FINANCIAL STATEMENTS AND REPORTS FOR 2021

BANCA SISTEMA

Banca SISTEMA GROUP

CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2021

BANCA
SISTEMA

CONTENTS

DIRECTORS' REPORT
AT 31 DECEMBER 2021

COMPOSITION OF THE PARENT'S MANAGEMENT BODIES

Board of Directors

Chairperson	Ms.	Luitgard Spögler
Deputy Chairperson	Mr.	Giovanni Puglisi
CEO and General Manager	Mr.	Gianluca Garbi
Directors	Mr.	Daniele Pittatore *(Independent)*
	Ms.	Carlotta De Franceschi *(Independent)*
	Mr.	Marco Giovannini *(Independent)*
	Mr.	Daniele Bonvicini *(Independent)*
	Ms.	Maria Leddi *(Independent)*
	Ms.	Francesca Granata *(Independent)*

Board of Statutory Auditors

Chairperson	Mr.	Massimo Conigliaro
Standing Auditors	Ms.	Lucia Abati
	Mr.	Marziano Viozzi
Alternate Auditors	Mr.	Marco Armarolli
	Ms.	Daniela D'Ignazio

Independent Auditors

BDO Italia S.p.A.

Manager in charge of financial reporting

Mr. Alexander Muz

COMPOSITION OF THE INTERNAL COMMITTEES

Internal Control and Risk Management Committee

Chairperson	Mr.	Daniele Bonvicini
Members	Ms.	Maria Leddi
	Mr.	Marco Giovannini
	Mr.	Daniele Pittatore

Appointments Committee

Chairperson	Ms.	Carlotta De Franceschi
Members	Ms.	Francesca Granata
	Ms.	Luitgard Spögler

Remuneration Committee

Chairperson	Mr.	Marco Giovannini
Members	Mr.	Giovanni Puglisi
	Ms.	Francesca Granata

Ethics Committee

Chairperson	Mr.	Giovanni Puglisi
Members	Ms.	Maria Leddi
	Ms.	Carlotta De Franceschi

Supervisory Body

Chairperson	Mr.	Massimo Conigliaro
Members	Mr.	Daniele Pittatore
	Mr.	Franco Pozzi

FINANCIAL HIGHLIGHTS AT 31 DECEMBER 2021

The Banca Sistema Group comprises the Parent, Banca Sistema S.p.A., based in Milan, the subsidiaries ProntoPegno S.p.A., Largo Augusto Servizi e Sviluppo S.r.l., and Specialty Finance Trust Holdings Limited (a company incorporated under UK Law placed in liquidation in December 2021), and the Spanish joint venture EBNSistema Finance S.L. The scope of consolidation also includes the following special purpose securitisation vehicles whose receivables are not subject to derecognition: Quinto Sistema Sec. 2019 S.r.l. and Quinto Sistema Sec. 2017 S.r.l.. The Parent, Banca Sistema S.p.A., is a company registered in Italy, with registered office at Largo Augusto 1/A, ang. via Verziere 13 - 20122 Milan.

Operations are mainly carried out in the Italian market, although the Bank is also active in the Spanish market, as described below.

The Parent directly carries out factoring activities (mainly with the Italian public administration) and operates in the salary- and pension-backed loans segment through the purchase of receivables generated by other specialist operators and through direct origination, distributing its product through a network of single-company agents and specialised brokers located throughout Italy. Through its subsidiary ProntoPegno S.p.A., the Parent Banca Sistema S.p.A. indirectly carries out collateralised lending activities in Italy through a network of 12 branches. It also provides factoring services in Spain through the joint venture EBNSistema Finance.

The Parent Banca Sistema S.p.A. is listed on the Euronext STAR Milan segment of the Euronext Milan market of Borsa Italiana.

Financial highlights for the Group at 31 December 2021 are set out below.

Statement of financial position data (€,000)

	31 Dec 2021	31 Dec 2020	
Total Assets	3,708,951	3,671,371	1.0%
Securities Portfolio	635,303	878,830	-27.7%
Loans - Factoring	1,541,687	1,481,678	4.1%
Loans - Salary-backed loans and SME	1,091,842	1,008,282	8.3%
Funding - Banks and REPOs	841,413	1,104,878	-23.8%
Funding - Term Deposits	1,387,416	1,216,523	14.0%
Funding - Current Accounts	775,096	633,548	22.3%

Income statement data (€,000)

	31 Dec 2021	31 Dec 2020	
Net interest income	81,962	74,832	9.5%
Net fee and commission income	15,655	17,428	-10.2%
Total Income	107,954	102,055	5.8%
Personnel Expenses	(28,981)	(25,532)	13.5%
Other administrative expenses	(29,547)	(25,534)	15.7%
Profit for the year attributable to the owners of the Parent	23,251	26,153	-11.1%

Performance Indicators

	31 Dec 2021	31 Dec 2020	
Cost/Income	58.2%	54.2%	7.5%
ROTE	13.1%	15.8%	-17.2%

SIGNIFICANT EVENTS FROM 1 JANUARY TO 31 DECEMBER 2021

On 25 March 2021, the Banca Sistema Group's 2021-2023 strategic plan was approved. The plan is based on the Group's ability to consolidate and further grow the market position it has achieved in the 10 years since its establishment in the three businesses in which it operates.

The Strategic Plan includes the implementation of new initiatives, including the development of digital tools, which will allow the Group to further grow and excel in terms of operational efficiency, and diversify its offering and accessibility to customers and agents/brokers.

At 31 December 2021 the Bank granted 34 state-guaranteed loans to its factoring customers for a total of € 104 million. As at the same date, other loans of the same type were being evaluated.

With reference to the moratoria on existing loans, the Bank has carefully considered measures for suspending payment terms. As at 31 December 2021, there were 19 active moratoria for a total gross amount of € 9.2 million.

On 2 April, a copy of the current Articles of Association, following the entry into force of the amendments to Article 10 thereof introduced by the Extraordinary Shareholders' Meeting of 23 April and 27 November 2020, was made available to the public at the registered office, on the Banca Sistema website and also on the authorised storage mechanism at the website www.1info.it. The current Articles of Association were registered with the Milan Companies' Register on 30 March 2021.

On 30 April 2021, the Ordinary Shareholders' Meeting of Banca Sistema resolved to approve the financial statements at 31 December 2020, as well as the Board's resolution on the allocation of the profit for 2020. In this regard, the Shareholders' Meeting resolved to postpone the payment of the dividends from the profits for 2019 and 2020, amounting to a total of € 13,912,842 or € 0.173 per ordinary share, until after 30 September 2021, granting the Board of Directors with the mandate to implement the resolution, if, before that date, the Supervisory Authority had not issued regulatory provisions that prevent the payment of those dividends. The Board of Directors of Banca Sistema, which met on 22 October 2021, in execution of the resolutions approved by the Shareholders' Meeting, the last of which was held on 30 April 2021, resolved to pay out dividends from the earnings generated in the 2019 and 2020 financial years amounting to € 13,912,842 or € 0.173 per ordinary share on 10 November 2021, with an ex-dividend date of 8 November 2021 (coupon no. 8). The Shareholders' Meeting also resolved to submit to the Bank of Italy the request for authorisation to repurchase treasury shares, to be used as part of the variable remuneration paid to specific employees, for an amount of no more than € 2,810,000, and to purchase fully paid-in ordinary treasury shares of the Bank, with a nominal amount of € 0.12 (zero point twelve) each, for the authorised maximum amount of € 2,810,000, as indicated above, and in any case in compliance with the limit of one fifth of the share capital.

On the same date, the Ordinary Shareholders' Meeting of Banca Sistema also resolved to appoint the Board of Directors for the 2021-2022-2023 financial years. Following the renewal, the Board of Directors resolved to confirm Luitgard Spögler as Chairperson of the Board of Directors and to confirm Gianluca Garbi as CEO of the Bank, conferring on him the necessary operational powers.

On 7 May, the Board of Directors approved the appointment of Giovanni Puglisi as Deputy Chairperson, while on 24 May, after verifying that the requirements and criteria envisaged by current legislation were met, it approved the composition of the following committees: Internal Control and Risk Management Committee, Appointments Committee, Remuneration Committee and Ethics Committee.

On 25 June 2021, Banca Sistema completed a simultaneous transaction that involved the early repayment of two subordinated Tier 2 bonds and the issuance, for the same amount of € 37.5 million, of a subordinated Additional Tier 1 (AT1) bond.

Specifically, partly as a result of regulatory changes, Banca Sistema was authorised by the Bank of Italy to proceed with the early repayment of the following subordinated Tier 2 bonds:

- '2017 - 2027', with a variable rate (equal to the 6-month EURIBOR + 4.5%), for a total of € 19.5 million;
- '2019 - 2029', with a fixed rate (equal to 7% per annum), for a total of € 18 million;

and seamlessly issued and placed a subordinated AT1 loan for a total of € 37.5 million.

The new perpetual issuance gives Banca Sistema the option, if the conditions set out in the CRR are met, to repay the loan early on the tenth year and on each subsequent repayment date as provided for in the contract. The AT1 bond, placed with institutional investors, has an annual fixed-rate coupon of 9% and all the characteristics required by the regulations for this type of instrument.

In a communication dated 5 March 2021, the Bank of Italy subjected Banca Sistema to an audit pursuant to Articles 54 and 68 of Legislative Decree No. 385/90, the results of which were communicated on 1 September 2021. The Bank, which had already addressed some of the Authority's requests during the audit, has formulated its counter arguments and is awaiting a response.

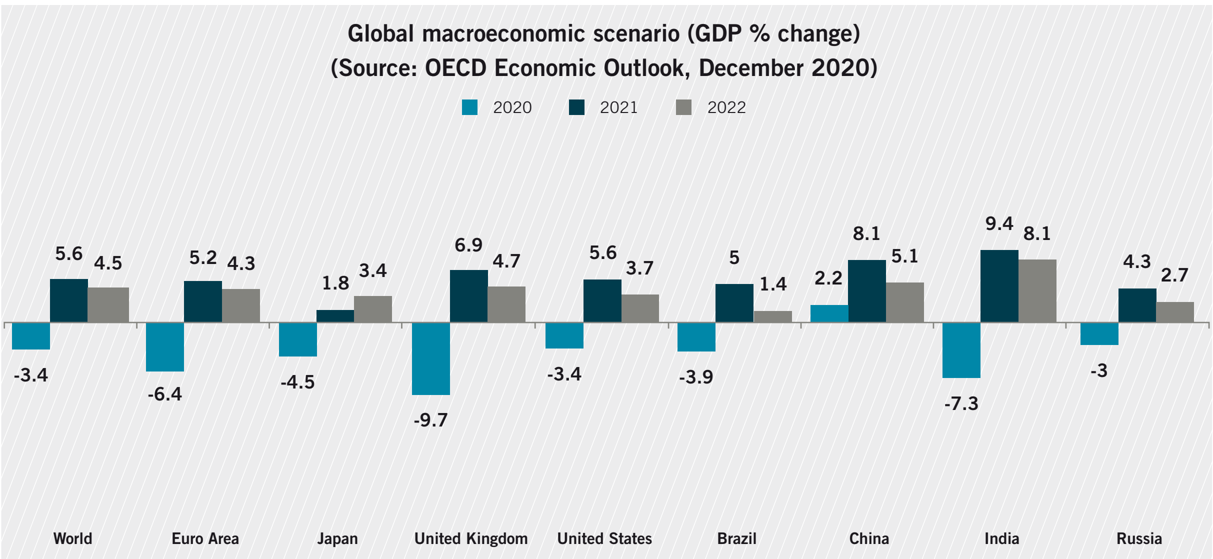
With reference to the continuing Covid-19 emergency, the Group continues to engage in on-going communication initiatives with employees at Group level to ensure continuity in the flow of information, the level of listening, and the sharing of corporate objectives and strategies.

Starting on 15 October, the Bank implemented the regulatory provisions regarding access to the workplace using the green pass with all employees adhering to the provisions with full cooperation. Among the other security measures that continue to be applied, social distancing is ensured - as it was in previous months - by introducing an experimental "hybrid" smart working model involving rotating remote work days and at the office days.

On 17 December 2021, the Board of Directors of the subsidiary SFT Holding initiated the process of liquidating the company.

The global economy experienced a rapid recovery in 2021 thanks to the availability of vaccines that significantly helped contain the pandemic. The rebound in economic activity was particularly strong towards the end of the year in the United States and other developed countries, compared with prolonged weakness in emerging economies. Economic activity slowed in the third quarter in both the larger advanced economies and the emerging economies. In the United States, the spread of the Delta variant during the summer months led to a slowdown in consumption, while restrictions to contain the pandemic caused GDP to fall, particularly in Japan and China. However, the situation seemed to improve in the fourth quarter: Japan saw a recovery in services SMEs, while the United States experienced robust growth in both manufacturing and services SMEs. Emerging economies, on the other hand, continued to experience weaker cyclical conditions than developed countries, particularly in manufacturing. Inflation began to rise again due to sharp price increases for energy, used cars and rents in the United States (7%), the UK (5.4%) and Japan (0.6%). Inflationary pressures also affected emerging countries, especially Brazil and Russia. Overall, global GDP growth was 5.6%, but according to OECD forecasts it will slow down to 4.5% in 2022.

The opposite was true in the Euro Area. GDP rose further in the third quarter of 2021 thanks to an increase in household consumption and net foreign demand. However, this momentum would slow in the closing months of the year. The €-coin indicator prepared by the Bank of Italy, which estimates the underlying performance of the area's GDP, remained at levels close to those of the latter part of 2020 with a very limited expansion. The Governing Council of the ECB, which met on 16 December 2021, maintained that the monetary policy stance will remain expansionary and that it will be flexible and open to different options depending on how the macroeconomic scenario will evolve.



ITALY

Consistent with the trend seen in the Euro Area, Italy recorded strong growth in the third quarter of 2021, with GDP increasing by 2.6% (source: Economic Bulletin 1/2022) over the previous period driven mainly by an increase in household consumption. However, growth slowed in the last quarter of the year because of the worsening pandemic and the supply chain issues being faced by businesses. Both manufacturing and services experienced slowdowns in economic activity. The slowdown in industrial production was mainly caused by a drop in the production of capital goods that was related to the difficulty in obtaining raw materials and intermediate inputs. Investment expenditure also slowed because of the crisis in the construction sector. The outlook for investment is not positive: businesses expect investment expenditure to continue to slow in 2022 compared to 2021.

Debt of non-financial corporations fell and bank lending decreased for all sizes of enterprises and was influenced by the abundant liquidity set aside by businesses during the pandemic. Liquidity held in current and deposit accounts by businesses increased slightly.

Household spending rose sharply in the third quarter of 2021, up 3% on the previous period (source: Economic Bulletin 1/2022), driven by purchases of both goods and services. Disposable income increased by 1.2%, while the propensity to save fell to 11% (compared to 14.6% last year). The situation in the fourth quarter changed: household spending slowed and their expectations about the country's economic situation worsened as the pandemic intensified.

Exports also continued to grow in the third quarter, thanks to a rebound in international tourism, while sales of goods abroad slowed because of lower exports from the sectors most exposed to pandemic-related restrictions. The situation remained stable in the following months with foreign demand picking up in the fourth quarter. The Italian financial market was primarily influenced by three factors in 2021: the fear of an increase in the number of infections, the spread and uncertainty of the new Omicron variant and expectations regarding the monetary policy stance. Government bond yields rose as investors' risk appetite increased.

