | -28 | 8 | -36 | |
| **Total profit (losses) on securities measured at amortized cost** | **1** | **-141** | **142** | |
| **Total profit (losses) on securities through other comprehensive income** | **590** | **-** | **590** | |
| **Net income from banking activities** | **1,175** | **1,292** | **-117** | **-9,1** |

## Operating expenses

| Items | 30.06.2020 | 30.06.2019 | Changes | |
|---|---|---|---|---|
| | | | Absolute | % |
| - wages and salaries | -252,423 | -262,017 | -9,594 | -3.7 |
| - social security contributions | -67,430 | -69,300 | -1,870 | -2.7 |
| - other personnel expenses | -32,224 | -33,678 | -1,454 | -4.3 |
| **Personnel expenses** | **-352,077** | **-364,995** | **-12,918** | **-3.5** |
| - general operating expenses | -61,340 | -54,958 | 6,381 | 11.6 |
| - IT services | -43,318 | -44,212 | -894 | -2.0 |
| - direct and indirect taxes | -59,493 | -56,854 | 2,639 | 4.6 |
| - real estate property management | -7,033 | -9,418 | -2,386 | -25.3 |
| - legal and other professional services | -8,281 | -10,331 | -2,050 | -19.8 |
| - advertising and promotion expenses | -6,322 | -8,907 | -2,585 | -29.0 |
| - indirect personnel expenses | -1,552 | -5,095 | -3,543 | -69.5 |
| - contributions to support the banking system | -25,283 | -22,240 | 3,043 | 13.7 |
| - other expenses | -89,085 | -97,604 | -8,519 | -8.7 |
| - expenses and charges recovered | 130,324 | 136,898 | -6,574 | -4.8 |
| **Administrative expenses** | **-171,382** | **-172,721** | **-1,339** | **-0.8** |
| - intangible assets | -44,632 | -40,570 | 4,063 | 10.0 |
| - property, plant and equipment | -40,029 | -38,486 | 1,543 | 4.0 |
| **Depreciation and amortization** | **-84,662** | **-79,056** | **5,606** | **7.1** |
| **Operating expenses** | **-608,121** | **-616,772** | **-8,651** | **-1.4** |

## Net impairments of loans

| Items | 30.06.2020 | 30.06.2019 | Changes | |
|---|---|---|---|---|
| | | | Absolute | % |
| - bad loans | -62,451 | -46,899 | 15,552 | 33.2 |
| - Unlikely to Pay | -100,542 | -72,032 | 28,510 | 39.6 |
| - Past-due loans | -2,491 | -1,730 | 761 | 44.0 |
| **Non-performing loans** | **-165,484** | **-120,661** | **44,823** | **37.1** |
| - Performing loans – stage 2 | -47,161 | -1,932 | 45,229 | |
| - Performing loans – stage 1 | -7,219 | 1,792 | -9,011 | |
| **Performing loans** | **-54,380** | **-140** | **54,240** | |
| **Net losses on impairment of loans** | **-219,864** | **-120,801** | **99,063** | **82.0** |
| Profits/Losses on contract modifications without derecognition | -589 | -581 | 8 | 1.4 |
| Expenses/recovered expenses for loan management | -3,789 | -5,419 | -1,630 | -30.1 |
| Net losses on impairments of guarantees and commitments | -307 | 3,102 | -3,409 | |
| **Net impairments of loans** | **-224,549** | **-123,700** | **100,849** | **81.5** |

### FAIR VALUE REPORTING – CLASSIFICATION OF FINANCIAL INSTRUMENTS AND NON-FINANCIAL ASSETS/LIABILITIES

Reporting on the fair value hierarchy as required by IFRS 13 applies to financial instruments and to non-financial assets/liabilities that are measured at fair value (irrespectively of whether they are so measured on a recurring or non-recurring basis).

The standard classifies fair value into three different levels based on the observability of the inputs used for its measurement:

- Level 1: Fair value equal to quoted prices (with no adjustments) in active markets. Level 1 includes financial instruments that are quoted on active markets.

Specifically, these financial instruments are stocks and bonds quoted in active markets, investment schemes quoted in active markets (EFT) and derivatives traded in regulated markets.

Markets are considered active if the quotations are easily and regularly available on the stock exchange, from brokers, intermediaries, price quotation services or regulatory agencies and these prices represent actual transactions that are regularly carried out in the market on an arm's length basis.

- Level 2: Fair value determined using measurement models that are universally acknowledged and based on observable or indirectly observable market inputs (for example determining the interest rate curve based on interest rates that are directly observable on the market at a given reference date).

Level 2 includes:

– stocks and bonds that are quoted on markets considered inactive or that are not quoted on an active market, but whose fair value is determined using a universally acknowledged measurement model based on observable or indirectly observable inputs;
– Financial instruments whose fair value is determined with measurement models using observable market inputs.

- Level 3: Financial instruments whose fair value is determined using, to a significant extent, inputs that do not meet the set observability requirements.

The fair value of some complex instruments that are not traded in active markets is determined with measurement techniques based on inputs that are not observable on the market.

The above are mainly complex interest rate instruments, unlisted investment funds and structured loans, where the measured correlation or volatility inputs are not directly comparable to market inputs.

## Credit Valuation Adjustment (CVA) and Debit Valuation Adjustment (DVA)

In accordance with the IFRS 13 regulatory framework, derivatives shall be priced based on market factors, as well as on the possible effects of the risk of the counterparty's default, which comprises the risk associated to the counterparty's creditworthiness, by calculating the Credit Valuation Adjustment (CVA) and the Debit Valuation Adjustment (DVA). CVA is the value adjustment of an OTC derivative contract entered into by the Bank with an external counterparty, which reflects the possible loss resulting from the worsening of the creditworthiness/default of the counterparty.

In a mirror-like way, the DVA expresses the CVA from the external counterparty's standpoint and consists in an adjustment of the derivative fair value based on the change in the creditworthiness of the Bank.

Based on the above, the value of a portfolio of OTC derivatives that are in force with a market counterparty is equal to the value of the same risk-free portfolio less the CVA plus the DVA.

As provided for by IFRS13, in certain conditions, risk mitigation tools may be used, such as ISDA master agreements and Credit Support Annexes (CSA).

By signing ISDA Master Agreements, which are framework agreements that amount to the reference international standard on OTC derivatives, the Bank can calculate the CVA and DVA by netting set or by counterparty, after assessing the netting effect potentially resulting from such Agreements, rather than calculating it by single derivative.

Much in the same way, risks can be mitigated by finalizing Credit Support Annexes (CSA), which are attached to the ISDA Mater Agreement and provide for the deposit with the creditor of an amount equal to the mark-to-market value of the exposure as collateral.

Such collateral allows the present exposure and the subsequent risk to be reduced and provides, on a regular basis, for the exposure to be recalculated in order to verify that the deposited amount is consistent.

In accordance with IFRS 13, the Crédit Agricole Italia Banking Group has adopted a model implemented by the Parent Company Crédit Agricole SA; in addition to the effects of any changes in the counterparty's creditworthiness (Credit Valuation Adjustment – CVA), this model also expresses any changes in the Group's creditworthiness (Debit Value Adjustment – DVA).

In accordance with the model, the calculation of the CVA depends on the exposure, on the probability of default (PD) and on the Loss Given Default (LGD) of the counterparties.

This model provides for the use of a forward-looking PD as a function of the type of counterparty, to which a CDS spread or a CDS proxy is assigned. For this purpose, external counterparties are classified into three categories:

- The first category includes the counterparties for which CDS input parameters are directly observable in the market;
- The second category includes counterparties for which there is no official quoted parameter, but to which a CDS proxy can be assigned, based on the observable market value that is given to counterparties with the same characteristics in terms of economic activity sector, rating and geographical area;
- The third category includes the counterparties to which a proxy cannot be assigned and for which, therefore, historical data are used.

On the other hand, the DVA calculation depends on the Bank's exposure, probability of default (PD) and Loss Given Default (LGD) and this measure expresses the potential earnings from the change in the market prices of the relevant derivative, due to the worsening of the creditworthiness/default of the Bank.

In this case, a forward-looking PD is used which reflects the Group's credit risk.

As at 30 June 2020, the CVA value for the Crédit Agricole Italia Banking Group, calculated in accordance with the method reported above, was Euro 14.39 million.

Similarly, as at 30 June 2020, the DVA value was Euro 0.73 million.

The difference between the CVA and DVA amounts as calculated (equal to Euro 13.66 million for the Group), net of the same component already recognized as at 31 December 2019 (equal to Euro 9.55 million), is a negative income component and, as such, has been recognized in the Income Statement.

## FAIR VALUE REPORTING – FAIR VALUE LEVELS 2 AND 3: MEASUREMENT TECHNIQUES AND INPUT USED

Level 2: this level includes all financial instruments for which there is no active market, but whose measurement is based on observable market inputs. Therefore, universally acknowledged measurement models have been set, which refer to observable market inputs.

Specifically, fixed-rate bonds relating to financial assets or liabilities are measured using the discounted cash flow method pursuant to the security contractual scheme; floating-rate bonds are measured by discounting back future cash flows estimated on the basis of the forward rates with the application of index-linking parameters.

Derivative contracts are measured using specific calculation algorithms according to the type of the different categories of transactions.

Level 3: this level includes all financial instruments for which there is no active market and whose measurement is not based on observable market inputs or using the measurement communicated by qualified market players.

## PROCESSES AND SENSITIVITY OF MEASUREMENT

The Finance Department of Crédit Agricole Italia S.p.A. is responsible for defining the fair value category of the financial instruments recognized. Choosing between the above methods is not an option, since they shall be applied in a hierarchical order: absolute priority is given to official prices that are available on active markets for assets and liabilities to be measured (Level 1) or for assets and liabilities that are measured using techniques based on parameters that are observable on the market (Level 2); lower priority is given to assets and liabilities whose fair value is determined based on measurement techniques referring to parameters that are unobservable on the market and, thus, more discretionary (Level 3).

IFRS 13 also requires that, for recurring fair value measurements classified as Level 3 of the fair value hierarchy, a narrative description be given of the sensitivity of the fair value measurement to changes in unobservable inputs, if a change in those inputs could result in a significantly higher or lower fair value measurement.

Indeed, unobservable inputs that can affect the measurement of financial instruments classified as Level 3 mainly consist in estimates and assumptions underlying the models used to measure investments in equity securities and OTC derivatives. For these investments no quantitative sensitivity analysis of the fair value based on the change in unobservable inputs was carried out, since either the fair value was obtained from third-party sources without any adjustments or resulted from a model whose inputs are specific for the entity being measured (for example the company equity values) and for which alternative values cannot be reasonably assumed.

Reference is made to the breakdown analysis of the composition of these cases, which is reported in the next section on quantitative disclosures.

## FAIR VALUE REPORTING – FAIR VALUE HIERARCHY

For the assets and liabilities recognized, the Finance Department assesses whether transfers between fair value levels have occurred and reviews the fair value categorization at each reporting date.

The Finance Department moves financial instruments from Level 1 to Level 2 only in case of financial instruments that are quoted in a regulated but not active market and that can be measured using the Group's internal standard pricing models. The Finance Department makes transfers to Level 3 only for financial instruments that are no longer listed in a regulated market and that cannot be measured using standard internal pricing models of the Group.

| Assets/liabilities measured at fair value | 30.06.2020 | | | 31.12.2019 | | |
|---|---|---|---|---|---|---|
| | L1 | L2 | L3 | L1 | L2 | L3 |
| 1. Financial assets measured at fair value through profit or loss | 93 | 84,027 | 52,775 | 89 | 65,111 | 59,956 |
| a) financial assets held for trading; | 93 | 84,027 | 25,269 | 89 | 65,111 | 32,225 |
| b) financial assets designated at fair value | - | - | - | - | - | - |
| c) other financial assets mandatorily measured at fair value | - | - | 27,506 | - | - | 27,731 |
| 2. Financial assets measured at fair value through other comprehensive income | 3,095,603 | 202,000 | 34,541 | 3,025,930 | 201,999 | 32,817 |
| 3. Hedging derivatives | - | 935,667 | 8 | - | 575,296 | 35 |
| 4. Property, Plant and Equipment | - | - | - | - | - | - |
| 5. Intangible assets | - | - | - | - | - | - |
| **TOTAL** | **3,095,696** | **1,221,694** | **87,324** | **3,026,019** | **842,406** | **92,808** |
| 1. Financial liabilities held for trading | - | 94,535 | 105 | - | 73,515 | - |
| 2. Financial liabilities designated at fair value | - | - | - | - | - | - |
| 3. Hedging derivatives | - | 214,442 | 362,520 | - | 216,347 | 348,202 |
| **TOTAL** | **-** | **308,977** | **362,625** | **-** | **289,862** | **348,202** |

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

## FAIR VALUE REPORTING – TRANSFERS BETWEEN PORTFOLIOS

In the first half of 2020 no transfers of considerable amounts between portfolios were made.

## *Other information*

There is nothing to report about the cases envisaged by IFRS 13, paragraphs 51 and 96 (measurement of net exposures at fair value) and paragraph 93 letter (i) (sensitivity of the fair value measurement to changes in unobservable inputs).

## ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS BREAKDOWN BY FAIR VALUE LEVEL

| Assets/liabilities measured at fair value | 30.06.2020 | | | 31.12.2019 | | |
|---|---|---|---|---|---|---|
| | L1 | L2 | L3 | L1 | L2 | L3 |
| 1. Financial assets measured at fair value through profit or loss | 93 | 77,287 | 62,776 | 93 | 72,592 | 52,325 |
| a) financial assets held for trading; | 93 | 77,287 | 938 | 93 | 72,592 | 24,715 |
| b) financial assets designated at fair value | - | - | - | - | - | - |
| c) other financial assets mandatorily measured at fair value | - | - | 61,838 | - | - | 27,610 |
| 2. Financial assets measured at fair value through other comprehensive income | 2,789,502 | 202,000 | 27,262 | 2,838,133 | 202,000 | 28,111 |
| 3. Hedging derivatives | - | 1,013,557 | 4 | - | 759,811 | 5 |
| 4. Property, Plant and Equipment | - | - | - | - | - | - |
| 5. Intangible assets | - | - | - | - | - | - |
| **Total** | **2,789,595** | **1,292,844** | **90,042** | **2,838,226** | **1,034,403** | **80,441** |
| 1. Financial liabilities held for trading | - | 90,854 | 43 | - | 81,980 | - |
| 2. Financial liabilities designated at fair value | - | - | - | - | - | - |
| 3. Hedging derivatives | - | 203,369 | 241,988 | - | 199,439 | 310,291 |
| **Total** | **-** | **294,223** | **242,031** | **-** | **281,419** | **310,291** |

## ANNUAL CHANGES IN ASSETS MEASURED AT FAIR VALUE ON A RECURRING BASIS (LEVEL 3)

| | Financial assets measured at fair value through profit or loss | | | | Financial assets measured at fair value through other comprehensive income | Hedging derivatives | Property, plant and equipment | Intangible Assets |
|---|---|---|---|---|---|---|---|---|
| | Total | Of which a) financial assets held for trading | Of which b) financial assets designated at fair value | Of which c) other financial assets mandatorily measured at fair value | | | | |
| 1. Opening balance | 52,325 | 24,715 | - | 27,610 | 28,111 | 5 | - | |
| 2. Increases | 13,155 | 88 | - | 36,292 | 178 | - | - | - |
| 2.1 Purchases | 13,140 | 70 | - | 13,072 | - | - | - | - |
| 2.2 Profits recognized in: | 10 | 13 | - | 10 | 178 | - | - | - |
| 2.2.1 Income Statement | 10 | 13 | - | 10 | - | - | - | - |
| - of which: capital gains | - | 13 | - | - | - | - | - | - |
| 2.2.2 Equity | - | X | X | - | 178 | - | - | - |
| 2.3 Transfers from other levels | - | - | - | - | - | - | - | - |
| 2.4 Other increases | 5 | 5 | - | 23,210 | - | - | - | - |
| 3. Decreases | 25,929 | 23,865 | - | 2,064 | 1,027 | 1 | - | - |
| 3.1 Sales | 2,026 | - | - | 2,026 | - | - | - | - |
| 3.2 Repayments | - | - | - | - | 200 | - | - | - |
| 3.3 Losses recognized in: | 38 | - | - | 38 | 827 | 1 | - | - |
| 3.3.1 Income Statement | 38 | - | - | 38 | - | 1 | - | - |
| - of which: capital losses | 38 | | - | 38 | - | 1 | - | - |
| 3.3.2 Equity | - | X | X | - | 827 | - | - | - |
| 3.4 Transfers to other levels | - | - | - | - | - | - | - | - |
| 3.5 Other decreases | 23,865 | 23,865 | - | - | - | - | - | - |
| **4. Closing Balance** | **39,551** | **938** | **-** | **61,838** | **27,262** | **4** | **-** | **-** |

## ANNUAL CHANGES IN LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS (LEVEL 3)

| | Financial liabilities held for trading | Financial liabilities designated at fair value | Hedging derivatives |
|---|---|---|---|
| 1. Opening balance | - | - | 310,291 |
| 2. Increases | 43 | - | - |
| 2.1 Issues | 43 | - | - |
| 2.2 Losses recognized in: | - | - | - |
| 2.2.1 Income Statement | - | - | - |
| - of which: capital losses | - | - | - |
| 2.2.2 Equity | X | - | - |
| 2.3 Transfers from other levels | - | - | - |
| 2.4 Other increases | - | - | - |
| 3. Decreases | - | - | 68,303 |
| 3.1 Repayments | - | - | 24,954 |
| 3.2 Repurchases | - | - | 5,551 |
| 3.3 Profits recognized in: | - | - | 37,798 |
| 3.3.1 Income Statement | - | - | 37,798 |
| - of which: capital gains | - | - | 37,798 |
| 3.3.2 Equity | X | - | - |
| 3.4 Transfers to other levels | - | - | - |
| 3.5 Other decreases | - | - | - |
| 4. Closing Balance | 43 | - | 241,988 |

## 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 | 30.06.2020 | | | | 31.12.2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | VB | L1 | L2 | L3 | VB | L1 | L2 | L3 |
| 1. Financial assets measured at amortized cost | 63,806,611 | 5,132,778 | 9,836,852 | 49,269,588 | 56,343,788 | 4,744,000 | 4,743,538 | 47,746,865 |
| 2. Investment property | 124,722 | - | - | 152,545 | 133,512 | - | - | 153,277 |
| 3. Non-current assets held for sale and discontinued operations | 5,207 | - | - | 5,366 | - | - | - | - |
| **TOTAL** | **63,936,541** | **5,132,778** | **9,836,852** | **49,427,499** | **56,477,300** | **4,744,000** | **4,743,538** | **47,900,142** |
| 1. Financial liabilities measured at amortized cost | 62,984,929 | - | 62,571,203 | 660,063 | 56,003,022 | - | 55,455,814 | 719,010 |
| 2. Liabilities associated with non-current assets held for sale and discontinued operations | - | - | - | - | - | - | - | - |
| **TOTAL** | **62,984,929** | **-** | **62,571,203** | **660,063** | **56,003,022** | **-** | **55,455,814** | **719,010** |

# Operations and profitability by business segment

In compliance with IFRS 8 Operating Segments, the figures on operations and profitability by business segment are given using the “management reporting approach”.

In compliance with the Bank of Italy’s expectations, segment reporting was prepared, in line with the Group management reporting, using the multiple ITR (internal transfer rate) method, integrating also the cost of liquidity.