As highlighted in the Bank of Italy's Economic Bulletin 1/2022, the outlook for growth is influenced by multiple, predominantly downside risks. Forecasts for 2022 are closely related to how the pandemic unfolds and the measures taken to mitigate the impact on the economy, which could affect consumer and business confidence and hinder the recovery of economic activity.

The Italian factoring market

According to preliminary data released by Assifact, the Italian association of factoring providers, in the year just ended, the market recovered most of the volumes lost during the pandemic thanks to the economic recovery, the sharp increase in GDP (over 6% on 2020, according to ISTAT figures) and the strong recovery of the manufacturing sector (back to pre-pandemic levels, source: Confindustria). Total turnover recorded in 2021 was € 250 billion, an increase of 9.72% year on year, and very close to the volumes recorded in 2019 of € 255 billion.

Without recourse factoring is by far the most common form of factoring used by the market, accounting for over 79% of total turnover versus 21% for recourse factoring transactions. In terms of amounts outstanding, these percentages do not vary much (74% versus 26%), thereby confirming that the assigning customers prefer completing assignments by hedging the risk associated with the assigned debtors.

The receivables turnover rate is higher than last year's due to the improvement in average collection times, especially in receivables due from the Public Administration. The outstanding amounts (loans and receivables to be collected as at 31 December 2021) of € 65.5 billion recorded an increase of 5.3% (decrease of 5.6% in 2020). Advance payments/consideration on assignments also increased by 2.1% (compared to a decrease of 7.69% in 2020). These increases can be attributed to the extraordinary flow in the last month of the year as outstanding amounts and advance payments were essentially in line with the previous year's figures until November.

The proportion of advances to outstanding receivables (78.5% compared to 80.93% in 2020) allows banks/intermediaries to further increase the conservative margin for any possible credit dilution risks.

Unlike traditional bank loans, the sector was unable to benefit (if only marginally) from the extraordinary measures taken by the Government to support businesses in this difficult moment for the economy. The particular attention paid to the management of purchased or financed receivables and the constant monitoring of collections have, in any case, made it possible to keep risk levels low.

The low level of risk in the sector is also reflected in the data provided by Assifact: at the end of September 2021 (latest data available), non-performing exposures as a percentage of total gross exposures of intermediaries was 4% (3.18% as at 31 December 2020), of which 1.12% were non-performing past due exposures, 1.20% were unlikely to pay, and 1.68% were bad exposures; these percentages are lower than those recorded for traditional bank loans. It should also be noted that the increase is not due to any deterioration in credit quality, but to the application, starting from 1 January 2021, of the new definition of default issued by the EBA, which now includes receivables past due more than 90 days among problem loans. However, in the factoring business, these receivables are not necessarily indicative of the likely insolvency of the debtor, as is the case in typical bank financing activities, since trade receivables are generally paid slightly later than the nominal due date, not because of financial difficulties of the debtor, but rather due to standard business practice and the amount of administrative time required to reconcile invoices.

SMEs represent over 70% of assignor companies and, with regard to economic sectors, 30% are manufacturers, 12% are commercial enterprises and 9% are construction companies.

In the Italian market, one of the most developed not only in Europe, but in the world, a significant share of turnover is made up of factored receivables due from the Public Administration with extremely long payment terms and complex bureaucratic procedures for recognising and reconciling the receivable.

The efforts made by the Government in recent years through the establishment of ad hoc funds aimed at rectifying the payment of certain, liquid and collectable pre-existing Public Administration debt, the transposition of the EU regulation on late payments which exacerbated the amount of default interest for late payments beyond 60 days, and the judgement handed down by the European Court of Justice on 28 January 2020 against Italy for violating the directive have led to a slight reduction of around 9 days in average payment times (source: Assifact), which, however, only concerned current and not pre-existing payables.

At the end of September 2021 (the most recent Assifact data available), the total amount of receivables claimed by Factors from the Public Administration was € 8.272 billion, which was largely unchanged with respect to June (+0.51%) and March (-0.30%) but significantly lower than December 2020 (-10%). However, past due receivables from the Public Administration grew compared to the December 2020 figure and accounted for 45.59% of the total. The component past due by more than one year remains prevalent (31.3% of the total and 69% of total past due receivables). Approximately 41% of past due receivables are attributable to entities in the healthcare sector.

Banca Sistema and factoring activities

Banca Sistema was a pioneer in the factoring of receivables from the Public Administration, when few believed in this business, initially by purchasing receivables from suppliers to the public health sector, subsequently gradually expanding the business to other sectors of this niche, to include tax receivables and receivables from the football sector, arising from television rights and the sale of players. Since the project started, the Bank has been able to grow in the original factoring business with a prudent risk management, and to support businesses (from large multinationals to small and medium-sized enterprises) through the provision of financial services and collection, servicing and funding services, thus contributing to the businesses' growth and consolidation. Since December 2020, Banca Sistema has also been operating in Spain - through the company EBNSISTEMA Finance, which it owns together with the Spanish banking partner EBN Banco - mainly in the factoring segment for receivables from the Spanish Public Administration, specialising in the purchase of receivables from entities in the public health sector. In 2021, EBNSISTEMA's factoring turnover in the Iberian market also extended to other product sectors (Football, Social Services, Construction and Transport), to reach a total of € 240 million, 50% of which is attributable to the Group.

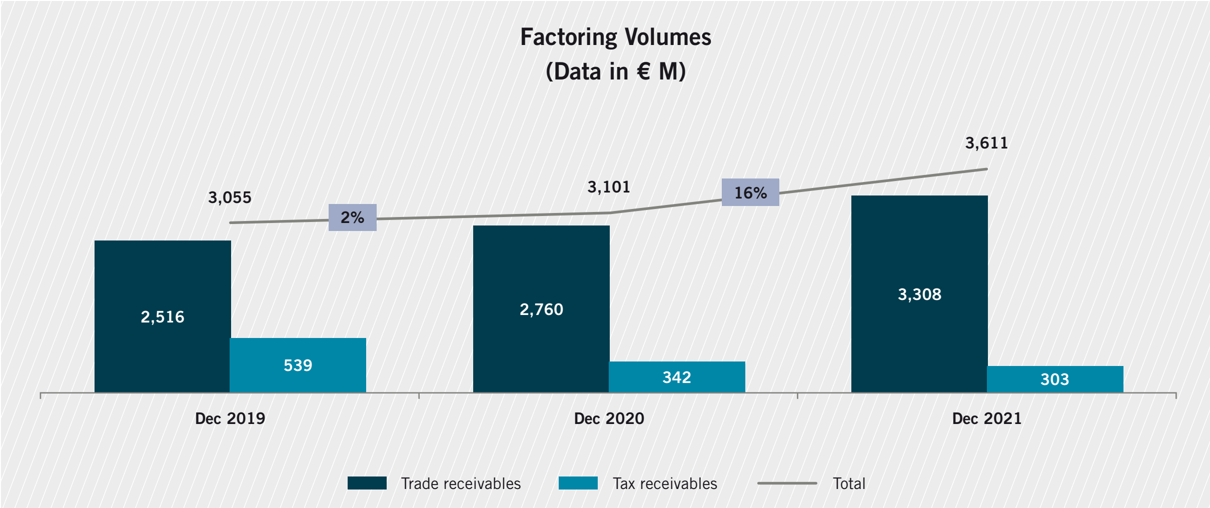
With the outbreak of the pandemic crisis due to the spread of Covid-19, the Bank has also taken steps to act as an intermediary for the public resources made available in the emergency situation to support businesses, through the granting of SACE and MCC-guaranteed loans for a total of € 104 million in 2021.

Factoring volumes as at December 2021 were up 16% year on year, as compared to around 10% for the overall market, reaching a total of € 3,611 million for the 12 months of 2021.

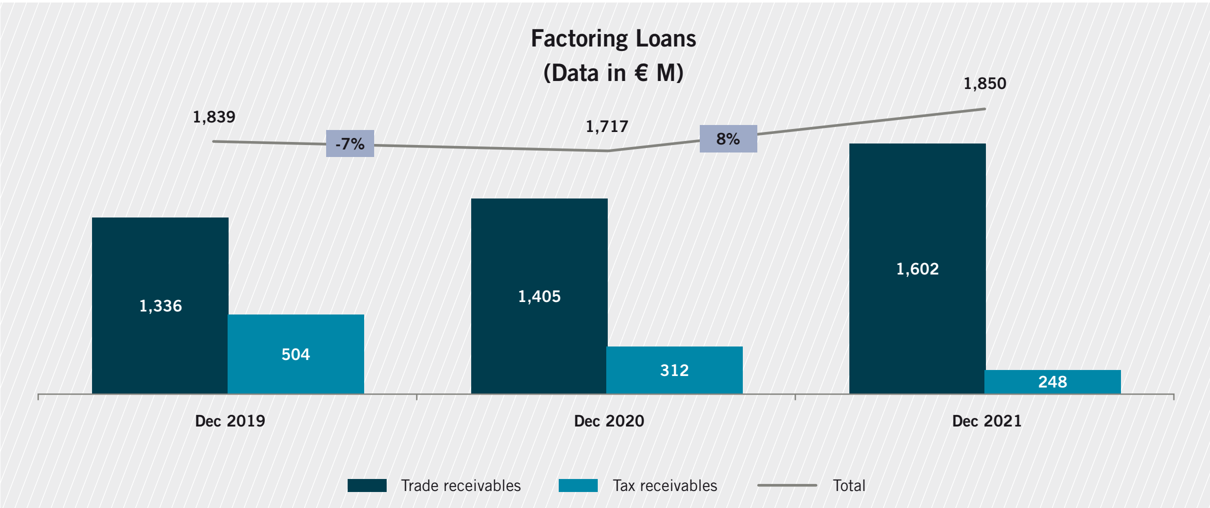
The Bank continues to demonstrate its resilience in the face of the crisis, confirming its ability to provide support to Public Administration suppliers.

Factoring has proven to be the ideal tool both for small and medium-sized enterprises to finance their working capital and thus trade receivables, and for large companies, such as multinationals, to improve their net financial position, mitigate country risk and receive solid support in servicing and collection activities.

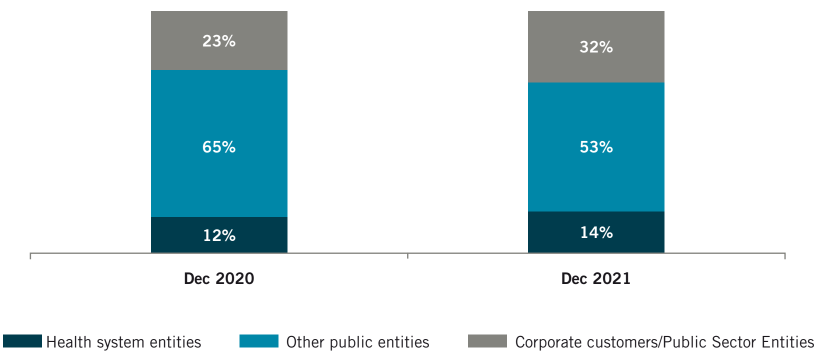
To further boost the business of the Factoring Division by providing liquidity to Italian SMEs through the purchase of trade receivables, including from private individuals, and thus continue to support the country's economic recovery and development, an agreement was signed in January 2022 between the European Investment Fund (EIF) and Banca Sistema through which the EIF will provide a guarantee of up to € 150 million under the European Guarantee Fund (EGF) and Banca Sistema will be able to provide additional liquidity to private enterprises through recourse factoring transactions. The agreement will therefore make it possible to further expand the diversity of the factoring customer portfolio to include small and medium-sized Italian enterprises and private-to-private factoring transactions with an estimated cumulative value of € 500 million over three years.



Loans at 31 December 2021 (management figures) amounted to € 1,850 million, up 8% compared to € 1,717 million at 31 December 2020, mainly due to higher volumes in the last quarter of 2021.



The chart below shows the ratio of debtors to the total exposure in the loans and receivables portfolio at 31 December 2021 and 2020. The Group's core factoring business remains the Public Administration entities segment.



Volumes were generated through both its own internal commercial network and through banks with which the Group has entered into distribution agreements. In December 2021, existing distribution agreements accounted for 21% of total volumes. The following table shows the factoring volumes by product type:

PRODUCT	31.12.2021	31.12.2020	€ Change	% Change
Trade receivables	3,308	2,760	548	20%
of which, without recourse	*2,448*	*2,175*	*273*	*13%*
of which, with recourse	*860*	*584*	*276*	*47%*
Tax receivables	303	342	(39)	-11%
of which, without recourse	*302*	*333*	*(31)*	*-9%*
of which, with recourse	*1*	*9*	*(8)*	*-89%*
TOTAL	**3,611**	**3,101**	**510**	**16%**

In absolute terms, the growth in volumes derives mainly from the purchase of trade receivables.

Volumes related to the management of third-party portfolios amounted to € 460 million (in line with the previous year).

SALARY- AND PENSION-BACKED LOANS AND QUINTOPUOI

Assofin also reports recovering volumes in the third quarter of 2021 – latest data available - in the salary- and pension-backed loans (CQ) segment, which grew, albeit modestly, in the third quarter of 2021 (+1.9%) over the same period in 2020, closing the gap with respect to 2020 on a cumulative basis to -3.5%.

Against this backdrop, total annual volumes for Banca Sistema amounted to € 299 million in salary- and pension-backed loans (€ 308 million last year). Compared to 2020, however, the distribution channel mix has changed significantly, with a total of € 85 million in loans disbursed through the QuintoPuoi product, representing 29% of the total, which is more than double that of last year.

This result is attributable to a growth strategy for the QuintoPuoi product which involved strengthening the distribution network of agents and brokers and specific investments to improve the efficiency of operating processes and their digitalisation.

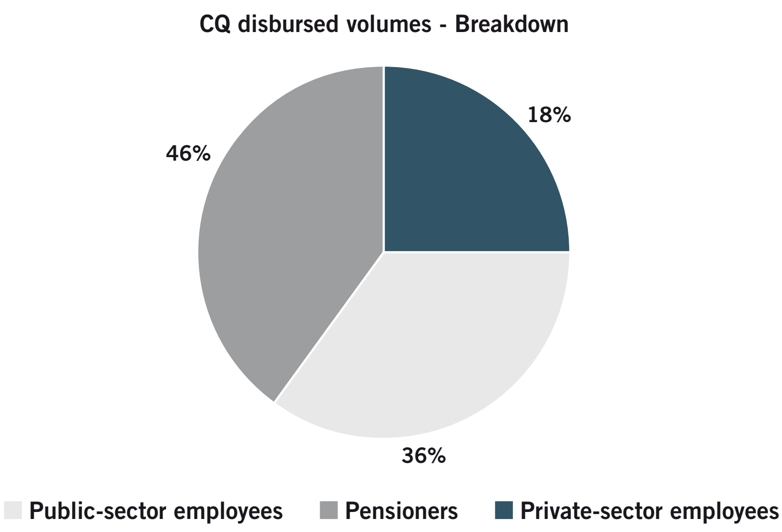
The acquisition of loans and receivables without recourse, on the other hand, was influenced by growing competitive pressure and the generalised drop in market transfer rates, which offered fewer opportunities to purchase at rates that were in line with the Bank's return expectations.