The Crédit Agricole Italia Banking Group operates through an organizational structure that includes: Retail, Private Banking and Financial Advisors (F.A.) channels designed to provide services to individuals, households and small businesses, and the Corporate Banking channel designed to provide services to larger-size companies. Therefore, given the features of the Group, the “Other” channel is of a residual nature and includes the activities pertaining to central departments, with specific reference to governance.

The data are presented in compliance with the reclassified layouts contained in the management report on operations and compared with the pro-forma ones for 2019, whereas balance sheet data are presented consistently with the statutory layouts.

The “Retail, Private Banking and F.A,” channels achieved Operating income of Euro 738 million (-7.6% YOY): Net interest income (-8,8%) and Net fee and commission income (-6.6%); the weight of Operating costs decreased (-1.6%); with the Operating profit coming to Euro 266 million (-16.7%). Net of the Cost of risk, which came to Euro -142 million (+237.5%) and after taxes, the Net profit came to Euro 88 million (-57.0% a/a).

The “Corporate Banking” channel achieved Operating income of Euro 155 million (+4.0% YOY): vs. 2019, Net interest income increased (+10,1%) as did income from trading of financial assets, whereas Net fee and commission income decreased (-12,6%), being affected mostly by lower fee and commission income on credit lines and lower non-recurring fee and commission components. Operating costs were stable (+0.5%) with the Operating profit coming to Euro 118 million (+5,2%). In the present situation, the cost of risk increased (+1.7%). After taxes, the Net profit came to Euro 22 million, increasing by +15.1% vs. the previous year.

Assets by segment (point-in-time volumes) consisted of Net loans to Customers; as at 30 June 2020, the assets of the Retail, Private Banking and F.A. channels came to Euro 29.326 million (+1.4% vs. 31 December 2019) and accounted for 60% of the Group aggregate; the assets of the Corporate Banking channel came to Euro 19.497 million (+9.8% vs. 31 December 2019) and accounted for the remaining 40%.

Liabilities by segment (point-in-time volumes) consisted of Direct funding from Customers; within this aggregate, funding of the Retail, Private Banking and F.A. channel came to Euro 33.916 million (+2.5% vs. 31 December 2019), accounting for 79% of the Group balance; the Corporate Banking channel posted a balance of Euro 8,101 million (-2.3% vs. 31 December 2019), accounting for 19% of the Total figure.

It is pointed out that unallocated assets and liabilities report the set of inter-bank transactions, the Covered bonds issued and other balance sheet aggregates, such as: unallocated property, plant and equipment/ intangible assets, tax assets/liabilities and specific-purpose provisions.

In accordance with IFRS 8, it is reported that the Group business operations are essentially carried out in the Italian national territory, they are not subject to periodic performance reporting to the management breaking down by foreign geographical area. The Group has not achieved revenues resulting from transactions with single external customers for amounts exceeding 10% of the income recognized in the financial statements.

## SEGMENT REPORTING AS AT 30 JUNE 2020

| CA Group Italy | Retail and Private Banking | Corporate Banking | Other | Total |
|---|---|---|---|---|
| **External operating income** | | | | |
| Net interest income | 379,758 | 99,205 | 875 | 479,838 |
| Net fee and commission income | 360,434 | 47,867 | 3,112 | 411,413 |
| Net profit (loss) on trading activities | 1,255 | 7,552 | (7,632) | 1,175 |
| Dividend income | - | - | 10,378 | 10,378 |
| Other net operating income | (3,069) | 579 | 13,315 | 10,825 |
| **Total operating income** | **738,378** | **155,203** | **20,048** | **913,629** |
| Personnel and administrative expenses and depreciation and amortization | (472,300) | (37,540) | (98,281) | (608,121) |
| **Operating Profit (Loss)** | **266,078** | **117,663** | **(78,233)** | **305,508** |
| Losses on impairment of other financial assets | (139,533) | (85,015) | (629) | (225,177) |
| Provisioning for risks | (2,324) | (1,341) | 1 | (3,664) |
| **Total Cost of Risk** | **(141,857)** | **(86,356)** | **(628)** | **(228,841)** |
| Profit (losses) on equity investments – Profit on disposal of investments | | | 66,135 | 66,135 |
| Profit/loss before taxes | 124,221 | 31,307 | (12,726) | 142,802 |
| Taxes | (36,609) | (9,535) | 4,700 | (41,444) |
| **Profit for the year** | **87,612** | **21,772** | **(8,026)** | **101,358** |
| Assets and Liabilities | | | | |
| Assets by segment (customer) | 29,325,754 | 19,496,813 | 16,291 | 48,838,857 |
| Equity investments in associates | | | 20,483 | 20,483 |
| Unallocated assets | | | 24,364,893 | 24,364,894 |
| **Total Assets** | **29,325,754** | **19,496,813** | **24,401,667** | **73,224,234** |
| Liabilities by segment | 33,916,112 | 8,100,643 | 715,020 | 42,731,775 |
| Unallocated liabilities | | | 23,857,853 | 23,857,853 |
| **Total Liabilities** | **33,916,112** | **8,100,643** | **24,572,873** | **66,589,628** |

## SEGMENT REPORTING AS AT 30 JUNE 2019

| CA Group Italy | Retail and Private Banking | Corporate Banking | Other | Total |
|---|---|---|---|---|
| **External operating income:** | | | | |
| Net interest income | 416.359 | 90.103 | 1.387 | 507.849 |
| Net fee and commission income | 385.826 | 54.763 | 7.597 | 448.186 |
| Net profit (loss) on trading activities | 2.118 | 3.846 | (4.672) | 1.292 |
| Dividend income | - | - | 11.270 | 11.270 |
| Other net operating income | (5.100) | 524 | 11.790 | 7.214 |
| **Total operating income** | **799.203** | **149.236** | **27.372** | **975.811** |
| Personnel and administrative expenses and depreciation and amortization | (479.726) | (37.339) | (99.707) | (616.772) |
| **Operating Profit (Loss)** | **319.477** | **111.897** | **(72.335)** | **359.039** |
| Losses on impairment of other financial assets | (41.050) | (82.650) | 30 | (123.670) |
| Provisioning for risks | (984) | (2.262) | - | (3.246) |
| **Total Cost of Risk** | **(42.034)** | **(84.912)** | **30** | **(126.916)** |
| Profit (losses) on equity investments – Profit on disposal of investments | | | 351 | 351 |
| **Profit/loss before taxes** | **277.443** | **26.985** | **(71.954)** | **232.474** |
| Taxes | (73.470) | (8.065) | 11.740 | (69.795) |
| **Profit for the year** | **203.973** | **18.920** | **(60.214)** | **162.679** |
| **Assets and Liabilities** | | | | |
| Assets by segment (customer) | 28.912.300 | 17.760.183 | 13.923 | 46.686.406 |
| Equity investments in associates | | | 20.483 | 20.483 |
| Unallocated assets | | | 18.947.470 | 18.947.470 |
| **Total Assets** | **28.912.300** | **17.760.183** | **18.981.876** | **65.654.359** |
| Liabilities by segment | 33.073.474 | 8.288.077 | 645.964 | 42.007.515 |
| Unallocated liabilities | | | 17.059.792 | 17.059.792 |
| **Total Liabilities** | **33.073.474** | **8.288.077** | **17.705.756** | **59.067.307** |

# RISKS AND RISK MANAGEMENT

This section is meant to provide an update of the information on risks and the relative hedging policies, as at 30 June 2020, to complete the reporting given in Part E of the Annual Report as at 31 December 2019.

The Crédit Agricole Italia Banking Group attaches great importance to the measurement, management and control of risks, as an essential factor to achieve sustainable growth in an economic situation, such as the present one.

Crédit Agricole Italia is the operating Parent Company in Italy and is engaged in overall risk guidance and control, acting both as coordinator and as a commercial bank with its own distribution network.

In designing the risk management system, Crédit Agricole Italia S.p.A. complies with both the Italian legislation (with specific reference to Bank of Italy's Circular No. 285/2013, as updated), as well as with guidelines issued by the Parent Company Crédit Agricole SA, whose general model is the reference one for the Crédit Agricole Italia Banking Group.

The companies of the Group have their own risk management and control structures and frameworks in compliance with the Group's guidelines, operate in their respective perimeters and benefit from the functions directly performed by Crédit Agricole Italia S.p.A., when centralized.

## INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP) REPORT

Besides preparing the ICAAP report for the European Central Bank (ECB), the Crédit Agricole Italia Banking Group is required, pursuant to Bank of Italy's Circular no. 285 (Part 1, Title III, Chapter 1, Section 1, Paragraph 1), to prepare an ICAAP Report for the national Supervisory Authority.

As at 31 December 2019, the quantitative analyses that generated capital needs for the Crédit Agricole Italia Banking Group regarded, besides Pillar 1 risks, concentration risk, interest rate risk on the banking book and, in compliance with the guidelines issued by the Parent Company Crédit Agricole S.A., sovereign risk, issuer risk, foreign exchange risk, liquidity price risk and strategic risk (the so-called Second Pillar Risks). The analyses showed that Own Funds are adequate to meet all the risks to which the Crédit Agricole Italia Banking Group is exposed based on its operations and target markets.

On the other hand, qualitative measurements, control or mitigation measures were used for the following risks: liquidity, residual and reputational risks; Other risks were also taken into account and assessed within the ICAAP, in accordance with Bank of Italy Circular no. 285 (Country Risk, Risk of excessive leverage, Transfer risk and Base risk).