Outstanding capital amounted to € 932 million at the end of 2021, in line with last year, owing in part to the sale of loans for an outstanding amount of € 68.5 million carried out in the last quarter to optimise the product's return ratios and to finance the investments made for growth which were expensed during the year.

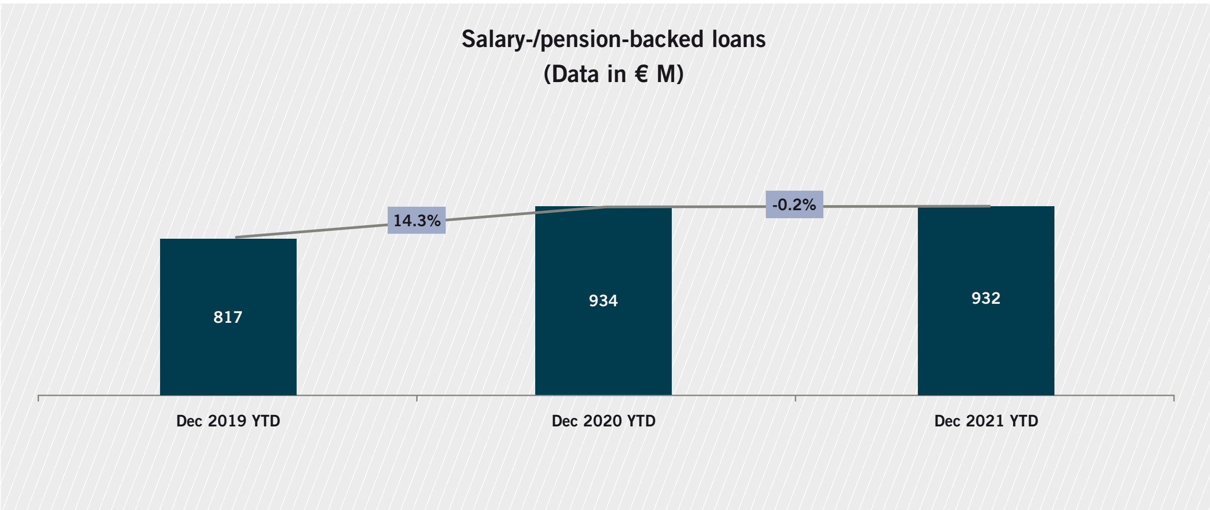
Starting from the end of the year, the QuintoPuoi retail product range was expanded with the introduction of the "Anticipo del Trattamento di Fine Servizio" (Anticipo TFS) product, which offers public-sector and state employees access to a new loan that allows those nearing retirement to receive immediate liquidity to fund a major project or simply to support their family's needs and expenses.

	31.12.2021	31.12.2020	€ Change	% Change
No. of applications (#)	14,732	15,727	(995)	-6%
of which originated	*3,941*	*1,723*	*2,218*	*129%*
Volumes disbursed (millions of Euro)	299	308	(10)	-3%
of which originated	*85*	*37*	*48*	*130%*

Loans are split between private-sector employees (18%), pensioners (47%) and public-sector employees (35%). Therefore, over 82% of the volumes refer to pensioners and employees of Public Administration, which remains the Bank's main debtor.



The following chart shows the performance of outstanding loans in the salary-/pension-backed loans (CQS/CQP) portfolio:



COLLATERALISED LENDING AND PRONTOPEGNO

The Banca Sistema Group began working in the collateralised lending business in 2017, combining the credentials of a solid bank with the advantages of a specialist that is continuously willing to innovate and grow to offer greater value to customers, in terms of professionalism and timeliness. To take advantage of the growth prospects that have emerged since starting this business, in 2019, the Bank decided to transfer its collateralised lending business to a dedicated company.

In July 2020, ProntoPegno, in line with its growth strategy within this business, acquired Intesa Sanpaolo Group's collateralised lending business unit which contributed € 55.3 million in loans at the acquisition date.

Consistent with its growth strategy for the business, in June 2021, ProntoPegno completed the purchase of a portfolio of loans from the CR Asti Banking Group and opened two new branches in Brescia and Asti. The Pawnbroker of the Banca Sistema Group now has 14 branches located across the country.

At present, the company has about 54,000 policies issued for about 30,000 customers, amounting to total loans of € 90 million. In 2021 outstanding loans grew by 15.3% compared to 2020. New loans were nearly € 89.2 million while renewals amounted to € 64.4 million. In the first three quarters of 2021, 78 auctions were conducted for a loan value of € 1.8 million (up 94% compared to 2020).

At an operational level, 2021 saw further consolidation of the integration of the business unit acquired from Intesa. The new staff became fully familiar with the procedures and systems used, resulting in the elimination of queues, which had led to an increase in the number of complaints in the period immediately following the acquisition but have now essentially disappeared.

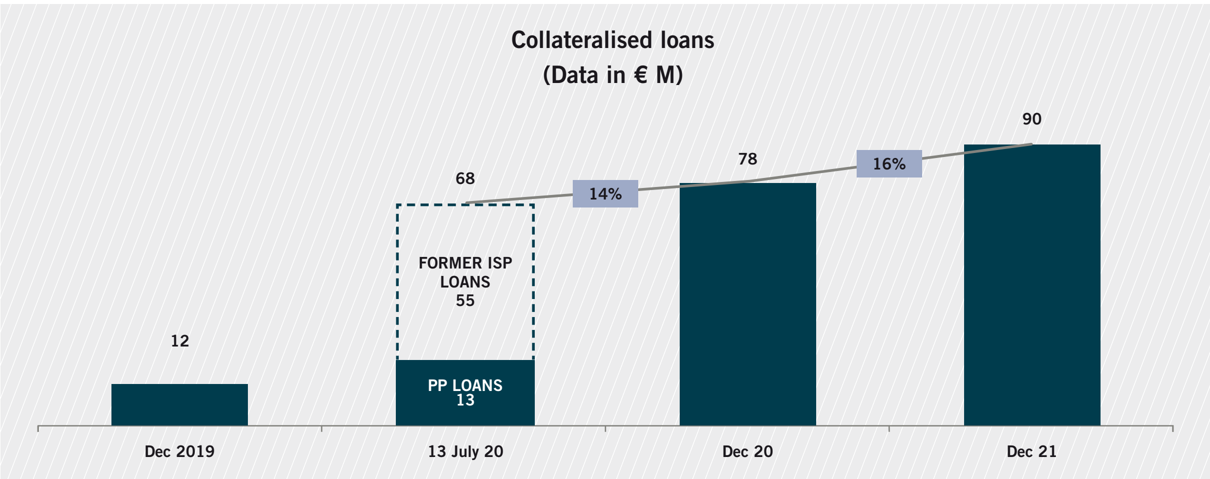
Collateralised lending continues to provide liquidity support to households.

In the third quarter, the first phase of product digitalisation was completed through the development of the *DigitalPegno* app, which allows:

- customers holding loan policies to renew them online without having to visit a branch;
- auction participants to place secret bids online without having to visit the branch on the day the items are displayed to prepare a written paper bid.

As at 31 December, 691 renewals were made online, whereas for auctions, approximately 80% of the bids were made online. A total of 4,721 customers have downloaded the app.

The following chart shows the performance of outstanding loans:



The statement of financial position of the consolidated company ProntoPegno as at 31 December 2021 is provided below.

ASSETS (€,000)	31.12.2021	31.12.2020	€ Change	% Change
Cash and cash equivalents	9,765	1,822	7,943	>100%
Financial assets measured at amortised cost	90,247	81,988	8,259	10.1%
a) loans and receivables with banks	217	4,304	(4,087)	-95.0%
b1) loans and receivables with customers - loans	90,030	77,684	12,346	15.9%
Property and equipment	2,450	2,869	(419)	-14.6%
Intangible assets	29,146	28,793	353	1.2%
of which: goodwill	*28,436*	*28,436*	-	*0.0%*
Tax assets	1,388	1,200	188	15.7%
Other assets	1,275	97	1,178	>100%
Total assets	**134,271**	**116,769**	**17,502**	**15.0%**

LIABILITIES AND EQUITY (€,000)	31.12.2021	31.12.2020	€ Change	% Change
Financial liabilities measured at amortised cost	90,773	74,305	16,468	22.2%
a) due to banks	86,513	70,394	16,119	22.9%
b) due to customers	4,260	3,911	349	8.9%
Tax liabilities	808	258	550	>100%
Other liabilities	3,763	3,877	(114)	-2.9%
Post-employment benefits	951	1,054	(103)	-9.8%
Provisions for risks and charges	314	738	(424)	-57.5%
Valuation reserves	(82)	(99)	17	-17.2%
Reserves	13,494	15,410	(1,916)	-12.4%
Share capital	23,162	23,162	-	0.0%
Profit (loss) for the year	1,088	(1,936)	3,024	<100%
Total liabilities and equity	**134,271**	**116,769**	**17,502**	**15.0%**

The assets consist mainly of loans to customers for the collateralised lending business, which increased by € 9.6 million in 2021, and goodwill arising from the acquisition of the collateralised lending business unit in the second half of 2020 of € 28.4 million.

At 31 December 2021, liabilities, in addition to the capital and reserves, consisted primarily of the loan granted by the Parent of € 75 million, which was increased from the end of the year following the full repayment of the loan with Intesa Sanpaolo.

The other "financial liabilities measured at amortised cost" include the auction buyer's premium of € 4.3 million. For 5 years, this amount is recognised in the financial statements as due to customers. The provision for risks includes the estimated liability for bonuses and non-compete agreements.

The income statement of the consolidated company ProntoPegno for the year ended 31 December 2021 is provided below. Comparative figures are not significant as the acquisition of the collateralised lending business unit from Intesa Sanpaolo only became effective and was reflected in the income statement from 13 July 2020.

INCOME STATEMENT (€,000)	2021	2020 NORMALISED	NORMALISATION	2020	€ Change	% Change
Net interest income	5,408	3,169	333	2,836	2,239	70.7%
Net fee and commission income	6,595	2,691		2,691	3,904	>100%
Total income	**12,003**	**5,860**	**333**	**5,527**	**6,143**	**>100%**
Net impairment losses on loans and receivables	132	(1)		(1)	133	<100%
Net financial income	**12,135**	**5,859**	**333**	**5,526**	**6,276**	**>100%**
Personnel expense	(5,868)	(3,329)	450	(3,779)	(2,539)	76.3%
Other administrative expenses	(3,962)	(2,528)	1,561	(4,089)	(1,434)	56.7%
Impairment losses on property and equipment/intangible assets	(1,235)	(574)		(574)	(661)	>100%
Other operating income	413	252		252	161	63.9%
Operating costs	**(10,652)**	**(6,179)**	**2,011**	**(8,190)**	**(4,473)**	**72.4%**
Pre-tax profit (loss) from continuing operations	**1,483**	**(320)**	**2,344**	**(2,664)**	**1,803**	**<100%**
Income taxes for the year	(396)	87	(641)	728	(483)	<100%
Profit (loss) for the year	**1,087**	**(233)**	**1,703**	**(1,936)**	**1,320**	**<100%**

The company closed 2021 with a profit of € 1.1 million, reporting a significant increase in total income as a result of the contribution of the acquired collateralised lending business unit. The business unit began contributing to Group results in July 2020.

Personnel expenses mostly include the cost of the 72 employees (71 at the end of 2020), as well as the pro-rata allocation of the estimated variable incentive for the year.

Other administrative expenses mainly consist of advertising costs, rent of space paid to the Group and costs for support activities carried out by the Parent.

FUNDING AND TREASURY ACTIVITIES

Treasury portfolio

A treasury portfolio has been established to support the Bank's liquidity commitments almost exclusively through investment in Italian government bonds.

The balance at 31 December 2021 was equal to a nominal € 631 million compared to € 873 million at 31 December 2020.

The treasury portfolio allowed for optimal management of the Treasury commitments which are characterised by a concentration of transactions in specific periods.

At 31 December, the nominal amount of securities in the HTCS (formerly AFS) portfolio amounted to € 446 million (compared to € 423 million as at 31 December 2020) with a duration of 31.4 months (14.8 months at 31 December 2020). At 31 December, the HTC portfolio amounted to € 185 million with a duration of 30.9 months (compared to € 450 million at 31 December 2020, which had a duration of 11.2 months).

Wholesale funding

At 31 December 2021, wholesale funding was about 32% of the total, mainly comprising refinancing transactions with the ECB, as well as bonds (41% at 31 December 2020).

Securitisations with salary- and pension-backed loans as collateral completed with a partly-paid securities structure continue to allow Banca Sistema to efficiently refinance its CQS/CQP portfolio and to continue to grow its salary- and pension-backed loan business, whose funding structure is optimised by the securitisation. The Bank also continues to adhere to the ABACO procedure introduced by the Bank of Italy which was expanded to include consumer credit during the Covid-19 emergency.

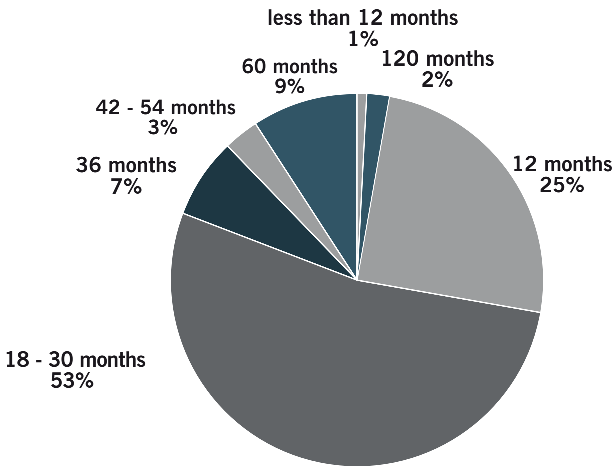
Retail funding

Retail funding accounts for 68% of the total and is composed of the account SI Conto! Corrente and the product SI Conto! Deposito.

Total term deposits as at 31 December 2021 amounted to € 1,387 million, an increase of 14% compared to 31 December 2020. The above-mentioned amount also includes total term deposits of € 598 million (obtained with the help of partner platforms) held with entities resident in Germany, Austria, and Spain (accounting for 43% of total deposit funding), a decrease of € 14 million over the same period of the previous year.

The breakdown of funding by term is shown below. The average *residual life* of the portfolio is 11 months.

Breakdown of deposit accounts as at 31 December

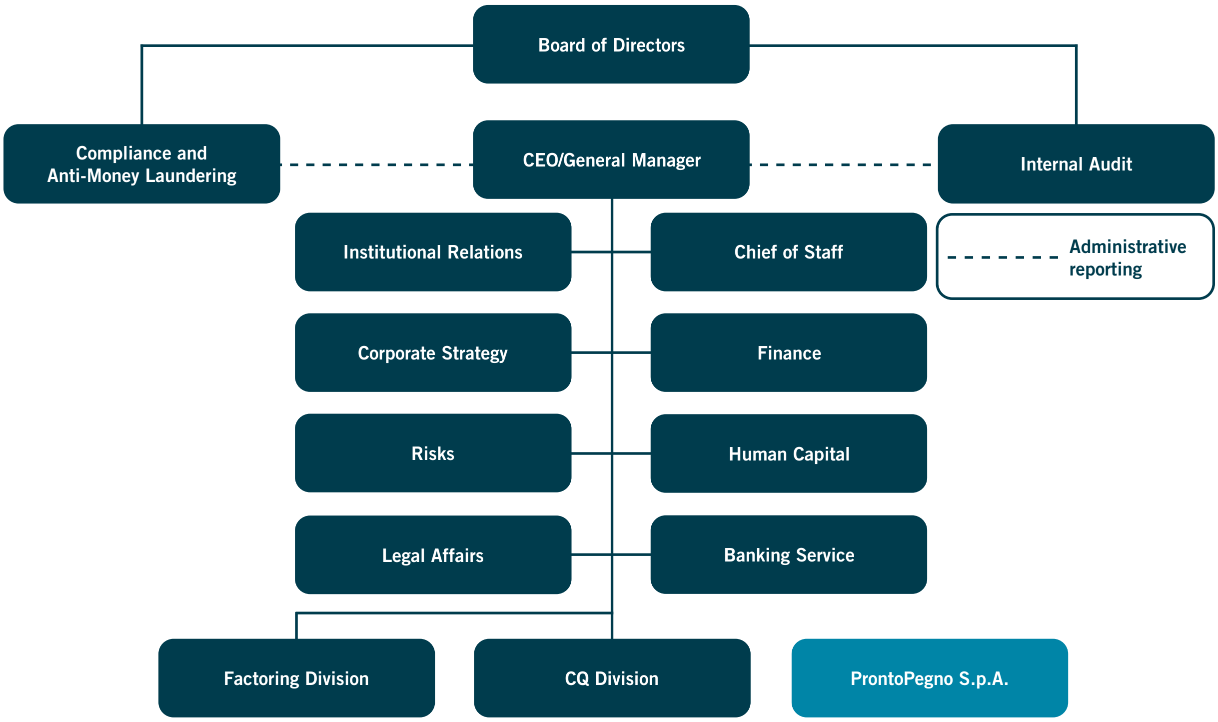


Current accounts increased from 7,342 (as at 31 December 2020) to 8,182 as at 31 December 2021, while the current account balance at 31 December 2021 increased by € 141 million on 2020 to € 775 million.

ORGANISATIONAL STRUCTURE

Organisational chart

The divisional organisational structure was revised in particular in the commercial and credit areas of the CQ Division to reflect the significant growth in volumes disbursed and the ongoing review of credit and operating processes. The Bank continued to rely on remote working throughout the year particularly at times when the pandemic was most severe and continued to benefit in 2021 from an organisational model that is focused and specialised by business. Between December 2021 and the beginning of this year, an organisational review is under way that involves the more operational functions of all the Bank's Divisions and Departments. The objective of the review is to achieve even greater operational synergies and to simplify operations; this review does not affect the first level of the organisational chart (effective from 1 February 2020), which remains as follows:



HUMAN RESOURCES

As at 31 December 2021, the Group had a staff of 280, broken down by category as follows:

FTES	31.12.2021	31.12.2020
Senior managers	26	26
Middle managers (QD3 and QD4)	61	52
Other personnel	193	191
Total	**280**	**269**

Consistent with the approved budget and the first initiatives set out in the 2021/2023 Business Plan, in the first part of the year the Bank launched its annual recruitment and hiring programme and recruited a total of 18 new employees to fill positions in the CQ, Factoring, Corporate Centre and ProntoPegno structures.

The Group, in continuation of what was done in 2020 in response to the health emergency, maintained the flexible and remote operational model that was implemented to ensure business continuity. Excluded from this operational model were employees of the Banking and Collateralised Lending branches in direct contact with customers and those working in the departments having the greatest impact on managing the emergency, namely ICT, Logistics, Human Capital, and Treasury. Along with all safety and precautionary measures, which were in any case maintained and strengthened also with the timely and widespread control of green passes, all activities were reorganised and managed remotely with a total of over 50% of annual workdays performed outside the Bank's premises. Gradually, since July, and in line with national and regional health provisions to prevent and counter the spread of the Covid-19 virus, a more balanced remote working schedule has been organised, with two days of remote work and three days of work on site at the Bank's premises each week. The remote medical counselling programme for all Group employees, which had been organised back in 2020 to respond to possible difficulties in accessing advice and initial medical assistance, was extended for another year.

During the first quarter of the year - following the skills assessments and agreed development actions - work began on identifying professional and technical training needs in relation to the Bank's legal and regulatory issues. This is currently being carried out with both internal and external instructors and will be delivered in a manner that is compatible with the health emergency. In addition, the specific training and coaching programmes on managerial and professional topics which have already been launched are continuing.

The average age of Group employees is 45 for men and 44 for women. The breakdown by gender is essentially balanced with men accounting for 56% of the total.

INCOME STATEMENT RESULTS

INCOME STATEMENT (€,000)	2021	2020	€ Change	% Change
Net interest income	81,962	74,832 (*)	7,130	9.5%
Net fee and commission income	15,655	17,428	(1,773)	-10.2%
Dividends and similar income	227	227	-	0.0%
Net trading income	21	37	(16)	-43.2%
Gain from sales or repurchases of financial assets/liabilities	10,089	9,531	558	5.9%
Total income	**107,954**	**102,055**	**5,899**	**5.8%**
Net impairment losses on loans and receivables	(10,628)	(11,000)	372	-3.4%
Net financial income	**97,326**	**91,055**	6,271	**6.9%**
Personnel expense	(28,981)	(25,532)	(3,449)	13.5%
Other administrative expenses	(29,547)	(25,534)	(4,013)	15.7%
Net accruals to provisions for risks and charges	(1,705)	(2,520)	815	-32.3%
Net impairment losses on property and equipment/intangible assets	(2,710)	(1,956)	(754)	38.5%
Other operating income	74	260	(186)	-71.5%
Operating costs	**(62,869)**	**(55,282)**	**(7,587)**	**13.7%**
Gains (losses) on equity investments	2	-	2	n.a.
Gains (losses) on sales of investments	-	1,090	(1,090)	-100.0%
Pre-tax profit from continuing operations	**34,459**	**36,863**	**(2,404)**	**-6.5%**
Income taxes for the year	(10,916)	(11,194) (*)	278	-2.5%
Post- tax profit for the year	**23,543**	**25,669**	**(2,126)**	**-8.3%**
Post-tax profit (loss) from discontinued operations	(20)	-	(20)	n.a.
Profit for the year	**23,523**	**25,669**	**(2,146)**	**-8.4%**
Profit (loss) attributable to non-controlling interests	(272)	484	(756)	<100%
Profit for the year attributable to the owners of the parent	**23,251**	**26,153 (*)**	**(2,902)**	**-11.1%**

(*) For more information reference should be made to the “General basis of preparation” section in the Accounting Policies of this report.

The Group reported a profit of € 23.3 million in 2021, down on the previous year, considering that 2020 included the € 1.1 million gain on the sale of 25% of the share capital of the subsidiary ProntoPegno. Despite the difficult market conditions, total income grew by 5.8% driven by the increased contribution of the collateralised lending division and an optimisation of the cost of funding, which offset the reduction in factoring margins. The growth in margin was absorbed by an increase in costs mainly to support growth and sustain the volumes generated by the Group's three divisions.

NET INTEREST INCOME (€,000)	2021	2020	€ Change	% Change
Interest and similar income				
Loans and receivables portfolios	92,140	90,674	1,466	1.6%
Factoring	60,319	64,528	(4,209)	-6.5%
CQ	21,438	22,415	(977)	-4.4%
Collateralised lending (interest income)	5,987	3,054	2,933	96.0%
Government-backed loans to SMEs	4,396	677	3,719	>100%
Securities portfolio	1,743	1,867	(124)	-6.6%
Other	806	1,303	(497)	-38.1%
Financial liabilities	3,522	4,223	(701)	-16.6%
Total interest income	**98,211**	**98,067**	**144**	**0.1%**
Interest and similar expense				
Due to banks	(533)	(529)	(4)	0.8%
Due to customers	(12,651)	(15,433)	2,782	-18.0%
Securities issued	(2,023)	(7,085) (*)	5,062	-71.4%
Financial assets	(1,042)	(188)	(854)	>100%
Total interest expense	**(16,249)**	**(23,235)**	**6,986**	**-30.1%**
Net interest income	**81,962**	**74,832**	**7,130**	**9.5%**

(*) For more information reference should be made to the "General basis of preparation" section in the Accounting Policies of this report.

Net interest income increased compared to the prior year due to the reduction in the cost of funding. Interest income was driven by the increased contribution of the Collateralised Lending Division and the good performance of guaranteed SME loans to factoring customers.

The total contribution of the Factoring Division (which includes Government-backed loans to SMEs) to interest income was € 64.7 million, equal to 70% of the entire loans and receivables portfolio (compared to 72% at 31 December 2020), to which the commission component associated with the factoring business and the revenue generated by the assignment of private-sector receivables from the factoring portfolio need to be added.

In the third quarter of 2021, the estimated rates of recovery of default interest on factoring and the related collection times used were updated in the light of the progressive consolidation of the historical data series; the combined adjustment of these estimates led to lower interest income of € -0.3 million. The results for the same period of the previous year had benefited from the recognition of higher interest income of € 1.0 million resulting from an update to the estimates.

The component linked to default interest from legal action at 31 December 2021 was € 21.5 million (€ 21.6 million at 31 December 2020):

- of which € -0.3 million resulting from the updated recovery estimates and expected collection times (€ 1.0 million in 2020);
- of which € 11.7 million resulting from the current recovery estimates (€ 9 million in 2020);
- of which € 10.1 million (€ 11.6 million in 2020) as the difference between the amount collected during the year, equal to € 17.5 million (€ 21.5 million in 2020) and that recognised on an accruals basis in previous years (€ 7.4 million). In 2020, this item included gross collections of € 5.2 million from transfers to third parties, whereas in 2021, gross collections were € 0.7 million.

The amount of the stock of default interest from legal actions accrued at 31 December 2021, relevant for the allocation model, was € 99 million (€ 98 million at the end of 2020), which becomes € 169 million when including default interest related to positions with troubled local authorities, a component for which default interest is not allocated in the financial statements. Loans and receivables recognised in the financial statements under the current accounting model amount to € 51.5 million. Therefore, the amount of default interest accrued but not recognised in the income statement is € 117 million.

The contribution of interest on the salary- and pension-backed portfolios is down slightly on the previous year at € 21.4 million as a result of the early redemption of several positions.

The contribution of the Collateralised Lending Division grew significantly to € 6.0 million, compared to € 3.1 million in the previous year. The increase is mostly due to the acquisition of the collateralised lending business unit starting from 13 July 2020.

Compared to 2020, the interest component from government-backed loans granted by the Bank to factoring customers, a support measure in response to the Covid-19 pandemic, has had a positive impact.

The item "financial liabilities" mainly includes income arising from the financing activity of the securities portfolio in repurchase agreements and ECB loans at negative rates, which account for € 3.5 million.

Interest expense, which decreased compared to the previous year thanks to the funding strategies introduced to carefully contain the cost of funding, made a significant positive contribution to total net interest income. In particular, interest on term deposits from customers decreased as a result of the reduction in the interest rate applied to deposit accounts. The cost of bonds also decreased following the full repayment in the last quarter of 2020 of the € 175 million senior bond which the Bank deemed appropriate to refinance with other more cost-effective forms of funding.

The accrued interest expense component related to AT1 instruments, the coupon component of which is classified within equity reserves, amounted to € 2.3 million (€ 0.6 million at 31 December 2020).

NET FEE AND COMMISSION INCOME (€,000)	2021	2020	€ Change	% Change
Fee and commission income				
Factoring activities	12,813	17,726	(4,913)	-27.7%
Fee and commission income - off-premises CQ	4,503	2,388	2,115	88.6%
Collateralised loans (fee and commission income)	6,664	2,721	3,943	>100%
Collection activities	1,235	1,138	97	8.5%
Other	382	355	27	7.6%
Total fee and commission income	**25,597**	**24,328**	**1,269**	**5.2%**
Fee and commission expense				
Factoring portfolio placement	(1,426)	(1,279)	(147)	11.5%
Placement of other financial products	(1,988)	(1,767)	(221)	12.5%
Fees - off-premises CQ	(5,717)	(3,013)	(2,704)	89.7%
Other	(811)	(841)	30	-3.4%
Total fee and commission expense	**(9,942)**	**(6,900)**	**(3,042)**	**44.1%**
Net fee and commission income	**15,655**	**17,428**	**(1,773)**	**-10.2%**

Net fee and commission income decreased to € 15.7 million, showing a reduction in the contribution from factoring linked to extraordinarily rapid collections and an increase in fees and commissions from the Collateralised Lending Division.

Fee and commission income from factoring should be considered together with interest income, since it makes no difference from a management point of view whether profit is recognised in the commissions and fees item or in interest in the without recourse factoring business.

Fee and commission income from the collateral-backed loans business grew by € 3.9 million compared to the previous year thanks to the acquisition of the business unit.

Commissions on collection activities, related to the service of reconciliation of third-party invoices collected from Public Administration are in line with 2020.

Other fee and commission income includes commissions and fees from collection and payment services, and the keeping and management of current accounts.

Fee and commission income - off-premises CQ refers to the commissions on the salary- and pension-backed loan (CQ) origination business of € 4.5 million, which should be considered together with the item Fees - off-premises CQ, amounting to € 5.7 million, which are composed of the commissions paid to financial advisers for the off-premises placement of the salary- and pension-backed loan product, including the estimated year-end bonuses payable to them and commissions borne solely by the Bank.

Fees and commissions for the placement of financial products paid to third parties are attributable to returns to third party intermediaries for the placement of the SI Conto! Deposito product under the passporting regime, whereas the fee and commission expense of placing the factoring portfolios is linked to the origination costs of factoring receivables, which are in line with those reported in the same period of the previous year.

Other fee and commission expense includes commissions for trading third-party securities and for interbank collections and payment services.

GAIN FROM SALES OR REPURCHASES (€,000)	2021	2020	€ Change	% Change
Gains from HTCS portfolio debt instruments	4,090	5,301	(1,211)	-22.8%
Gains from HTC portfolio debt instruments	458	340	118	34.7%
Gains from financial liabilities	-	16	(16)	-100.0%
Gains from receivables (Factoring portfolio)	1,875	2,425	(550)	-22.7%
Gains from receivables (CQ portfolio)	3,666	1,449	2,217	>100%
Total	**10,089**	**9,531**	**558**	**5.9%**

The item Gain from sales or repurchases includes gains generated by the proprietary HTCS and HTC securities portfolio of € 4.5 million, net realised gains from factoring receivables of € 1.9 million, the revenue from which derives from the sale of factoring portfolios to private-sector assignors, and gains realised from the sale of CQ portfolios to third parties.