At the end of April 2020, the Crédit Agricole Italia Banking Group sent the following:

- As regards the ICAAP for the ECB, a set of documents for the assessment of the system for internal capital management, which included quantitative evidence and an "ICAAP Statement" containing the opinion of the governance body on the Group capital adequacy, as well as internal reports on ICAAP intended to provide an overview of the Group's ICAAP framework. Along with the ICAAP Report, at the end of April 2020, the Group sent its ILAAP (Internal Liquidity Adequacy Assessment Process) documentation to the EU Regulator.
- As regards the ICAAP for the national Supervisory Authority, a Report containing the results of the capital adequacy assessment concerning the situation as at 31 December 2019 to the Bank of Italy. Unlike the set of documents sent to the ECB, the Report sent to the Bank of Italy comprises ICAAP, ILAAP, quantitative figures and qualitative measurements in a single document. The Report also contains the strategic guidelines and the forecasting horizon considered; the description of the corporate governance, the organisational structure and the ICAAP-related control systems; risk exposure, risk measurement and aggregation methods, as well as stress testing; components, estimates and methods to allocate internal capital; reconciliation between internal capital, regulatory requirements and regulatory capital and, lastly, the ICAAP self-assessment, highlighting areas where the methodological model needs to be further developed.

The Internal Capital Adequacy Assessment Process (ICAAP), along with the Internal Liquidity Adequacy Assessment Process (ILAAP), is the first phase in the supervisory review process. The second phase consists of the Supervisory Review and Evaluation Process – SREP and it falls within the Supervisory Authority's competence, which shall review the ICAAP and ILAAP and issue an overall opinion on the Group.

### INTERNAL LIQUIDITY ADEQUACY ASSESSMENT PROCESS (ILAAP) REPORT

Along with the ICAAP Report, at the end of April 2020, the Crédit Agricole Italia Banking Group sent its ILAAP (Internal Liquidity Adequacy Assessment Process) Report to the EU Regulator. This Report is intended to provide the results of a self-assessment on the processes for the identification, measurement, management and monitoring of internal liquidity and describes: the liquidity framework, the Group's refinancing structure, the composition of its liquidity reserves, the mechanism for the allocation of refinancing costs, resilience testing, the contingency funding plan and areas where the methodological model needs to be further developed.

This exercise gave evidence of the compliance of the liquidity risk management framework of the Crédit Agricole Italia Banking Group with the requirements set down by the Regulator. Indeed, the adopted framework ensures liquidity steering and effective monitoring of compliance with the set limits.

### INTERNAL CONTROL SYSTEM

The internal control system is the complex of the organizational, procedural and regulatory mechanisms aimed at controlling all types of activities and risks to ensure proper execution and security of operations.

The scope of the Crédit Agricole Italia Group's internal control system includes all its structures, both central and of the Distribution Network, Information Technology departments, Outsourced Important Operational Functions (Italian acronym FOIE) and the related main providers.

In compliance with the standards of the Controlling Company, Crédit Agricole S.A., internal control is carried out with two different modalities: permanent control and periodic control.

In the Crédit Agricole Italia Banking Group, the Risk Management and Permanent Controls Department and the Compliance Department are in charge of permanent control activities, while the Audit Department is in charge of periodic control activities.

In accordance with the regulations in force, roles and departments engaged in control functions provide the corporate bodies having strategic responsibilities with periodic information on the single risks, through both dedicated reporting and participation in specific Committees, set up at Group level, especially the Risk and Internal Control Committee, which receives the evidence resulting from the activities of the 3 departments engaged in control functions (Internal Audit, Compliance and Risk Management).

## CREDIT RISK

Consistently with the guidelines issued by the Parent Company Crédit Agricole S.A., for adequate control on Credit Risk, the Crédit Agricole Italia Banking Group's internal lending processes have been designed to aim at:

- The achievement of sustainable objectives that are consistent with its risk appetite and with the Group's value creation expectations, while ensuring support and proximity to the needs of the productive system, households and of the real economy;
- Portfolio diversification, by limiting and constantly monitoring the concentration of exposures by counterparty/group, economic activity sector or geographical area;
- Adequate selection of the borrower economic groups and single borrowers, through in-depth analyses, aimed at developing and driving business with the most creditworthy Customers, as well as to anticipate and curb insolvency risks.

Lending processes are designed and regulated in order to identify the criteria for risk taking and management, the activities to implement for the proper application of such criteria, the units responsible for carrying out the above activities and the procedures and tools supporting them. The process steps are structured and the responsibilities are assigned in order to pursue set objectives in terms of overall effectiveness and efficiency.

The quality of the loan portfolio is subject to constant monitoring, in terms of the portfolio as a whole, analyzing its composition in accordance with the risk measurement parameters used by the Group (internal rating system, early warning indicators, other performance-monitoring indicators), as well as in terms of single positions, designing and applying the operational processes and procedures that regulate all steps in the management of the single lending accounts, in order to ensure preventive management of any default risks.

The organizational structure, procedures and tools supporting the processes for the management of exposures showing anomalies ensure prompt triggering of appropriate actions to restore them to a performing status or, should the circumstances require termination of the business relation, to collect the credit claim.

The mitigation of credit risk is pursued by entering into ancillary agreements or by adopting adequate tools and techniques designed to mitigate this risk. In this scope, special attention is paid to obtaining and managing guarantees, with the definition of general and specific requirements, with special regard to the rules and procedure to monitor that the requirements of the guarantees remain complied with (legal certainty, prompt realization and value consistency with the guaranteed exposure).

In H1 2020, lending focused on the priority of providing support to customers hit by the Covid-19 epidemic. Specifically, also applying the measures issued by the Italian Government ("Cura Italia" Decree, Liquidity Decree and the subsequent enacting laws), as well as the agreements within the Italian banking system (the protocols signed by and between ABI and associations of enterprises, consumers and government bodies), the Crédit Agricole Italia Banking Group has deployed a structured program to provide support to households, businesses and government bodies, which comprises both loans backed by state guarantees (Central Guarantee Fund, ISMEA, Italian state body providing services to the agri-food market, and SACE), and measures for suspending repayment of outstanding loans to households, businesses and organizations.

At the same time, work has continued to implement several actions to ensure full compliance with the new developments in the applicable regulations, as well as with the guidelines set by the Business Plan. Among the main actions, the following are worth specific mentioning:

- The continuation of the activities to ensure full compliance, to be achieved by Q3 2020, with the requirements set by the EBA for the application of Article 178 of Regulation (EU) no. 575/2013 on the definition of default, coordinated by the Risk Management and Permanent Controls Department. In this scope, the Credit Department:
  - Continued to trigger the levers of action required to implement the logics underlying the new legislation in the behaviours and operation of the lending and commercial structures;
  - Started to upgrade the loan management applications to make them compliant with the new legislation.
- The design of actions to change the organizational structure and the system of decision-making powers, aimed at further streamlining the levels of the bodies in charge of lending decisions and at higher specialization in assessing customer risk profiles, structuring the decision-making system consistently with the commercial segmentation of customers; these actions are expected to be implemented by Q4 2020;
- Continuation of the activities to develop and implement the new workflow governing and steering lending processes (New Loan Application Processing), which is expected to result in overall improvement of the service quality, with a positive impact in terms of Customer Satisfaction, as well as in the optimization of lending decision procedures and, thus, in a more efficient process; albeit slowed down by the health emergency, the project activities are expected to be completed by the end of 2020, with full activation of the tool on the whole Network;
- The revision of lending policies, aimed at streamlining the approach, at full integration of the drivers underlying the operation of the new lending workflow, at a more objective approach, through the definition of KRIs that are consistent with the Group's risk appetite, further fine tuning of clusterization criteria in accordance with the counterparties' specificities, higher structuring of Environmental Social Governance (ESG) criteria, which are already an integral part of creditworthiness assessment;
- The definition of the function requirements of the new management workflow for current accounts and payments instruments, with the ultimate objective of curbing any increase in small-amount overdrafts; the related development and go-live are expected through progressive releases starting from Q4 2020.

The management of the non-performing portfolio has been made fully compliant with the supervisory expectations set out in the ECB "Guidance to banks on Non-Performing Loans", which have been made operational with the adoption of the internal Policy for the Management and Measurement of NPEs (stage 3)", with the upgrading of management processes and full pursuance in ongoing operations of the objectives set in the (medium term) NPE Strategy. This is consistent with the Group's risk mitigation objectives, both by reducing the stock of non-performing exposures and by assessing the portfolio and the provisions covering it.

In Q2 2020, following the Covid-19 health emergency and, therefore, to control credit risk, the governance of portfolio monitoring and management was further strengthened. Furthermore, the portfolio of defaulted exposures was thoroughly analyzed and, after an assessment applying incremental stress, it was prudentially decided to supplement the existing provisions, especially on UTP and bad loans. This has allowed the overall coverage ratios of the Crédit Agricole Italia Banking Group to increase, coming to 54.9%.

## CREDIT QUALITY

| ITEMS | GROSS EXPOSURES – WEIGHT ON TOTAL | | | | Change | |
|---|---|---|---|---|---|---|
| | June 2020 | | December 2019 | | Absolute | % |
| - Bad loans | 1,875,356 | 3.7% | 1,859,129 | 3.8% | 16,227 | 0.9% |
| - Unlikely to Pay | 1,545,229 | 3.0% | 1,583,992 | 3.2% | -38,763 | -2.4% |
| - Past-due/overlimit loans | 41,976 | 0.1% | 30,495 | 0.1% | 11,481 | 37.6% |
| **Non-performing loans** | **3,462,561** | **6.8%** | **3,473,616** | **7.1%** | **-11,055** | **-0.3%** |
| - Performing loans – stage 2 | 3,184,916 | 6.2% | 2,774,753 | 5.7% | 410,163 | 14.8% |
| - Performing loans – stage 1 | 44,371,418 | 87.0% | 42,502,049 | 87.2% | 1,869,369 | 4.4% |
| Performing loans | 47,556,334 | 93.2% | 45,276,802 | 92.9% | 2,279,532 | 5.0% |
| **Gross loans to Customers** | **51,018,895** | **100.0%** | **48,750,418** | **100.0%** | **2,268,477** | **4.7%** |

| ITEMS | NET EXPOSURES – COVERAGE RATIO | | | | Change | |
|---|---|---|---|---|---|---|
| | June 2020 | | December 2019 | | Absolute | % |
| - Bad loans | 570,538 | 69.6% | 602,371 | 67.6% | -31,833 | -5.3% |
| - Unlikely to Pay | 955,742 | 38.1% | 1,017,223 | 35.8% | -61,481 | -6.0% |
| - Past-due/overlimit loans | 36,997 | 11.9% | 27,020 | 11.4% | 9,977 | 36.9% |
| Non-performing loans | 1,563,277 | 54.9% | 1,646,614 | 52.6% | -83,337 | -5.1% |
| - Performing loans – stage 2 | 2,986,434 | 6.2% | 2,615,263 | 5.7% | 371,171 | 14.2% |
| - Performing loans – stage 1 | 44,289,146 | 0.2% | 42,424,529 | 0.2% | 1,864,617 | 4.4% |
| Performing loans | 47,275,580 | 0.6% | 45,039,792 | 0.5% | 2,235,788 | 5.0% |
| **Net loans to Customers** | **48,838,857** | **4.3%** | **46,686,406** | **4.2%** | **2,152,451** | **4.6%** |

The tables summarizing credit quality show that the stock of non-performing loans as at 30 June 2020 came to Euro 3.5 billion, stable vs. the end of 2019.

In H1 2020, the weight of non-performing exposures on total loans to customers came to 6.79% improving vs. the 7.13% figure as at 31 December 2019.

The coverage ratios as at 30 June 2020 of non-performing loans came overall to 54.9%, increasing vs. the 52.6% figure as at 31 December 2019; the coverage ratio of UTP increased to 38.1% (vs. 35.8% as at 31 December 2019) and the coverage ratio of bad loans increased to 69.6% (vs. 67.6% as at 31 December 2019).

It is pointed out that, in H1 2020, following the Covid-19 health emergency, the monitoring and management actions were further strengthened, supporting credit risk control, and, it was prudentially decided to supplement the related provisions increasing the coverage ratio of non-performing loans to 54.9% (vs. 52.6% as at 31 December 2019).

# MARKET RISK

## TRADING BOOK

The Crédit Agricole Italia Banking Group does not engage in significant proprietary trading on financial and capital markets and, furthermore, in its capacity as sub-consolidating entity of the Crédit Agricole Group, Crédit Agricole Italia is subject to the Volcker Rule and to the "Loi francaise de séparation et de régulation des activitès bancaires" (LBF), which prohibit any banking entity from engaging in proprietary speculative trading.

Therefore, trading activities are instrumental to meeting customers' requirements. The market risk control system implemented by Crédit Agricole Italia for all the entities of the Group ensures that a risk level consistent with the set objectives is constantly kept.

The Group's entities calculate their First Pillar capital needs for Market Risk using standardized approaches, given the low materiality of the exposures to this risk.

## BANKING BOOK

Asset & Liability Management activities concern all the exposures on the banking book. The impacts generated by changes in the forward yield curve on net interest income and on the economic value of capital are monitored and mitigated with specific hedging transactions using derivatives with interest rates as the underlying, also through appropriate modelling of financial statement items and behavioural trends (behavioural models).

In its capacity as the Parent Company, Crédit Agricole Italia S.p.A. coordinates the interest rate risk and price risk profiles of the Group's banking book, centrally managing financial operations, as well as risk assessment and control activities.

The Governance model vests:
- The ALM Committee with the task of setting the strategic and direction lines for the management, of validating proper application of the standards and methods for measuring the exposure to interest rate risk, of examining the reporting produced by the Finance Department, as well as to resolve on any measures to be implemented;
- The Risk and Internal Control Committee with the task of examining the outcomes of controls on compliance with the RAF and Risk Strategy limits and alert thresholds, as well as any alert procedures that started.

In compliance with the normative instruments of the Group and with the supervisory regulations, the system of limits regarding interest rate risk is reviewed on a yearly basis within the Risk Appetite Framework (RAF) process, setting out operational limits in the Risk Strategy of the Crédit Agricole Italia Banking Group, which is submitted to the Group Risk Committee of the Crédit Agricole Group and is approved by the Boards of Directors of all the banks of the Group.

The limit system consists of global limits, operational limits and alert thresholds (that are then adapted to each single entity of the Group). As regards limits on interest rate risk, the Risk Strategy has confirmed:
- A global limit in terms of Net Present Value (NPV);
- A gap global limit subdivided into different time ranges;
- A global limit in Van Index terms.

As regards price risk for the Banking Book, global limits have been set, based on the type of instruments that may be held (Government securities), which are expressed with reference to commonly used metrics (fair value, nominal value), and global limits and alert thresholds have been identified on the Banking Book fair value.

## FAIR VALUE HEDGING

Hedging interest rate risk has the objective of immunizing the Banking Book from changes in the fair value of funding and lending, caused by adverse movements in the yield curve.

The main financial instruments for the management of interest risk hedges are Interest Rate Swaps, which, for their very nature, are contracts referring to "pure" interest rate risk. Specifically, fixed-rate debenture loans have been hedged (micro-hedging), as have the mortgage loans with optional components to Customers (macro-hedging), government securities (micro- hedging) and current accounts in the macro-hedging portfolio.

In compliance with the financial reporting standards, the effectiveness of the hedges is assessed by the Finance Department, which carries out the relevant tests on a monthly basis and keeps formal documentation for every hedging relationship.

## LIQUIDITY RISK

The system for Liquidity Risk classification and management aims at ensuring continuity of essential business activities considering illiquidity risk and any reduction in resources. The management model includes methods for risk measurement and aggregation and for stress testing, which are compliant with the EU legislation and with the standards of the liquidity management system of the Crédit Agricole Group.

The limit system is based on stress scenarios, with the purpose of ensuring a liquidity surplus on different time horizons and in increasingly serious scenarios. The stress assumptions used cover idiosyncratic crises, systemic crises and global crises. There are also a limit to short-term refinancing with market counterparties (LCT – Limite Court Terme) and an indicator aimed at ensuring financial balance between stable resources and long-term uses, in order to properly steer medium and long-term refinancing (Stable Resources Position or PRS – Position Resources Stables).

The limit structure is completed by a set of management and alert indicators provided for in the Contingency Funding Plan.

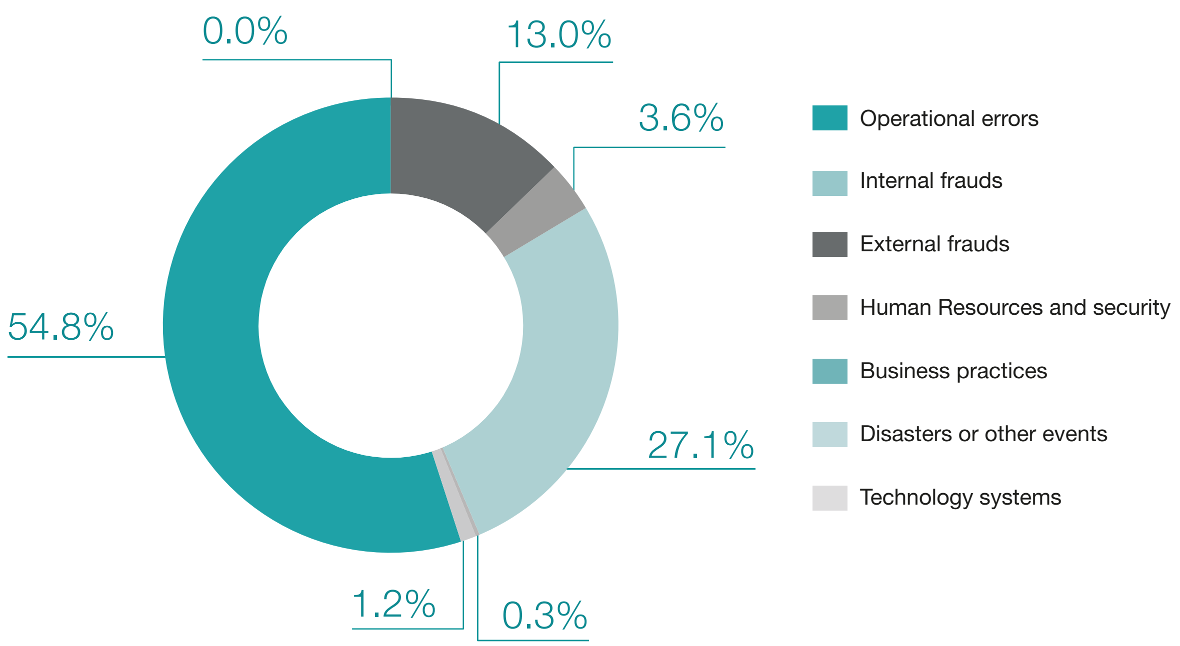
As at 30 June 2020, the Liquidity Coverage Ratio (LCR) of the Crédit Agricole Italia Banking Group was 304%, once again firmly above the set compliance requirements.

## OPERATIONAL RISKS

### BREAKDOWN OF LOSSES

Operational losses recognized in the first half of 2020 came to approximately Euro 2.29 million.

As regards the sources of operational risk, the breakdown of losses as at the end of June by type of event (LET, “Loss Event Type”) is given below, net of recoveries and excluding boundary losses.



# BUSINESS COMBINATIONS

## BUSINESS COMBINATIONS MADE IN THE PERIOD

In H1 2020, the Crédit Agricole Italia Banking Group did not carry out any business combinations.

# TRANSACTIONS WITH RELATED PARTIES

The closeness of some persons to a company's decision-making centers may compromise the objectivity and impartiality of its decisions, with possible distortions in the allocation of resources, as well as expose the company to risks and damages to itself and to its stakeholders.