Impairment losses on loans and receivables at 31 December 2021 amounted to € 10.6 million and were affected by a valuation adjustment made in the first quarter of 2021 of € 2.4 million on a portion of invoices included in the insolvency procedure of a local authority which will not occur again in future quarters and will be largely recovered from the default interest (almost all of which has already been recognised by the court and not yet accounted for in the income statement, like all the default interest related to troubled local authorities), which will be collected when the settlement agreement with the OSL (Organo Straordinario di Liquidazione - Extraordinary Liquidation Committee) concerning the items identified by the Bank is finalised and in part when the insolvency procedure is completed. The impairment losses in the second quarter of 2021 were also negatively impacted by a lengthening of the estimated collection times for positions with municipalities in financial difficulty, reflecting an increase in the average time to emerge from financial difficulties, resulting in a one-off effect of € 1.4 million. As at 30 June 2021, the Bank had already accepted the increased hedging requirements communicated by the Bank of Italy inspectors as a result of their audit. The loss rate stood at 0.40% compared to 0.42% in 2020.

PERSONNEL EXPENSE (€,000)	2021	2020	€ Change	% Change
Wages and salaries	(22,855)	(20,098)	(2,757)	13.7%
Social security contributions and other costs	(4,661)	(4,185)	(476)	11.4%
Directors' and statutory auditors' remuneration	(1,465)	(1,249)	(216)	17.3%
Total	**(28,981)**	**(25,532)**	**(3,449)**	**13.5%**

The increase in personnel expense is mainly due to the increase in the average number of employees from 231 to 275. Contributing to this increase was the addition of 58 new employees from the business unit incorporated into ProntoPegno who joined the company's personnel in the second half of 2020.

OTHER ADMINISTRATIVE EXPENSES (€,000)	2021	2020	€ Change	% Change
Consultancy	(5,175)	(4,422)	(753)	17.0%
IT expenses	(5,932)	(5,397)	(535)	9.9%
Servicing and collection activities	(3,070)	(2,951)	(119)	4.0%
Indirect taxes and duties	(2,959)	(2,080)	(879)	42.3%
Insurance	(908)	(719)	(189)	26.3%
Other	(688)	(426)	(262)	61.5%
Expenses related to management of the SPVs	(785)	(670)	(115)	17.2%
Outsourcing and consultancy expenses	(480)	(404)	(76)	18.8%
Car hire and related fees	(830)	(633)	(197)	31.1%
Advertising and communications	(1,554)	(684)	(870)	127.2%
Expenses related to property management and logistics	(2,593)	(1,600)	(993)	62.1%
Personnel-related expenses	(167)	(62)	(105)	169.4%
Expense reimbursement and entertainment	(466)	(387)	(79)	20.4%
Infoprovider expenses	(701)	(514)	(187)	36.4%
Membership fees	(349)	(299)	(50)	16.7%
Audit fees	(296)	(294)	(2)	0.7%
Telephone and postage expenses	(270)	(212)	(58)	27.4%
Stationery and printing	(40)	(74)	34	-45.9%
Total operating expenses	**(27,263)**	**(21,828)**	**(5,435)**	**24.9%**
Resolution Fund	(2,284)	(2,007)	(277)	13.8%
Merger-related costs	-	(1,699)	1,699	-100.0%
Total	**(29,547)**	**(25,534)**	**(4,013)**	**15.7%**

Administrative expenses increased mainly due to costs directly related to the businesses in which the Group operates. Specifically, in 2021, higher legal expenses were incurred for managing the legal recovery proceedings for receivables and default interest from Italian and Spanish public administration debtors and there was an increase in the origination cost of the CQ product. In 2021, investments in advertising for events and sponsorships also increased.

IT expenses consist of costs for services rendered by the IT outsourcer providing the legacy services and costs related to the IT infrastructure, which have increased compared to 2020, also due to the costs deriving from the ProntoPegno branches acquired along with the business unit and additional hardware and software to support remote work arrangements.

The increase in Expenses related to property management and logistics is tied to the purchase of the building to be used for operations in Rome.

Compared to the previous year, the Resolution Fund required a € 0.3 million higher contribution, for a total of € 2.3 million.

The impairment losses on property and equipment/intangible assets are the result of higher provisions for property used for business purposes, as well as the depreciation of the "right-of-use" asset following the application of IFRS 16.

Other income includes the release of estimated accrued costs of € 0.9 million for accruals made in the previous year that were not incurred in 2021.

THE MAIN STATEMENT OF FINANCIAL POSITION AGGREGATES

ASSETS (€,000)	31.12.2021	31.12.2020	€ Change	% Change
Cash and cash equivalents	175,835	68,858 (*)	106,977	>100%
Financial assets measured at fair value through other comprehensive income	451,261	430,966	20,295	4.7%
Financial assets measured at amortised cost	2,954,174	3,075,863	(121,689)	-4.0%
a) loans and receivables with banks	33,411	25,553 (*)	7,858	30.8%
b1) loans and receivables with customers - loans	2,736,721	2,602,446	134,275	5.2%
b2) loans and receivables with customers - debt instruments	184,042	447,864	(263,822)	-58.9%
Equity investments	1,002	1,000	2	0.2%
Property and equipment	40,780	32,607	8,173	25.1%
Intangible assets	33,125	32,725	400	1.2%
of which: goodwill	32,355	32,355	-	0.0%
Tax assets	12,840	10,313	2,527	24.5%
Non-current assets held for sale and disposal groups	68	-	68	n.a.
Other assets	39,806	19,039	20,767	>100%
Total assets	**3,708,891**	**3,671,371**	**37,520**	**1.0%**

(*) Effective 31 December 2021, all "demand" receivables in the form of current and deposit accounts with banks, which were previously classified under item 40, are to be classified under item 10. Therefore, the figures as at 31 December 2020 have been reclassified.

The year ended 31 December 2021 closed with total assets up by 1% over the end of 2020 and equal to € 3.7 billion.

The securities portfolio relating to Financial assets measured at fair value through other comprehensive income ("HTCS" or "Held to collect and Sell") of the Group was up compared to 31 December 2020 and continues to be mainly comprised of Italian government bonds with an average duration of about 31.4 months (the average remaining duration at the end of 2020 was 14.8 months). This is consistent with the Group investment policy. The carrying amount of the government bonds held in the HTCS portfolio amounted to € 446 million at 31 December 2021 (€ 425 million at 31 December 2020). The associated valuation reserve was negative at the end of the year, amounting to € 3.6 million before the tax effect. In addition to government securities, the HTCS portfolio also includes 200 shares of the Bank of Italy, amounting to € 5 million, and the Axactor Norway shares, which at 31 December 2021 had a negative fair value reserve of € 0.05 million, resulting in a year-end amount of € 0.5 million.

LOANS AND RECEIVABLES WITH CUSTOMERS (€,000)	31.12.2021	31.12.2020	€ Change	% Change
Factoring	1,541,687	1,481,678	60,009	4.1%
Salary-/pension-backed loans (CQS/CQP)	931,767	933,873	(2,106)	-0.2%
Collateralised loans	90,030	77,684	12,346	15.9%
Loans to SMEs	160,075	74,409	85,666	>100%
Current accounts	396	15,351	(14,955)	-97.4%
Compensation and Guarantee Fund	9,147	12,639	(3,492)	-27.6%
Other loans and receivables	3,619	6,812	(3,193)	-46.9%
Total loans	**2,736,721**	**2,602,446**	**134,275**	**5.2%**
Securities	184,042	447,864	(263,822)	-58.9%
Total loans and receivables with customers	**2,920,763**	**3,050,310**	**(129,547)**	**-4.2%**

The item loans and receivables with customers under Financial assets measured at amortised cost (hereinafter HTC, or "Held to Collect"), is composed of loan receivables with customers and the "held-to-maturity securities" portfolio.

Outstanding loans for factoring receivables compared to Total loans, therefore excluding the amounts of the securities portfolio, were 56% (57% at the end of 2020). The volumes generated during the year amounted to € 3,611 million (€ 3,101 million at 31 December 2020).

Salary- and pension-backed loans are in line with the end of the previous year, mainly as a result of the sale of portfolios originated by the Bank. Compared to the previous year, volumes disbursed decreased slightly because of fewer portfolios purchased, whereas volumes of directly originated loans increased from € 37 million in 2020 to € 85 million.

Government-backed loans to SMEs increased following new disbursements made under SACE and SME Fund guarantees and amounted to € 160.3 million.

The collateralised loan business, carried out through the subsidiary ProntoPegno, grew significantly reporting loans of € 90 million at 31 December 2021 which are the result of new loans granted during the year and renewals with existing customers.

HTC Securities are composed entirely of Italian government securities with an average duration of 30.9 months for an amount of € 184 million. The mark-to-market valuation of the securities at 31 December 2021 shows a pre-tax unrealised gain of € 1.6 million.

The following table shows the quality of receivables in the loans and receivables with customers item, excluding the securities positions.

STATUS	31.12.2020	31.03.2021	30.06.2021	30.09.2021	31.12.2021
Bad exposures	52,354	50,710	169,372	168,253	169,099
Unlikely to pay	148,433	148,874	34,387	34,324	37,374
Past due	50,377	112,423	92,462	91,926	108,598
Non-performing	**251,164**	**312,007**	**296,221**	**294,503**	**315,071**
Performing	**2,404,623**	**2,300,186**	**2,382,395**	**2,407,569**	**2,487,995**
Stage 2	134,194	116,732	116,414	124,296	102,862
Stage 1	2,270,429	2,183,454	2,265,981	2,283,273	2,385,133
Total loans and receivables with customers	**2,655,787**	**2,612,193**	**2,678,616**	**2,702,072**	**2,803,066**
Individual impairment losses	**46,027**	**50,384**	**56,623**	**57,342**	**59,519**
Bad exposures	25,240	26,660	46,160	46,435	47,554
Unlikely to pay	20,352	22,961	10,025	10,450	11,374
Past due	435	763	438	457	591
Collective impairment losses	**7,315**	**6,941**	**6,989**	**7,129**	**6,825**
Stage 2	781	749	660	697	560
Stage 1	6,534	6,192	6,329	6,432	6,265
Total impairment losses	**53,342**	**57,325**	**63,612**	**64,471**	**66,344**
Net exposure	**2,602,445**	**2,554,868**	**2,615,004**	**2,637,601**	**2,736,722**

The ratio of gross non-performing loans to the total portfolio increased to 11.2% compared to 9.5% at 31 December 2020, following the increase in past due loans, mainly due to the entry into force of the new definition of default on 1 January 2021 ("New DoD"). Past due loans are associated with factoring receivables without recourse from Public Administration and are considered normal for the sector. Despite the new technical rules used to report past due loans for regulatory purposes, this continues not to pose particular problems in terms of credit quality and probability of collection.

The increase in bad exposures is the result of reclassifying, as requested by the Bank of Italy during its recent routine audit, exposures to local authorities in financial difficulty, which the Group had previously classified as unlikely to pay because, pursuant to the consolidated text of the laws on the structure of local authorities (TUEL), until the settlement proposed by the OSL is accepted, the exposure does not fall under the liquidation procedure. This reclassification has no impact on prudential ratios, nor on the quality of the receivable that the Group will collect in full at the end of the financial difficulties, including default interest accrued up to that date and not recognised in the income statement. The coverage ratio for non-performing loans is 18.9%, up from 18.7% at 31 December 2020.

Property and equipment includes the property located in Milan, which is also being used as Banca Sistema's new offices, and the new building in Rome. The carrying amount of the properties, including capitalised items, is € 35.8 million after accumulated depreciation. The other capitalised costs include furniture, fittings and IT devices and equipment, as well as the right of use relating to the lease payments for branches and company cars.

Intangible assets refer to goodwill of € 32.3 million, broken down as follows:

- the goodwill originating from the merger of the former subsidiary Solvi S.r.l. which took place in 2013 amounting to € 1.8 million;

- the goodwill generated by the acquisition of Atlantide S.p.A. on 3 April 2019 amounting to € 2.1 million;
- the goodwill amounting to € 28.4 million arising from the acquisition of the former Intesa Sanpaolo collateralised lending business unit completed on 13 July 2020.

At the end of 2020, Banca Sistema entered into an equal partnership with EBN Banco de Negocios S.A., taking a stake in the capital of EBNSISTEMA Finance S.L., and thereby entering the Spanish factoring market. Banca Sistema acquired an equity investment in EBNSISTEMA through a capital increase of € 1 million which gave Banca Sistema a 50% stake in the Madrid-based company. The aim of the joint venture is to develop the Public Administration factoring business on the Iberian peninsula, with its core business being the purchase of healthcare receivables. In 2021, EBNSISTEMA purchased € 240 million in receivables (50% of which were attributable to the Group).

Non-current assets held for sale and disposal groups include the assets of SF Trust Holding, which was put into liquidation in December 2021.

Other assets mainly include amounts being processed after the end of the year and advance tax payments.

At 31 December 2021, the item included tax credits from the "Eco-Sisma bonus 110%" product associated to the tax credit generated against specific energy efficiency and anti-seismic safety works which can be deducted at a rate of 110% over five years for an amount of € 16.5 million. This product was introduced by the Bank, within the context of the implementation of the Relaunch Decree issued in May 2020, in a very prudent manner and with modest turnover targets, to be included in the range of products offered by the Factoring Division.

Comments on the main aggregates on the liability side of the statement of financial position are shown below.

LIABILITIES AND EQUITY (€,000)	31.12.2021	31.12.2020	€ Change	% Change
Financial liabilities measured at amortised cost	3,257,401	3,274,230	(16,829)	-0.5%
a) due to banks	592,157	869,648	(277,491)	-31.9%
b) due to customers	2,472,054	2,164,244	307,810	14.2%
c) securities issued	193,190	240,338 (*)	(47,148)	-19.6%
Financial liabilities held for trading	-	-	-	n.a.
Tax liabilities	14,981	16,903	(1,922)	-11.4%
Liabilities associated with disposal groups	18	-	18	n.a.
Other liabilities	137,995	136,894	1,101	0.8%
Post-employment benefits	4,310	4,428	(118)	-2.7%
Provisions for risks and charges	28,654	23,430	5,224	22.3%
Valuation reserves	(3,067)	1,287	(4,354)	<100%
Reserves	180,628	161,332 (*)	19,296	12.0%
Equity instruments	45,500	8,000 (*)	37,500	>100%
Equity attributable to non-controlling interests	9,569	9,297	272	2.9%
Share capital	9,651	9,651	-	0.0%
Treasury shares (-)	-	(234)	234	-100.0%
Profit for the year	23,251	26,153 (*)	(2,902)	-11.1%
Total liabilities and equity	**3,708,891**	**3,671,371**	**37,520**	**1.0%**

(*) For more information reference should be made to the "General basis of preparation" section in the Accounting Policies of this report.

Wholesale funding, which represents about 32% of the total (41% at 31 December 2020), decreased in absolute terms from the end of 2020 mainly following the decrease in interbank funding and ECB loans. The contribution of bond funding to total wholesale funding was 23% (23% also at the end of 2020).

DUE TO BANKS (€,000)	31.12.2021	31.12.2020	€ Change	% Change
Due to Central banks	540,095	689,686	(149,591)	-21.7%
Due to banks	52,062	179,962	(127,900)	-71.1%
Current accounts and demand deposits	*41,063*	*127,088*	*(86,025)*	*-67.7%*
Term deposits with banks	*-*	*-*	*-*	*n.a.*
Financing from other banks	*10,999*	*48,737*	*(37,738)*	*-77.4%*
Other amounts due to banks	*-*	*4,137*	*(4,137)*	*-100.0%*
Total	**592,157**	**869,648**	**(277,491)**	**-31.9%**

The item "Due to banks" decreased by 32% compared to 31 December 2020 as a result of the decrease in interbank funding; the item "Due to Central banks" dropped by 22% with respect to 31 December 2020 reflecting the repayment of the Pandemic Emergency Longer-Term Refinancing Operations (PELTROs). ECB loans are backed by ABS from the salary- and pension-backed loans (CQS/CQP) securitisation, government bonds, CQS/CQP receivables and some factoring receivables.