This is the matter addressed by CONSOB with its Regulations containing provisions relating to transactions with related parties (adopted by CONSOB with Resolution no. 17221 of 12 March 2010, laying down specific measures for Italian companies listed in Italian regulated markets or in regulated markets of other EU Member States and whose shares are publicly held to a considerable extent, in order to ensure transparency and substantial and procedural fairness of transactions with related parties carried out directly or through subsidiaries.

The regulation issued by the Bank of Italy on 12 December 2011, on risk assets and conflicts of interest with associated persons falls within the scope of the framework regulation concerning related parties (Article 2391-bis of the Italian Civil Code, Article 53 of the Italian Consolidated Law on Banking 53 of the Italian Consolidated Law on Banking (TUB) and CONSOB Regulation No. 17221/10) and has been designed to "*control the risk that the closeness of some persons to the Bank's decision-making centers may compromise the objectivity and impartiality of decisions relating to loan granting and other transactions with the same persons, with possible distortions in the allocation of resources, in the Bank's exposure to risks not adequately measured or controlled, potential damages to depositors and shareholders*". This regulation came into force on 31 December 2012 and, consequently, the first supervisory reporting was made on 31 March 2013, as required by the Supervisory Authority.

The Crédit Agricole Italia Banking Group had already adopted a Regulation on transactions with related parties implementing the original CONSOB regulation of 2010; afterwards, on 11 December 2012, in accordance with the regulation issued by the Bank of Italy, Crédit Agricole Italia approved the Document "Regulation for Risk Assets and Conflicts of Interests with Parties associated to the Crédit Agricole Italia Banking Group", in order to give the Group a specific internal normative instrument on this matter and to harmonize the various regulations in force; the Document was then updated on 29 July 2014.

Lastly, on 25 July 2018, the Board of Directors of Crédit Agricole Italia approved the adoption of the new "Regulation on transactions with Associated Persons", which was then adopted by the other Banks and Companies of the Crédit Agricole Italia Banking Group.

The new Regulation on Transactions with Associated Persons lays down – in a single normative instrument – the procedures that the Banks and the Companies of the Crédit Agricole Italia Banking Group shall apply in case of any transactions with Associated Persons, in compliance with the regulations in force issued by CONSOB and by the Bank of Italy; this instrument provides for the most stringent and conservative obligations, procedures and definitions among those specifically set out by the aforementioned regulations.

In addition to identifying the related parties and the associated persons of the Crédit Agricole Italia Banking Group, this document lays down prudential limits to risk assets with associated persons, sets the procedures to process and approve transactions with related parties, defines specific rules with regard to transactions with related parties made by the companies belonging to the Group and lays down procedures and timeframes for the provision of reporting and appropriate documentation on the transactions (i) to independent directors/Related Party Committee, as well as, where necessary, (ii) to the control bodies.

With regard to controls, the required activities are carried out by different corporate roles and structures, in different capacities and in the different phases of the process, in order to ensure constant compliance with the prudential limits and resolution-making procedures as provided for by the applicable legislation, also pursuing the objective to appropriately prevent and manage potential conflicts of interests that may result from transactions with associated parties.

# RELATED PARTIES

Pursuant to its "Regulation on Transactions with Associated Persons", related parties of the Crédit Agricole Italia Banking Group's banks and supervised intermediaries are persons in the capacity as:

a. Corporate Officer;
b. Shareholder/Investor[16];
c. The person or entity that, directly or indirectly, also through subsidiaries, trusts or third parties:
   1. Controls the bank or the supervised intermediary, is controlled by any of them or is under common control with any of them;
   2. Holds an equity investment in the bank or supervised intermediary allowing the exercise of significant influence;
   3. Exercises control on the bank or supervised intermediary jointly with other persons/entities;
d. The person, other than a shareholder/investor, that can appoint, on his/her/its own, one or more members of the Board of Directors, also based on any agreements in whatsoever form or clauses of the Articles of Association dealing with or providing for the exercise of the above rights and powers;
e. A company or an enterprise, also set up in a legal form other than that of a company, on which a bank or an entity of the Group can exercise control or significant influence;
f. An associated company of the bank or supervised intermediary;
g. A joint venture in which the bank or supervised intermediary is a joint venturer;
h. The Managers with strategic responsibilities of the bank and of the supervised intermediary or of their controlling companies;
i. Any supplementary pension fund, collective or individual, Italian or foreign, set up to the benefit of the employees of the bank, of the supervised intermediary or of any other entity that is a related party.

# CONNECTED PERSONS

Persons connected to a related party are defined as follows:

1. Companies or enterprises, also set up in a legal form other than that of a company, which are controlled by a related party among those set forth at letters a), b), d) and e) of the definition of related party, as well as companies or enterprises, also set up in a legal form other than that of a company, on which one of the related parties as per letter a) of the definition (i.e. Corporate Officer) can exercise significant influence;
2. Persons exercising control on a related party among those listed at letters b) and d) of the relevant definition, as well as entities that are directly or indirectly subject to joint control with the same related party;
3. Close family members of one of the related parties set forth in letters a), b), c), d) and h) of the relevant definition and the companies or enterprises, also set in a legal form other than that of a company, that are controlled, subject to joint control or significant influence by such related party.

# ASSOCIATED PERSONS

Associated persons of the Crédit Agricole Italia Banking Group are defined as the set consisting of a related party and of all the persons connected to the same. For application at individual level, the banks and supervised intermediaries belonging to the Group refer to the same perimeter of associated persons as determined by the Parent Company.

## Information on transactions with relates parties

Transactions with related parties consist in the transfer of resources, services or bonds between a Group company (or companies directly and/or indirectly controlled by it) and one or more related parties, independently of the whether payment was agreed or not.

Transactions carried out with related parties followed the specific procedures provided for by the aforementioned Regulation.

16 "Shareholder/investor": the person or entity required to apply for the authorizations pursuant to Article 19 et seq. of the Italian Consolidated Law on Banking (T.U.B.)

In H1 2020 intra-group transactions and/or transactions with related parties/associated persons, Italian and foreign, were carried out within routine operations and the related financial activities and generally executed at terms and conditions similar to those applied to transactions with unrelated parties.

Intra-group transactions were carried out based on reciprocal business expediency considerations and the terms and conditions to be applied were defined in compliance with substantive fairness, pursuing the shared objective of creating value for the Crédit Agricole Italia Banking Group as a whole.

The same principle was applied also to intra-group provision of services, along with the principle of pricing such services at the lowest amount required to recover the related production costs.

| TYPE OF RELATED PARTIES | FINANCIAL ASSETS HELD FOR TRADING | FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME | LOANS TO CUSTOMERS | DUE FROM BANKS | DUE TO CUSTOMERS | DUE TO BANKS | GUARANTEES GIVEN |
|---|---|---|---|---|---|---|---|
| Controlling Company | - | - | - | 1,161,469 | - | 921,550 | 5,882 |
| Entities exercising significant influence on the Company | - | - | - | - | 25,541 | - | - |
| Associates | 72 | - | 8,986 | - | 6,105 | - | 1,035 |
| Directors and Managers with strategic responsibilities | - | - | 2,432 | - | 4,288 | - | - |
| Other related parties | 5,169 | 3,609 | 5,705,487 | 93,611 | 426,931 | 773,706 | 270,744 |
| **Total** | **5,241** | **3,609** | **5,716,905** | **1,255,080** | **462,865** | **1,695,256** | **277,661** |

## MAIN INCOME TRANSACTIONS WITH RELATED PARTIES

| Amounts in thousands of Euro | Net interest income | Net fee and commission income | Personnel expenses |
|---|---|---|---|
| Controlling Company | -9,953 | -175 | -107 |
| Entities exercising significant influence on the Company | - | 93 | - |
| Associates | - | 29 | - |
| Directors and Managers with strategic responsibilities | 3 | 67 | - |
| Other related parties | 20,060 | 182,246 | -315 |

# Certification of the half-yearly condensed consolidated financial statements pursuant to Article 154-bis of Italian Legislative Decree No. 58/1998

CRÉDIT AGRICOLE

1. The undersigned Giampiero Maioli, Chief Executive Officer, and Pierre Débourdeaux, Manager responsible for preparing of the Company's financial reports of Crédit Agricole Italia S.p.A., taking into account the provisions of Article 154-bis, paragraphs 3 and 4, of Legislative Decree No. 58 of 24 February 1998, do hereby certify:

   - the adequacy in relation to the Company's features and

   - the actual application of the administrative and accounting procedures employed for drawing up the condensed consolidated half-yearly financial statements, in the first half of 2020.

2. With regard to this, no significant aspects have emerged.

3. The undersigned also certify that:

   3.1 The condensed consolidated half-yearly financial statements:

   a) have been prepared in compliance with applicable international accounting standards recognised by the European Community pursuant to European Parliament and the Council Regulation 1606/2002 of 19 July 2002;

   b) correspond to the results of the books and accounts;

   c) give a true and correct representation of the capital, economic and financial situation of the Issuer and of the companies included in the consolidation.

   3.2 The half-yearly report on operations contains indications of the most significant events in the first six months of the year and their impact on the condensed consolidated half-yearly financial statements, together with a description of the main risks and uncertainties faced in the remaining six months of the year as well as information on significant related party transactions.

Parma, 23 July 2020

| | |
|---|---|
| Giampiero Maioli | Pierre Débourdeaux |
| Chief Executive Officer | Manager responsible for preparing the Company's financial reports |

Crédit Agricole Italia S.p.A. - Sede Legale Via Università, 1 - 43121 Parma - telefono 0521.912111

Capitale Sociale euro 979.234.664,00 i.v. - Iscritta al Registro Imprese di Parma, Codice Fiscale n. 02113530345, aderente al Gruppo IVA Crédit Agricole Italia, Partita Iva n. 02886650346. Codice ABI 6230.7. Iscritta all'Albo delle Banche al n. 5435. Aderente al Fondo Interbancario di Tutela dei Depositi e al Fondo Nazionale di Garanzia. Capogruppo del Gruppo Bancario Crédit Agricole Italia iscritto all'Albo dei Gruppi Bancari al n. 6230.7 - Società soggetta all'attività di Direzione e Coordinamento di Crédit Agricole S.A.

# Independent Auditors' Report

EY S.p.A.
Via Meravigli, 12
20123 Milano

Tel: +39 02 722121
Fax: +39 02 722122037
ey.com

## Review report on the interim condensed consolidated financial statements
(Translation from the original Italian text)

To the Shareholders of
Crédit Agricole Italia S.p.A.

### Introduction

We have reviewed the interim condensed consolidated financial statements, comprising the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows and the related explanatory notes of Crédit Agricole Italia S.p.A. and its subsidiaries (the "Crédit Agricole Italia Banking Group") as of June 30, 2020. The Directors of Crédit Agricole Italia S.p.A. are responsible for the preparation of the interim condensed consolidated financial statements in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

### Scope of Review

We conducted our review in accordance with review standards recommended by Consob (the Italian Stock Exchange Regulatory Agency) in its Resolution no. 10867 of 31 July 1997. A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an 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 interim condensed consolidated financial statements.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements of Crédit Agricole Italia Banking Group as of June 30, 2020 are not prepared, in all material respects, in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Milan, July 30, 2020

EY S.p.A.
Signed by: Massimiliano Bonfiglio, Auditor

This report has been translated into the English language solely for the convenience of international readers

# Annexes

# Financial Statements of the Parent Company

## BALANCE SHEET

| Assets | 30.06.2020 | 31.12.2019 |
|---|---|---|
| 10. Cash and cash equivalents | 232,444,966 | 326,278,580 |
| 20. Financial assets measured at fair value through profit or loss | 99,430,267 | 91,654,058 |
| a) financial assets held for trading; | 60,642,420 | 82,054,608 |
| b) financial assets designated at fair value; | - | - |
| c) other financial assets mandatorily measured at fair value | 38,787,847 | 9,599,450 |
| 30. Financial assets measured at fair value through other comprehensive income | 2,681,321,731 | 2,720,418,724 |
| 40. Financial assets measured at amortized cost | 58,071,301,861 | 50,981,630,730 |
| a) due from banks | 12,511,072,625 | 7,522,014,029 |
| b) loans to customers | 45,560,229,236 | 43,459,616,701 |
| 50. Hedging derivatives | 918,065,989 | 668,305,904 |
| 60. Fair value change of financial assets in macro-hedge portfolios (+/-) | 116,063,378 | 97,608,780 |
| 70. Equity investments | 1,076,480,546 | 1,074,437,875 |
| 80. Property, Plant and Equipment | 770,846,119 | 818,422,349 |
| 90. Intangible assets | 1,175,584,695 | 1,187,930,605 |
| - of which goodwill | 1,042,597,768 | 1,042,597,768 |
| 100. Tax assets | 1,274,690,422 | 1,318,990,234 |
| a) current | 245,754,972 | 258,991,565 |
| b) deferred | 1,028,935,450 | 1,059,998,669 |
| 110. Non-current assets held for sale and discontinued operations | 5,207,320 | - |
| 120. Other assets | 414,252,423 | 327,129,108 |
| **Total assets** | **66,835,689,717** | **59,612,806,947** |

| Liabilities and Equity | | 30.06.2020 | 31.12.2019 |
|---|---|---|---|
| 10. | Financial liabilities measured at amortized cost | 57,534,354,897 | 50,807,795,393 |
| | a) Due to banks | 12,100,532,075 | 7,238,314,243 |
| | b) Due to Customers | 35,198,162,992 | 34,552,965,281 |
| | c) Debt securities issued | 10,235,659,830 | 9,016,515,869 |
| 20. | Financial liabilities held for trading | 71,297,197 | 65,641,619 |
| 30. | Financial liabilities designated at fair value | - | - |
| 40. | Hedging derivatives | 359,931,724 | 415,394,579 |
| 50. | Fair value change of financial liabilities in macro-hedge portfolios (+/-) | 400,726,416 | 341,807,309 |
| 60. | Tax liabilities | 141,176,999 | 222,271,673 |
| | a) current | 76,716,700 | 152,923,870 |
| | b) deferred | 64,460,299 | 69,347,803 |
| 70. | Liabilities associated with non-current assets held for sale and discontinued operations | - | - |
| 80. | Other liabilities | 1,527,418,410 | 961,694,267 |
| 90. | Employee severance benefits | 93,662,201 | 96,810,797 |
| 100. | Provisions for risks and charges | 290,762,043 | 312,246,262 |
| | a) commitments and guarantees given | 27,605,582 | 27,209,936 |
| | b) post-employment and similar obligations | 35,359,082 | 37,325,416 |
| | c) other provisions for risks and charges | 227,797,379 | 247,710,910 |
| 110. | Valuation reserves | -64,997,322 | -44,789,696 |
| 120. | Redeemable shares | - | - |
| 130. | Equity instruments | 715,000,000 | 715,000,000 |
| 140. | Reserves | 1,593,808,076 | 1,318,749,655 |
| 150. | Share premium reserve | 3,118,389,293 | 3,118,380,883 |
| 160. | Capital | 979,234,664 | 979,233,295 |
| 170. | Treasury shares (+/-) | - | - |
| 180. | Gain (Loss) for the period (+/-) | 74,925,119 | 302,570,911 |
| **Total liabilities and equity** | | **66,835,689,717** | **59,612,806,947** |

# INCOME STATEMENT

| Items | | 30.06.2020 | 30.06.2019 |
|---|---|---|---|
| 10. | Interest and similar income | 366,075,459 | 362,032,507 |
| | Of which: interest income calculated with the effective interest method | 364,719,928 | 360,432,631 |
| 20. | Interest and similar expense | 17,806,057 | 7,559,524 |
| 30. | Net interest income | 383,881,516 | 369,592,031 |
| 40. | Fee and commission income | 361,780,280 | 353,142,365 |
| 50. | Fee and commission expense | (15,816,474) | (17,452,861) |
| 60. | Net fee and commission income | 345,963,806 | 335,689,504 |
| 70. | Dividends and similar income | 10,378,111 | 55,018,541 |
| 80. | Net profit (loss) on trading activities | 4,165,576 | 3,571,931 |
| 90. | Net profit (loss) on hedging activities | (3,990,818) | (3,331,694) |
| 100. | Profit (losses) on disposal or repurchase of: | 948,706 | (3,823,209) |
| | a) financial assets measured at amortized cost | 896,768 | (3,743,155) |
| | b) financial assets measured at fair value through other comprehensive income | - | - |
| | c) financial liabilities | 51,938 | (80,054) |
| 110. | Net profit (loss) on other financial assets and liabilities measured at fair value through profit and loss | (28,053) | 7,766 |
| | a) financial assets and liabilities designated at fair value | - | - |
| | b) other financial assets mandatorily measured at fair value | (28,053) | 7,766 |
| 120. | Net interest and other banking income | 741,318,844 | 756,724,870 |
| 130. | Net losses/recoveries for credit risk on: | (198,259,411) | (94,567,408) |
| | a) financial assets measured at amortized cost | (197,468,021) | (94,644,692) |
| | b) financial assets measured at fair value through other comprehensive income | (791,390) | 77,284 |
| 140. | Profits/Losses on contract modifications without derecognition | (549,172) | (551,235) |
| 150. | Net income from banking activities | 542,510,261 | 661,606,227 |
| 160. | Administrative expenses: | (589,083,694) | (551,963,827) |
| | a) personnel expenses | (274,348,306) | (259,385,212) |
| | b) other administrative expenses | (314,735,388) | (292,578,615) |
| 170. | Net provisions for risks and charges | (4,313,041) | 313,428 |
| | a) commitments and guarantees given | (763,340) | 3,790,926 |
| | b) other net provisions | (3,549,701) | (3,477,498) |
| 180. | Net adjustments of/recoveries on property, plant and equipment | (28,071,830) | (24,643,975) |
| 190. | Net adjustments of/recoveries on intangible assets | (12,345,910) | (11,348,102) |
| 200. | Other operating expenses/income | 119,813,486 | 110,810,628 |
| 210. | Operating costs | (514,000,989) | (476,831,848) |
| 220. | Profit (losses) on equity investments | 9,530,007 | 12,491,796 |
| 230. | Profit (losses) from property, plant and equipment and intangible assets measured at fair value | - | - |
| 240. | Impairment on goodwill | - | - |
| 250. | Profit (losses) on disposals of investments | 64,780,976 | 205,329 |
| 260. | Profit (Loss) before tax from continuing operations | 102,820,255 | 197,471,504 |
| 270. | Taxes on income from continuing operations | (27,895,136) | (44,935,177) |
| 280. | Profit (Loss) after tax from continuing operations | 74,925,119 | 152,536,327 |
| 290. | Profit (Loss) after tax from discontinued operations | - | - |
| **300.** | **Profit (Loss) for the period** | **74,925,119** | **152,536,327** |

# STATEMENT OF COMPREHENSIVE INCOME

| Items | | 30.06.2020 | 30.06.2019 |
|---|---|---|---|
| **10.** | **Profit (Loss) for the period** | **74,925,119** | **152,536,327** |
| | **Other comprehensive income net of tax not reclassified to profit or loss** | | |
| 20. | Equity securities designated at fair value through other comprehensive income | (3,447,071) | (1,409,795) |
| 30. | Financial liabilities designated at fair value through profit or loss (changes in own credit rating) | - | - |
| 40. | Hedging of equity securities designated at fair value through other comprehensive income | - | - |
| 50. | Property, Plant and Equipment | - | - |
| 60. | Intangible assets | - | - |
| 70. | Defined-benefit plans | 834,311 | (1,232,187) |
| 80. | Non-current assets held for sale and discontinued operations | - | - |
| 90. | Share of valuation reserve on equity investments measured with the equity method: | - | - |
| | **Other income components reclassified to profit or loss** | | |
| 100. | Hedging of investments in foreign operations: | - | - |
| 110. | Exchange rate differences | - | - |
| 120. | Cash flow hedges | - | - |
| 130. | Hedging instruments (non-designated elements) | - | - |
| 140. | Financial assets (other than equity securities) measured at fair value through other comprehensive income | (17,594,866) | 20,153,246 |
| 150. | Non-current assets held for sale and discontinued operations | - | - |
| 160. | Share of valuation reserve on equity investments measured with the equity method: | - | - |
| **170.** | **Total other comprehensive income after taxes** | **(20,207,626)** | **17,511,264** |
| **180.** | **Comprehensive income (Item 10+170)** | **54,717,493** | **170,047,591** |