DUE TO CUSTOMERS (€,000)	31.12.2021	31.12.2020	€ Change	% Change
Term deposits	1,387,416	1,216,523	170,893	14.0%
Financing (repurchase agreements)	249,256	235,230	14,026	6.0%
Current accounts	775,096	633,548	141,548	22.3%
Due to assignors	56,012	75,021	(19,009)	-25.3%
Other payables	4,274	3,922	352	9.0%
Total	**2,472,054**	**2,164,244**	**307,810**	**14.2%**

The item Due to customers increased compared to the end of the previous year, mainly due to an increase in funding from current accounts and term deposits. The year-end amount of term deposits increased by 14% compared to the end of 2020, reflecting net positive deposits (net of interest accrued) of € 171 million coming mainly through the international channel; gross deposits from the beginning of the year were € 1,078 million, against withdrawals totalling € 907 million.

Due to assignors includes payables related to the unfunded portion of acquired receivables.

BONDS ISSUED (€,000)	31.12.2021	31.12.2020	€ Change	% Change
Bond - AT1	45,500	8,000	37,500	>100%
Bond - Tier II	0	37,570	(37,570)	-100.0%
Bonds - other	193,190	202,750	(33,992)	-16.8%

The value of bonds issued decreased compared to 31 December 2020 due to the repayment of the € 90 million senior bond that matured in May, partially offset by the increase in the senior shares of the ABS financed by third-party investors.

Bonds issued at 31 December 2021 are as follows:

- Tier 1 subordinated loan of € 8 million, with no maturity (perpetual basis) and a fixed coupon until 18 June 2023 at 7% issued on 18 December 2012 and 18 December 2013 (reopening date);
- Tier 1 subordinated loan of € 37.5 million, with no maturity (perpetual basis) and a fixed coupon until 25 June 2031 at 9% issued on 25 June 2021.

Other bonds include the senior shares of the ABS in the Quinto Sistema Sec. 2019 and BS IVA securitisation subscribed by third-party institutional investors.

The Tier 2 subordinated loans were repaid before maturity upon simultaneous issuance of an Additional Tier 1 (AT1) subordinated bond for the same amount. It should be noted that given their predominant characteristics, starting this year all AT1 instruments are classified under item 140 “Equity instruments” in equity, including the € 8 million previously classified under financial liabilities.

The provision for risks and charges of € 28.7 million includes the provision for possible liabilities attributable to past acquisitions of € 1.1 million, the estimated amount of personnel-related charges mainly for the portion of the bonus for the year, the deferred portion of the bonus accrued in previous years, and the estimate related to the non-compete agreement totalling € 7.4 million. The provision also includes an estimate of charges related to possible liabilities to assignors that have yet to be settled of € 6.7 million and other estimated charges for ongoing lawsuits and legal disputes amounting to € 2.6 million. Also included is the provision for claims and the provision to cover the estimated adverse effect of possible early repayments (also known as pre-payments) on CQS portfolios purchased from third-party intermediaries and on the assigned portfolios, for an amount of € 7.0 million. Other liabilities mainly include payments received after the end of the year from the assigned debtors and which were still being allocated and items being processed during the days following year-end, as well as trade payables and tax liabilities.

The reconciliation between the profit for the year and equity of the parent and the figures from the consolidated financial statements is shown below.

(€ ,000)	PROFIT (LOSS)	EQUITY
Profit/equity of the parent	**23,143**	**257,070**
Assumption of value of investments	-	(44,209)
Consolidated profit/equity	1,891	52,671
Gain (loss) on equity investments	2	-
Adjustment to profit (loss) from discontinued operations	(1,513)	-
Equity attributable to the owners of the parent	**23,523**	**265,532**
Equity attributable to non-controlling interests	(272)	(9,569)
Profit/equity of the Group	**23,251**	**255,963**

CAPITAL ADEQUACY

Provisional information concerning the regulatory capital and capital adequacy of the Banca Sistema Group is shown below.

OWN FUNDS (€,000) AND CAPITAL RATIOS	31.12.2021	31.12.2020
Common Equity Tier 1 (CET1)	**176,077**	**163,797**
ADDITIONAL TIER 1	45,500	8,000
Tier 1 capital (T1)	**221,577**	**171,797**
TIER 2	113	37,655
Total Own Funds (TC)	**221,690**	**209,452**
Total risk-weighted assets	**1,517,540**	**1,297,255**
of which, credit risk	1,334,148	1,120,412
of which, operational risk	183,392	176,843
Ratio - CET1	11.6%	12.6%
Ratio - T1	14.6%	13.2%
Ratio - TCR	14.6%	16.1%

Total own funds were € 222 million at 31 December 2021 and included the profit for the year, net of dividends estimated on the profit for the year which were equal to a pay-out of 25% of the Parent's profit. CET1 includes a negative reserve resulting from the OCI reserve on securities for € 2.4 million (positive for € 1.8 million at 31 December 2020) and interest on AT1 which increased following the issue of € 37.5 million in June 2021.

The increase in risk-weighted assets with respect to 31 December 2020 is mainly attributable to the increase in non-performing exposures due to the introduction of the new definition of default and increased exposure to businesses.

On 23 February 2022, the Group’s new consolidated capital requirements were announced:

- CET1 ratio of 9.00%;
- TIER1 ratio of 10.55%;
- Total Capital Ratio of 12.50%.

CAPITAL AND SHARES

Capital and ownership structure

The share capital of Banca Sistema is composed of 80,421,052 ordinary shares, for a total paid-in share capital of € 9,650,526.24. All outstanding shares have regular dividend entitlement from 1 January.

Based on evidence from the Shareholders' Register and more recent information available, the shareholders with stakes of more than 5%, the threshold above which Italian law (art. 120 of the Consolidated Law on Finance) requires disclosure to the investee and Consob, were as follows:

SHAREHOLDERS	% HELD
SGBS S.r.l.	23.10%
Garbifin S.r.l.	0.54%
Fondazione Cassa di Risparmio di Alessandria	7.91%
Chandler SARL	7.48%
Fondazione Sicilia	7.40%
Moneta Micro Entreprises	5.12%
Fondazione Cassa di Risparmio di Cuneo	5.01%
Market	43.44%

Treasury shares

As at 31 December 2021, the Bank did not hold any treasury shares.

Stock performance

The shares of Banca Sistema are traded on the Mercato Telematico Azionario - Italian Equities Market (MTA) of the Italian Stock Exchange, STAR segment. The Banca Sistema stock is included in the following Italian Stock Exchange indices:

- FTSE Italia All-Share Capped;
- FTSE Italia All-Share;
- FTSE Italia STAR;
- FTSE Italia Banche;
- FTSE Italia Finanza;
- FTSE Italia Small Cap.

In 2021, a year with lower market volatility compared to 2020, the share price of the stock fluctuated in a range between a minimum closing price of € 1.63 and a maximum closing price of € 2.43.

The share price on the last trading day of 2021 was 24% higher than on the same day of the previous year and is broadly in line with the performance of most other Italian banking stocks or the indices to which it belongs, such as the FTSE Italia Finanza and the FTSE Italia Banche, which were up by 33% and 36% respectively.

Average daily volumes were just over 400,000 shares during 2021, a decrease over 2020.

With reference to the functioning of the "Risk Management System", the Group has adopted a system based on four leading principles:

- suitable supervision by relevant bank bodies and departments;
- suitable policies and procedures to manage risks (both in terms of credit risk and the granting of loans);
- suitable methods and instruments to identify, monitor and manage risks, with suitable measuring techniques;
- thorough internal controls and independent audit.

The "Risk Management System" is monitored by the Risk Department, which ensures that capital adequacy and the degree of solvency with respect to its business are kept under constant control.

The Risk Department continuously analyses the Group's operations to fully identify the risks the Group is exposed to (risk map).

To reinforce its ability to manage corporate risks, the Group has set up a Risk and ALM Committee, whose mission is to help the Group define strategies, risk policies, and profitability and liquidity targets.

The Risk and ALM Committee continuously monitors relevant risks and any new or potential risks arising from changes in the working environment or Group forward-looking operations.

Pursuant to the eleventh amendment of Bank of Italy Circular no. 285/13, within the framework of the Internal Control System (Part I, Section IV, Chapter 3, Subsection II, Paragraph 5) the Parent entrusted the Internal Control and Risk Management Committee with the task of coordinating the second and third level Control Departments; to that end, the Committee allows the integration and interaction between these Departments, encouraging cooperation, reducing overlaps and supervising operations.

With reference to the risk management framework, the Group adopts an integrated reference framework both to identify its own risk appetite and for the internal process of determining capital adequacy. This system is the Risk Appetite Framework (RAF), designed to make sure that the growth and development aims of the Group are compatible with capital and financial solidity.

The RAF comprises monitoring and alert mechanisms and related processes to take action in order to promptly intervene in the event of discrepancies with defined targets. The framework is subject to annual review based on the strategic guidelines and regulatory changes.

The ICAAP (the Internal Capital Adequacy Assessment Process) and ILAAP (Internal Liquidity Adequacy Assessment Process) allow the Group to conduct ongoing tests of its structure for determining risks and to update the related safeguards included in its RAF.

With regard to protecting against credit risk, along with the well-established second level controls and the periodic monitoring put in place by the Risk Department, functional requirements were implemented to allow the Group to be compliant with the new definition of default that was introduced starting on 1 January 2021. Following application of the new definition, there was an increase in the number of past due exposures reported even though they relate to the public administration for which late payments do not represent a material risk that the value of the recoverable receivable will be reduced, but merely a lengthening of collection times.

Regarding the monitoring of credit risk, in February 2020 the Group, with the goal of attaining greater operating synergies, moved from a functional organisational structure to a divisional structure which aims to maximise the value of each individual line of business, making it easily comparable with its respective specialist peers.

It should also be noted that, in accordance with the obligations imposed by the applicable regulations, each year the Group publishes its report (Pillar 3) on capital adequacy, risk exposure and the general characteristics of the systems for identifying, measuring and managing risks. The report is available on the website www.bancasistema.it in the Investor Relations section.

In order to measure "Pillar 1 risks", the Group has adopted standard methods to calculate the capital requirements for Prudential Regulatory purposes. In order to evaluate "Pillar 2 risks", the Group adopts - where possible - the methods set out in the Regulatory framework or those established by trade associations. If there are no such indications, standard market practices by operators working at a level of complexity and with operations comparable to those of the Group are assessed.

During the Covid-19 pandemic and in line with the indications provided by the EBA, ECB, Consob and ESMA, the Banca Sistema Group decided not to apply automated classifications for moratoria introduced in connection with the related support programmes provided for by law, agreements with trade associations or similar voluntary initiatives adopted by individual companies.

The Group has developed and quickly planned suitable procedures, within the specific sector of activity and the related product portfolio, to respond to the provisions set forth in the decrees to support households and businesses by implementing the provisions of the "Cura Italia" and "Liquidity" decrees. The Group has also revised its risk objectives within the RAF, which was prepared in a manner consistent with the annual budgeting process for the 2021 financial year and includes the economic impacts of the Covid-19 pandemic crisis.

Regarding the factoring business, a cap was set for the granting of medium-term loans guaranteed by SACE and the National Guarantee Fund to support business customers during this period.

Other interventions concerned credit strategies and policies that considered the change in the macroeconomic environment and the results of sector analyses for identifying the most vulnerable sectors which were then grouped into clusters. For those sectors deemed to be most impacted by the pandemic, a more stringent underwriting process for factoring was introduced. For salary- and pension-backed loans (CQ), monitoring of employers (ATCs) within the cluster most affected by Covid-19 was strengthened.

OTHER INFORMATION

Report on corporate governance and ownership structure

Pursuant to art. 123-bis, paragraph 3 of Legislative Decree no. 58 dated 24 February 1998, a "Report on corporate governance and ownership structure" has been drawn up; the document - published jointly with the financial statements as at and for the year ended 31 December 2021 - is available in the "Governance" section of the Banca Sistema website (www.bancasistema.it).

Remuneration Report

Pursuant to art. 84-quater, paragraph 1 of the Issuers' Regulation implementing Legislative Decree no. 58 dated 24 February 1998, a "Remuneration Report" has been drawn up; the document - published jointly with the financial statements as at and for the year ended 31 December 2021 - is available in the "Governance" section of the Banca Sistema website (www.bancasistema.it).

Research and Development Activities

No research and development activities were carried out in 2021.

Future activities and new initiatives

In line with the Bank's values and corporate culture and with the activities already in place in terms of sustainability, the Banca Sistema Group is pursuing, on a voluntary basis, a structured approach for defining its positioning on ESG issues, with sustainability reporting aligned with industry best practices and leading international guidelines, as well as an action plan aimed at identifying ways of improving its sustainability profile.

RELATED PARTY TRANSACTIONS

Related party transactions including the relevant authorisation and disclosure procedures, are governed by the "Procedure governing related party transactions" approved by the Board of Directors and published on the internet site of the Parent, Banca Sistema S.p.A.

Transactions between Group companies and related parties were carried out in the interests of the Bank, including within the scope of ordinary operations; these transactions were carried out in accordance with market conditions and, in any event, based on mutual financial advantage and in compliance with all procedures.

ATYPICAL OR UNUSUAL TRANSACTIONS

During the year, the Group did not carry out any atypical or unusual transactions, as defined in Consob Communication no. 6064293 of 28 July 2006.

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

Subsequent to the obtainment of authorisation to dispose of treasury shares - as approved by the Bank's Shareholders' Meeting on 30 April 2021, and having obtained the required authorisation from the Bank of Italy, on 15 February 2022 the Bank initiated a plan for the repurchase of treasury shares with the aim of creating a "stock of treasury shares" for the sole purpose of paying a portion of the variable remuneration allocated to "key personnel" in shares, in line with the remuneration and incentive policies approved by the Shareholders' Meeting.

The treasury share repurchase plan for the aforementioned purposes will end by 30 June 2022 and provides for the purchase of a maximum of 878,277 Banca Sistema ordinary shares, amounting to no more than € 2,300,000.

On 9 February 2022, the Bank was notified of the outcome of a first sanctioning proceeding initiated by the Bank of Italy in relation to the following irregularities for which administrative sanctions may be applied:

- violation of the limit on large exposures (Article 395 of Regulation (EU) No. 575/2013-CRR; Articles 144 and 144-quinquies of the Consolidated Law on Banking; Part Two, Chapter 10, Section V of Circular no. 285/13);
- violation of disclosure obligations towards the Supervisory Authority (Article 51 of Legislative Decree 385/1993.

Regarding the aforementioned irregularities identified by the Supervisory Authority, despite the counter arguments presented by the Bank, the latter was ordered to pay fines amounting to € 100,000 for the violation referred to in point 1) and € 85,000 for the violation referred to in point 2).