# STATEMENT OF CHANGES IN EQUITY AS AT 30 JUNE 2020

| | Share capital: ordinary shares | Share premium reserve | Reserves: | | Valuation reserves | Capita/ equity instruments | Profit (Loss) for the period | Equity |
|---|---|---|---|---|---|---|---|---|
| | | | Income reserves | other | | | | |
| **EQUITY AS AT 31 DEC. 2019** | **979,233,295** | **3,118,380,883** | **1,315,927,512** | **2,822,143** | **-44,789,696** | **715,000,000** | **302,570,911** | **6,389,145,048** |
| ALLOCATION OF THE PROFIT FOR THE PREVIOUS PERIOD | | | | | | | | - |
| Reserves | - | - | 301,070,911 | - | - | - | -301,070,911 | - |
| Dividends and other allocations | - | - | - | - | - | - | -1,500,000 | -1,500,000 |
| CHANGES FOR THE YEAR | | | | | | | | |
| Change in reserves | - | - | -202,228 | - | - | - | - | -202,228 |
| Transactions on equity | | | | | | | | |
| Issues of new shares | 1,369 | 8,410 | - | - | - | - | - | 9,779 |
| Purchase of treasury shares | - | - | - | - | - | - | - | - |
| Extraordinary dividend distribution | - | - | - | - | - | - | - | - |
| Change in equity instruments | - | - | -25,810,262 | - | - | - | - | -25,810,262 |
| Derivatives on treasury shares | - | - | - | - | - | - | - | - |
| Shares and rights on shares of the Parent Company assigned to Employees and Directors | - | - | - | - | - | - | - | - |
| Comprehensive income | - | - | - | - | -20,207,626 | - | 74,925,119 | 54,717,493 |
| **EQUITY AS AT 30 JUNE 2020** | **979,234,664** | **3,118,389,293** | **1,590,985,933** | **2,822,143** | **-64,997,322** | **715,000,000** | **74,925,119** | **6,416,359,830** |

# STATEMENT OF CHANGES IN EQUITY AS AT 30 JUNE 2019

| | Share capital: ordinary shares | Share premium reserve | Reserves: | | Valuation reserves | Equity instruments | Profit (Loss) for the period | Equity |
|---|---|---|---|---|---|---|---|---|
| | | | Income reserves | other | | | | |
| **EQUITY AS AT 31 DEC. 2018** | **962,672,153** | **3,118,249,355** | **1,215,675,477** | **2,814,411** | **-106,426,600** | **715,000,000** | **252,124,086** | **6,160,108,882** |
| CHANGE TO OPENING BALANCES | - | - | - | - | - | - | - | - |
| AMOUNTS AS AT 1 JAN. 2019 | 962,672,153 | 3,118,249,355 | 1,215,675,477 | 2,814,411 | -106,426,600 | 715,000,000 | 252,124,086 | 6,160,108,882 |
| ALLOCATION OF THE PROFIT FOR THE PREVIOUS PERIOD | | | | | | | | - |
| Reserves | - | - | 122,250,853 | - | - | - | -122,250,853 | - |
| Dividends and other allocations | - | - | - | - | - | - | -129,873,233 | -129,873,233 |
| CHANGES FOR THE YEAR | | | | | | | | |
| Change in reserves | - | - | 47,978 | - | - | - | - | 47,978 |
| Transactions on equity | | | | | | | | |
| Issues of new shares | 16,560,387 | 126,890 | - | - | - | - | - | 16,687,277 |
| Purchase of treasury shares | - | - | - | - | - | - | - | - |
| Extraordinary dividend distribution | - | - | - | - | - | - | - | - |
| Change in equity instruments | - | - | -26,056,853 | - | - | - | - | -26,056,853 |
| Derivatives on treasury shares | - | - | - | - | - | - | - | - |
| Shares and rights on shares of the Parent Company assigned to Employees and Directors | - | - | - | - | - | - | - | - |
| Comprehensive income | - | - | - | - | 17,511,264 | - | 152,536,327 | 170,047,591 |
| **EQUITY AS AT 30 JUNE 2019** | **979,232,540** | **3,118,376,245** | **1,311,917,455** | **2,814,411** | **-88,915,336** | **715,000,000** | **152,536,327** | **6,190,961,642** |

# STATEMENT OF CASH FLOWS

| | 30.06.2020 | 30.06.2019 |
|---|---|---|
| **A. OPERATING ACTIVITIES** | | |
| 1. Operations | 350,443,479 | 441,818,791 |
| - profit (loss) for the period (+/-) | 74,925,119 | 152,536,327 |
| - Gains/losses on financial assets held for trading and on financial assets/liabilities measured at fair through profit or loss(-/+) | 2,948,291 | 1,208,987 |
| - Gains/losses on hedging activities (-/+) | 3,884,726 | 78,082,924 |
| - Net losses/recoveries for credit risk (+/-) | 178,347,918 | 69,938,994 |
| - Net adjustments of/recoveries on property, plant and equipment and intangible assets (+/-) | 40,417,740 | 35,992,077 |
| - Net provisions for risks and charges and other costs/revenues (+/-) | 4,313,041 | -313,428 |
| - taxes, levies and tax credits not settled (+) | 27,895,136 | 44,935,177 |
| - Other adjustments (+/-) | 17,711,508 | 59,437,733 |
| 2. Cash flow generated/absorbed by financial assets | -7,361,965,293 | -1,104,852,560 |
| - Financial assets held for trading | 18,463,897 | -5,812,971 |
| - Financial assets designated at fair value | - | - |
| - Financial assets mandatorily measured at fair value | -29,188,397 | 84,472 |
| - Financial assets measured at fair value through other comprehensive income | 17,061,438 | -42,390,471 |
| - Financial assets measured at amortized cost | -7,283,586,357 | -1,019,766,135 |
| - Other assets | -84,715,874 | -36,967,455 |
| 3. Cash flow generated/absorbed by financial liabilities | 6,789,457,399 | 719,225,062 |
| - Financial liabilities measured at amortized cost | 6,456,950,547 | 523,829,397 |
| - Financial liabilities held for trading | 5,655,578 | 13,199,356 |
| - Financial liabilities designated at fair value | - | - |
| - Other liabilities | 326,851,274 | 182,196,309 |
| Net cash flow generated/absorbed by operating activities | -222,064,415 | 56,191,293 |
| **B. INVESTING ACTIVITIES** | | |
| 1. Cash flows generated by | 160,139,002 | 68,215,417 |
| - sales of equity investments | 9,760,891 | 12,521,796 |
| - dividend received on equity investments | 10,378,111 | 55,018,541 |
| - sales of property, plant and equipment | 140,000,000 | 675,080 |
| - sales of intangible assets | - | - |
| - sales of business units | - | - |
| 2. Cash flow absorbed by | -4,607,718 | -25,390,274 |
| - Purchases of equity investments | -2,273,555 | -24,714,953 |
| - purchases of property, plant and equipment | -2,334,163 | -675,321 |
| - purchases of intangible assets | - | - |
| - purchases of business units | - | - |
| **Net cash flows generated/absorbed by investing activities** | **155,531,284** | **42,825,143** |
| **C. FUNDING ACTIVITIES** | | |
| - issues/purchases of treasury shares | 9,779 | 16,687,277 |
| - issues/purchases of equity instruments | -25,810,262 | -26,056,853 |
| - distribution of dividends and other | -1,500,000 | -129,873,233 |
| **Net cash flows generated/absorbed by funding activities** | **-27,300,483** | **-139,242,809** |
| **NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS FOR THE YEAR** | **-93,833,614** | **-40,226,373** |

**RECONCILIATION**

| Financial Statement items | 30.06.2020 | 30.06.2019 |
|---|---|---|
| Opening cash and cash equivalents | 326,278,580 | 224,047,364 |
| Total net increase/decrease in cash and cash equivalents for the year | -93,833,614 | -40,226,373 |
| Closing cash and cash equivalents | 232,444,966 | 183,820,991 |

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

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

| | 30.06.2020 | |
|---|---|---|
| | Equity | of which: Profit for the period |
| **Parent Company's balances** | **6,416,360** | **74,925** |
| Effect of consolidation of subsidiaries | 73,203 | 21,899 |
| Effect of the equity method accounting of significant equity investments | - | - |
| Dividends received in the period | - | - |
| Other changes | - | - |
| **Consolidated balances** | **6,489,563** | **96,824** |

## CONTACT DATA

Crédit Agricole Italia S.p.A.
Registered Office Via Università, 1 – 43121 Parma, Italy – Phone +39. 0521.912111
Share capital as at 30/06/2020 Euro 979.234.664,00 fully paid in – Entry number in the Business Register of Parma, Italy, Taxpayer Identification Number 02113530345, member of the Crédit Agricole Italia VAT Group, VAT registration number 02886650346. Italian Banking Association (ABI) Code 6230.7 Entered in the Italian Register of Banks at No. 5435.
Member of the Italian Interbank Deposit Protection Fund and of the Italian National Compensation Fund.
Parent Company of the Crédit Agricole Italia Banking Group, which is on the Italian Register of Banking Groups at entry No. 6230.7
Company is subject to the management and coordination of Crédit Agricole S.A.

CRÉDIT AGRICOLE