On 11 March 2022, Banca Sistema filed an appeal against both fines with the Rome Court of Appeal.

On 24 February 2022, the Group was notified that the Bank of Italy had initiated a proceeding regarding the consolidated capital requirements to be observed from the first reporting date for own funds after the date of receipt of the final decision, following the outcome of the Supervisory Review and Evaluation Process (SREP).

The Group's consolidated capital requirements are as follows:

- Common Equity Tier 1 ratio (CET1 ratio) 9.00%;
- Tier 1 ratio 10.50%;
- Total Capital ratio (TC ratio) 12.50%.

The proceeding will be concluded within 90 days from 23 February 2022, without prejudice to the possibility that the terms prescribed under current regulations are suspended or terminated.

BUSINESS OUTLOOK AND MAIN RISKS AND UNCERTAINTIES

The acceleration of payments by public administrations is not continuing in the first few months of 2022 and the current factoring profitability is expected to be preserved. This situation had been driven by extraordinary funds made available by the central government to local authorities to deal with the liquidity problem caused by the pandemic.

The situation surrounding the Covid-19 pandemic is being continuously monitored, both with regard to the markets in which the Group operates and its approach to business, and with regard to any possible effects that have not yet emerged which would be reflected, if necessary, in the estimated recoverable value of the financial assets.

Following the outbreak of war in Ukraine, governments and central banks are not expected to scale back their support for growth in the foreseeable future. The Group has no direct exposures to entities and parties subject to restrictive measures decided by the European Union in response to the situation in Ukraine. The evolution of this conflict, as well as of the aforementioned restrictive measures, will be continuously and carefully monitored by the Group.

Milan, 11 March 2022

On behalf of the Board of Directors

The Chairperson

Luitgard Spögler

The CEO

Gianluca Garbi

CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

(Amounts in thousands of Euro)

	Assets	31.12.2021	31.12.2020	
10.	Cash and cash equivalents	175,835	68,858	(**)
30.	Financial assets measured at fair value through other comprehensive income	451,261	430,966	
40.	Financial assets measured at amortised cost	2,954,174	3,075,863	
	a) loans and receivables with banks	*33,411*	*25,553*	(**)
	b) loans and receivables with customers	*2,920,763*	*3,050,310*	
70.	Equity investments	1,002	1,000	
90.	Property and equipment	40,780	32,607	
100.	Intangible assets	33,125	32,725	
	of which:			
	goodwill	*32,355*	*32,355*	
110.	Tax assets	12,840	10,313	
	a) current	*812*	*62*	
	b) deferred	*12,028*	*10,251*	
120.	Non-current assets held for sale and disposal groups	68		
130.	Other assets	39,806	19,039	
	Total Assets	**3,708,891**	**3,671,371**	

(**) For more information reference should be made to the "Information on the main items of the consolidated financial statements" section in the Accounting Policies.

	Liabilities and equity	31.12.2021	31.12.2020	
10.	Financial liabilities measured at amortised cost	3,257,401	3,274,230	
	a) due to banks	*592,157*	*869,648*	
	b) due to customers	*2,472,054*	*2,164,244*	
	c) securities issued	*193,190*	*240,338*	(*)
60.	Tax liabilities	14,981	16,903	
	a) current	*37*	*1,995*	
	b) deferred	*14,944*	*14,908*	
70.	Liabilities associated with disposal groups	18		
80.	Other liabilities	137,995	136,894	
90.	Post-employment benefits	4,310	4,428	
100.	Provisions for risks and charges:	28,654	23,430	
	a) commitments and guarantees issued	*39*	*26*	
	c) other provisions for risks and charges	*28,615*	*23,404*	
120.	Valuation reserves	(3,067)	1,287	
140.	Equity instruments	45,500	8,000	(*)
150.	Reserves	141,528	122,232	(*)
160.	Share premium	39,100	39,100	
170.	Share capital	9,651	9,651	
180.	Treasury shares (-)		(234)	
190.	Equity attributable to non-controlling interests (+/-)	9,569	9,297	
200.	Profit for the year	23,251	26,153	(*)
	Total liabilities and equity	**3,708,891**	**3,671,371**	

(*) For more information reference should be made to the "Information on the main items of the consolidated financial statements" section in the Accounting Policies.

INCOME STATEMENT

(Amounts in thousands of Euro)

		2021	2020	
10.	Interest and similar income	98,211	98,067	
	of which: interest income calculated with the effective interest method	91,780	93,208	
20.	Interest and similar expense	(16,249)	(23,235)	(*)
30.	**Net interest income**	**81,962**	**74,832**	
40.	Fee and commission income	25,597	24,328	
50.	Fee and commission expense	(9,942)	(6,900)	
60.	**Net fee and commission income**	**15,655**	**17,428**	
70.	Dividends and similar income	227	227	
80.	Net trading income	21	37	
100.	Gain from sales or repurchases of:	10,089	9,531	
	a) financial assets measured at amortised cost	*5,999*	*4,214*	
	b) financial assets measured at fair value through other comprehensive income	*4,090*	*5,301*	
	c) financial liabilities		*16*	
120.	**Total income**	**107,954**	**102,055**	
130.	Net impairment losses on:	(10,624)	(11,000)	
	a) financial assets measured at amortised cost	*(10,652)*	*(10,948)*	
	b) financial assets measured at fair value through other comprehensive income	*28*	*(52)*	
140.	Gains/losses from contract amendments without derecognition	(4)		
150.	**Net financial income**	**97,326**	**91,055**	
190.	Administrative expenses	(58,528)	(51,066)	
	a) personnel expense	*(28,981)*	*(25,532)*	
	b) other administrative expenses	*(29,547)*	*(25,534)*	
200.	Net accruals to provisions for risks and charges	(1,705)	(2,520)	
	a) commitments and guarantees issued	*(13)*	*18*	
	b) other net accruals	*(1,692)*	*(2,538)*	
210.	Net impairment losses on property and equipment	(2,471)	(1,875)	
220.	Net impairment losses on intangible assets	(239)	(81)	
230.	Other operating income	74	260	
240.	**Operating costs**	**(62,869)**	**(55,282)**	
250.	Gains (losses) on equity investments	2		
280.	Gains (losses) on sales of investments		1,090	
290.	**Pre-tax profit from continuing operations**	**34,459**	**36,863**	
300.	Income taxes	(10,916)	(11,194)	(*)
310.	**Post-tax profit from continuing operations**	**23,543**	**25,669**	
320.	Post-tax profit (loss) from discontinued operations	(20)		
330.	**Profit for the year**	**23,523**	**25,669**	
340.	**Loss for the year attributable to non-controlling interests**	**(272)**	**484**	
350.	**Profit for the year attributable to the owners of the parent**	**23,251**	**26,153**	**(*)**

STATEMENT OF COMPREHENSIVE INCOME

(Amounts in thousands of Euro)

		2021	2020	
10.	**Profit for the year**	**23,251**	**26,153**	**(*)**
	Items, net of tax, that will not be reclassified subsequently to profit or loss			
70.	Defined benefit plans	(12)	(124)	
	Items, net of tax, that will be reclassified subsequently to profit or loss			
140.	Financial assets (other than equity instruments) measured at fair value through other comprehensive income	(4,342)	1,144	
170.	**Total other comprehensive income (expense), net of income tax**	**(4,354)**	**1,020**	
180.	**Comprehensive income (Items 10+170)**	**18,897**	**27,173**	
190.	**Comprehensive income attributable to non-controlling interests**			
200.	**Comprehensive income attributable to the owners of the parent**	**18,897**	**27,173**	**(*)**

(*) For more information reference should be made to the "Information on the main items of the consolidated financial statements" section in the Accounting Policies.

STATEMENT OF CHANGES IN EQUITY
AS AT 31.12.2021

Amounts in thousands of Euro

					Allocation of prior year profit		Changes during the year										
								Transactions on equity									
	Balance at 31.12.2020		Change in opening balances	Balance at 1.1.2021	Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Repurchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	Stock Options	Changes in equity investments	Comprehensive income for 2021	Equity at 31.12.2021	**Equity attributable to non-controlling interests at 31.12.2021**
Share capital:																	
a) ordinary shares	**9,651**			9,651												**9,651**	
b) other shares																	
Share premium	**39,100**			39,100												**39,100**	
Reserves	**122,232**			122,232	19,719		(423)									**141,528**	
a) income-related	**120,797**	(*)		120,797	19,719		(1,659)									**138,857**	
b) other	**1,435**			1,435			1,236									**2,671**	
Valuation reserves	**1,287**			1,287											(4,354)	**(3,067)**	
Equity instruments	**8,000**	(*)		8,000							37,500					**45,500**	
Treasury shares	**(234)**			(234)			234										
Profit for the year	**26,153**	(*)		26,153	19,719	(6,434)									23,251	**23,251**	
Equity attributable to the owners of the parent	**206,189**			**206,189**		**(6,434)**	**(189)**				**37,500**				**18,897**	**255,963**	
Equity attributable to non-controlling interests	**9,297**			**9,297**										**272**			**9,569**

(*) For more information reference should be made to the "Information on the main items of the consolidated financial statements" section in the Accounting Policies.

STATEMENT OF CHANGES IN EQUITY
AS AT 31.12.2020

Amounts in thousands of Euro

	Balance at 31.12.2019		Change in opening balances	Balance at 1.1.2020	Allocation of prior year profit		Changes during the year									Equity at 31.12.2020		Equity attributable to non-controlling interests at 31.12.2020
								Transactions on equity										
					Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Repurchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	Stock Options	Changes in equity investments	Comprehensive income for 2020			
Share capital:																		
a) ordinary shares	**9,651**			9,651												**9,651**		
b) other shares																		
Share premium	**39,100**			39,100												**39,100**		
Reserves	**98,242**			98,242	22,615		1,375									**122,232**		
a) income-related	**98,567**	(*)		98,567	22,615		(385)									**120,797**	(*)	
b) other	**(325)**			(325)			1,760									**1,435**		
Valuation reserves	**267**			267											1,020	**1,287**		
Equity instruments	**8,000**	(*)		8,000												**8,000**	(*)	
Treasury shares	**(234)**			(234)												**(234)**		
Profit for the year	**30,094**	(*)		30,094	22,615	(7,479)									26,153	**26,153**	(*)	
Equity attributable to the owners of the parent	**185,120**			**185,120**		**(7,479)**	**1,375**								**27,173**	**206,189**		
Equity attributable to non-controlling interests	**32**			**32**										**9,265**				**9,297**

(*) For more information reference should be made to the "Information on the main items of the consolidated financial statements" section in the Accounting Policies.

STATEMENT OF CASH FLOWS (indirect method)

Amounts in thousands of Euro

	AMOUNT 2021	AMOUNT 2020	
A. OPERATING ACTIVITIES			
1. Operations	**44,658**	**51,215**	
▪ Profit for the year (+/-)	23,251	26,153	(*)
▪ Gains/losses on financial assets held for trading and other financial assets/liabilities measured at fair value through profit or loss (-/+)			
▪ Gains/losses on hedging activities (-/+)			
▪ Net impairment losses due to credit risk (+/-)	10,652	10,948	
▪ Net impairment losses on property and equipment and intangible assets (+/-)	2,710	1,956	
▪ Net accruals to provisions for risks and charges and other costs/income (+/-)	1,705	2,520	
▪ Taxes, duties and tax assets not yet paid (+/-)	(1,498)	(1,018)	
▪ Other adjustments (+/-)	7,838	10,656	
2. Cash flows generated by financial assets	**89,028**	**108,889**	
▪ Financial assets held for trading			
▪ Financial assets designated at fair value through profit or loss			
▪ Other assets mandatorily measured at fair value through profit or loss			
▪ Financial assets measured at fair value through other comprehensive income	(18,897)	126,815	
▪ Financial assets measured at amortised cost	125,181	(19,573)	
▪ Other assets	(17,256)	1,647	
3. Cash flows used for financial liabilities	**(39,091)**	**(112,409)**	
▪ Financial liabilities measured at amortised cost	(31,883)	(149,921)	
▪ Financial liabilities held for trading			
▪ Financial liabilities designated at fair value through profit or loss			
▪ Other liabilities	(7,208)	37,512	(*)
Net cash flows generated by operating activities	**94,595**	**47,695**	
B. INVESTING ACTIVITIES			
1. Cash flows generated by			
▪ Sales of equity investments			
▪ Dividends from equity investments			
▪ Sales of property and equipment			
▪ Sales of intangible assets			
▪ Sales of business units			
2. Cash flows used in	**(11,205)**	**(35,365)**	
▪ Purchases of equity investments		(1,000)	
▪ Purchases of property and equipment	(9,452)	(5,480)	
▪ Purchases of intangible assets	(1,753)	(28,885)	
▪ Purchases of business units			
Net cash flows used in investing activities	**(11,205)**	**(35,365)**	
C. FINANCING ACTIVITIES			
▪ Issues/repurchases of treasury shares			
▪ Issues/repurchases of equity instruments	37,500		
▪ Dividend and other distributions	(13,913)		
Net cash flows generated by financing activities	**23,587**	**0**	
NET CASH FLOWS FOR THE YEAR	**106,977**	**12,330**	

(*) For more information reference should be made to the "Information on the main items of the consolidated financial statements" section in the Accounting Policies.

Reconciliation

Cash and cash equivalents at the beginning of the year	**68,858**	**56,528**
Total net cash flows for the year	106,977	12,330
Cash and cash equivalents: effect of change in exchange rates		
Cash and cash equivalents at the end of the year	**175,835**	**68,858**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

A.1 - GENERAL PART

SECTION 1 - Statement of compliance with International Financial Reporting Standards

The consolidated financial statements of the Banca Sistema Group at 31 December 2021 were drawn up in accordance with International Financial Reporting Standards - called IFRS - issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and endorsed by the European Commission, as established by EU Regulation no. 1606 of 19 July 2002, adopted in Italy by art. 1 of Legislative Decree no. 38 of 28 February 2005 and considering the Bank of Italy Circular no. 262 of 22 December 2005 as subsequently updated, regarding the forms and rules for drafting the Financial Statements of banks.

The International Financial Reporting Standards are applied by referring to the "Framework for the Preparation and Presentation of Financial Statements" (Framework).

If there is no standard or interpretation that applies specifically to a transaction, other event or circumstance, the Board of Directors uses its judgement to develop and apply an accounting standard in order to provide disclosure that:

- is relevant to the economic decision-making needs of users;
- is reliable, in that the financial statements:
  - represent faithfully the financial position, financial performance and cash flows of the Bank;
  - reflect the economic substance of transactions, other events and conditions, and not merely the legal form;
  - are neutral, i.e. free from bias;
  - are prudent;
  - are complete in all material respects.

When exercising the aforementioned judgement, the Board of Directors of the Bank has made reference to and considered the applicability of the following sources, described in descending order of importance:

- the provisions and application guidelines contained in the Standards and Interpretations governing similar or related cases;
- the definitions, recognition criteria and measuring concepts for accounting for the assets, liabilities, revenue, and costs contained in the "Framework".

When expressing an opinion, the Board of Directors may also consider the most recent provisions issued by other bodies that rule on accounting standards that use a similar "Framework" in concept for developing accounting standards, other accounting literature and consolidated practices in the sector.

In accordance with art. 5 of Legislative Decree no. 38 of 28 February 2005, if, in exceptional cases, the application of a provision imposed by the IFRS were incompatible with the true and fair representation of the financial position or results of operations, the provision would not apply. The justifications for any exceptions and their influence on the presentation of the financial position and results of operations would be explained in the Notes to the financial statements.

Any profits resulting from the exception would be recognised in a non-distributable reserve if they did not correspond to the recovered amount in the financial statements. However, no exceptions to the IFRS were applied.

The financial statements were audited by BDO Italia S.p.A.

SECTION 2 - General basis of preparation

The financial statements are drawn up with clarity and give a true and fair view of the financial position, profit or loss, cash flows, and changes in equity and comprise the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes to the financial statements.

The financial statements are accompanied by the

Directors' Report on the Bank's performance.

If the information required by the IFRS and provisions contained in Circular no. 262 of 22 December 2005 and/or the subsequent updates issued by the Bank of Italy are not sufficient to give a true and fair view that is relevant, reliable, comparable and understandable, the notes to the financial statements provide the additional information required. For the sake of completeness, please note that this financial report also considers the interpretation and supporting documents regarding the application of accounting standards, including those issued in connection with the Covid-19 pandemic, as well as those issued by European regulatory and supervisory bodies and standard setters.

The general principles that underlie the drafting of the financial statements are set out below:

- the measurements are made considering that the bank will continue as a going concern, where it is stated that the Directors have not identified any uncertainties that could cast doubt in this respect;
- costs and income are accounted for on an accruals basis;
- to ensure the comparability of the data and information in the financial statements and the notes to the financial statements, the methods of presentation and classification are kept constant over time unless they are changed to present the data more appropriately;
- each material class of similar items is presented separately in the statement of financial position and income statement; items of a dissimilar nature or function are presented separately unless they are considered immaterial;
- items that have nil balances at year end or for the financial year or for the previous year are not indicated in the statement of financial position or the income statement;
- if an asset or liability comes under several items in the statement of financial position, the notes to the financial statements make reference to the other items under which it is recognised if it is necessary for a better understanding of the financial statements;
- the items are not offset against one another unless it is expressly requested or allowed by an IFRS or an interpretation or the provisions of the aforementioned Circular no. 262 of 22 December 2005 as amended by the Bank of Italy;
- the financial statements are drafted by favouring substance over form and in accordance with the principle of materiality and significance of the information;
- comparative data for the previous financial year are presented for each statement of financial position and income statement item; if the items are not comparable to those of the previous year, they are adapted and the non-comparability and adjustment/or impossibility thereof are indicated and commented on in the notes to the financial statements;
- the layout recommended by the Bank of Italy was used with reference to the information reported in the notes to the financial statements; the tables included in this layout were not presented if they were not applicable to the Group's business.

Within the scope of drawing up the financial statements in accordance with the IFRS, bank management must make assessments, estimates and assumptions that influence the amounts of the assets, liabilities, costs and income recognised during the year.

The use of estimates is essential to preparing the financial statements. In particular, the most significant use of estimates and assumptions in the financial statements can be attributed to:

- the valuation of loans and receivables with customers: the acquisition of performing receivables from companies that supply goods and services represents the Bank's main activity. Estimating the value of these receivables is a complex activity with a high degree of uncertainty and subjectivity. Their value is estimated by using models that include numerous quantitative and qualitative elements. These include the historical data for collections, expected cash flows and the related expected recovery times, the existence of indicators of possible impairment, the valuation of any guarantees, and the impact of risks associated with the sectors in which the Bank's customers operate;
- the valuation of default interest pursuant to

Legislative Decree no. 231 of 9 October 2002 on performing receivables acquired without recourse: estimating the expected recovery percentages of default interest is complex, with a high degree of uncertainty and subjectivity. Internally developed valuation models are used to determine these percentages, which take numerous qualitative and quantitative elements into consideration;

- the estimate related to the possible impairment losses on goodwill and equity investments recognised in the financial statements;
- the quantification and estimate made for recognising liabilities in the provision for risks and charges, the amount or timing of which are uncertain;
- the recoverability of deferred tax assets.

It should be noted that an estimate may be adjusted following a change in the circumstances upon which it was formed, or if there is new information or more experience. Any changes in estimates are applied prospectively and therefore will have an impact on the income statement for the year in which the change takes place.

Pursuant to the provisions of art. 5 of Legislative Decree no. 38 of 28 February 2005, the financial statements use the Euro as the currency for accounting purposes. The financial statements are expressed in thousands of Euro. Unless otherwise stated, the notes to the financial statements are expressed in thousands of Euro. Any discrepancies between the figures shown in the Directors' Report and in the Consolidated Financial Statements and between the tables in the Notes to the Consolidated Financial Statements are due exclusively to rounding.

It should also be noted that in applying IAS 8 (paras. 41-49), in order to provide a true and fair view of the financial statements, it was necessary to reclassify the AT1 instruments previously classified under item 10 “Financial liabilities measured at amortised cost, c) securities issued”, to item 140 “Equity instruments” resulting in the reclassification of the income component previously recognised in the income statement from “Profit for the year” to “Reserves”. The impact on the items of the comparative statements for the 2020 financial year is shown below:

Statement of Financial Position In thousands of Euro	31.12.2020 before restatement	Reclassification	31.12.2020 after restatement
10. c) securities issued	248,338	(8,000)	240,338
130. Equity instruments	-	8,000	8,000
150. Reserves	122,608	(376)	122,232
200. Profit for the year	25,777	376	26,153

Income statement In thousands of Euro	2020 before restatement	Reclassification	2020 after restatement
20. Interest and similar expense	(26,796)	561	(23,235)
300. Income taxes	(11,008)	(186)	(11,194)
350. Profit for the year attributable to the owners of the parent	25,777	376	26,153

Regarding the regulatory developments in the IAS/IFRS, below are the new documents issued by the IASB to be mandatorily adopted for financial statements covering periods beginning on or after 1 January 2021:

REGULATION (EU)	TITLE
2021/25 of 14 January 2021	Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)
2021/1421 of 31 August 2021	Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)
2020/2097 of 16 December 2020	Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)

The introduction of the Regulations listed above had no significant impact.

The table below sets out the new EU-endorsed international financial reporting standards applicable to financial statements covering periods beginning after 1 January 2021.

REGULATION (EU)	TITLE
2021/1080 of 2 July 2021	Annual Improvements to IFRS Standards (2018-2020 Cycle) [Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41]
2021/1080 of 2 July 2021	Property, Plant and Equipment - Proceeds before Intended Use (Amendments to IAS 16)
2021/1080 of 2 July 2021	Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37)
2021/1080 of 2 July 2021	Reference to the Conceptual Framework (Amendments to IFRS 3)
2021/2036 of 23 November 2021	IFRS 17 - Insurance Contracts (including amendments issued in June 2020)

SECTION 3 - Scope and methods of consolidation

The consolidated financial statements include the Parent, Banca Sistema S.p.A., and the companies directly or indirectly controlled by or connected with it.

The following statement shows the investments included within the scope of consolidation.

	Registered office	Type of Relationship (1)	Investment		
			Investing company	% held	% of votes available (2)
Companies					
Subject to full consolidation					
S.F. Trust Holdings Ltd	**UK**	**1**	**Banca Sistema**	**100%**	**100%**
Largo Augusto Servizi e Sviluppo S.r.l.	**Italy**	**1**	**Banca Sistema**	**100%**	**100%**
ProntoPegno S.p.A.	**Italy**	**1**	**Banca Sistema**	**75%**	**75%**
EBNSISTEMA Finance S.L.	**Spain**	**7**	**Banca Sistema**	**50%**	**50%**
BS IVA SPV S.R.L.	**Italy**	**1**	**Banca Sistema**	**100%**	**100%**

Key:
(1) Type of relationship.
1. = majority of voting rights at the ordinary Shareholders' Meeting
2. = a dominant influence in the ordinary Shareholders' Meeting
3. = agreements with other shareholders
4. = other forms of control
5. = unitary management as defined in Art. 26, paragraph 1 of 'Legislative Decree 87/92'
6. = unitary management as defined in Art. 26, paragraph 2 of 'Legislative Decree 87/92'
7. = joint control (2) Available voting rights at the ordinary Shareholders' Meeting, with separate indication of effective and potential rights

The scope of consolidation also includes the following special purpose securitisation vehicles whose receivables are not subject to derecognition:

- Quinto Sistema Sec. 2019 S.r.l.
- Quinto Sistema Sec. 2017 S.r.l.

Changes in the scope of consolidation

Compared to the situation in the previous year, the scope of consolidation has not changed. The liquidation of S.F. Trust Holdings Ltd was approved and it is therefore included among the assets held for sale.

Full consolidation method

The investments in subsidiaries are consolidated using the full consolidation method. The concept of control goes beyond owning a majority of the percentage of stakes in the share capital of the subsidiary and is defined as the power of determining the management and financial policies of said subsidiary to obtain benefits from its business.

Full consolidation provides for line-by-line aggregation of the statement of financial position and income statement aggregates from the accounts of the subsidiaries. To this end, the following adjustments were made:

- the carrying amount of the investments held by the Parent and the corresponding part of the equity are eliminated;
- the portion of equity and profit or loss for the year is shown in a specific caption.

The results of the above adjustments, if positive, are shown - after allocation to the assets or liabilities of the subsidiary - as goodwill in item "100 Intangible Assets" on the date of initial consolidation. The resulting differences, if negative, are recognised in the income statement. Intra-group balances and transactions, including income, costs and dividends, are entirely eliminated. The financial results of a subsidiary acquired during the financial year are included in the consolidated financial statements from the date of acquisition. At the same time, the financial results of a transferred subsidiary are included in the consolidated financial statements up to the date on which the subsidiary is transferred. The accounts used in the preparation of the consolidated financial statements are drafted on the same date. The consolidated financial statements were drafted using consistent accounting standards for similar transactions and events. If a subsidiary uses accounting standards different from those adopted in the consolidated financial statements for similar transactions and events in similar circumstances, adjustments are made to the financial position for consolidation purposes. Detailed information with reference to art. 89 of Directive 2013/36/EU of the European Parliament and Council (CRD IV) is published at the link www.bancasistema.it/pillar3

Consolidation at equity

Associates and joint ventures are consolidated at equity.

The equity method provides for the initial recognition of the investment at cost and subsequent adjustment based on the relevant share of the investee's equity.

The differences between the value of the equity investment and the equity of the relevant investee are included in the carrying amount of the investee.

In the valuation of the relevant share, any potential voting rights are not taken into consideration.

The relevant share of the annual results of the investee is shown in a specific item of the consolidated income statement.

If there is evidence that an equity investment may be impaired, the recoverable value of said equity investment is estimated by considering the present value of future cash flows that the investment could generate, including the final disposal value of the investment. Should the recoverable value prove lower than the carrying amount, the difference is recognised in the income statement.

SECTION 4 - Subsequent events

With regard to IAS 10, it should be noted that no events occurred between the end of the financial year and the date of preparation of the consolidated financial statements that would require an adjustment to the figures presented therein.

SECTION 5 - Other aspects

With reference to the risks, uncertainties and effects of the COVID-19 pandemic, given the type of activities carried out by the Group, for the moment no significant impacts have been identified, particularly with regard to the valuations and items subject to estimates, where consideration has been given, insofar as can currently be estimated, to the impact of the pandemic on future forward-looking scenarios. However, the situation is being continuously monitored and any impacts not yet evident will be reflected, if necessary, in the estimated recoverable value of the financial assets.

Finally, it should be noted that, following the issuance of the 7th update of Bank of Italy Circular no. 262/2005, the figures for items 10 and 40 a) of the asset side of the statement of financial position for the 2020 financial year were reclassified to take into account the recognition in item 10 of all "demand" receivables in the form of current and deposit accounts with banks and central banks starting from the financial statements as at 31 December 2021, in accordance with the provisions of IAS 1.40.

There are no other significant aspects to note.

A.2 - INFORMATION ON THE MAIN ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

Financial assets measured at fair value through profit or loss

Classification criteria

Financial assets other than those classified as Financial assets measured at fair value through other comprehensive income and Financial assets measured at amortised cost are classified in this category. In particular, this item includes:

- financial assets held for trading;
- equity instruments, except for the possibility of their being classified in the new category Financial assets measured at fair value through other comprehensive income, excluding the possibility of subsequent reclassification to profit or loss;
- financial assets mandatorily measured at fair value, and which have not met the requirements to be measured at amortised cost;
- financial assets that are not held under a Held to Collect (or "HTC") business model or as part of a mixed business model, whose aim is achieved by collecting the contractual cash flows of financial assets held in the Bank's portfolio or also through their sale, when this is an integral part of the strategy ("Held to Collect and Sell" business model);
- financial assets designated at fair value, i.e. financial assets that are defined as such upon initial recognition and when the conditions apply. For this type of financial assets, upon recognition an entity may irrevocably recognise a financial asset as measured at fair value through profit or loss only if this eliminates or significantly reduces a measurement inconsistency;
- derivative instruments, which shall be recognised as financial assets held for trading if their fair value is positive and as liabilities if their fair value is negative. Positive and negative values may be offset only for transactions executed with the same counterparty if the holder currently holds the right to offset the amounts recognised in the books and it is decided to settle the offset positions on a net basis. Derivatives also include those embedded in complex financial contracts – where the host contract is a financial liability which has been recognised separately.

Except for the equity instruments which cannot be reclassified, financial assets may be reclassified to other categories of financial assets only if the entity changes its own business model for management of the financial assets. In such cases, which are expected to be absolutely infrequent, the financial assets may be reclassified from those measured at fair value through profit or loss to one of the other two categories established by IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at fair value through other comprehensive income). The transfer value is the fair value at the time of the reclassification and the effects of the reclassification apply prospectively from the reclassification date. In this case, the effective interest rate of the reclassified financial asset is determined based on its fair value at the reclassification date and that date is considered as the initial recognition date for the credit risk stage assignment for impairment purposes.

Recognition criteria

Initial recognition of financial assets occurs at the settlement date for debt instruments and equity instruments, at the disbursement date for loans and at the subscription date for derivative contracts.

On initial recognition, financial assets measured at fair value through profit or loss are recognised at fair value, without considering transaction costs or income directly attributable to the instrument.

Measurement and recognition criteria for income components

After initial recognition, the financial assets measured at fair value through profit or loss are recognised at fair value. The effects of the application of this measurement criterion are recognised in the income statement. For the determination of the fair value of financial instruments quoted on active markets, market quotations are used. If the market for a financial instrument is not active, standard practice estimation methods and measurement techniques are used which consider all the risk factors correlated to the instruments and that are based on market elements such as: measurement of quoted instruments with the same characteristics, calculation of discounted cash flows, option pricing models, recent comparable transactions, etc.. For equity and derivative instruments that have equity instruments as underlying assets, which are not quoted on an active market, the cost approach is used as the estimate of fair value only on a residual basis and in a small number of circumstances, i.e., when all the measurement methods referred to above cannot be applied, or when there are a wide range of possible measurements of fair value, in which cost represents the most significant estimate.

In particular, this item includes:

- debt instruments held for trading;
- equity instruments held for trading.

For more details on the methods of calculating the fair value please refer to the paragraph below "Criteria for determining the fair value of financial instruments".

Derecognition criteria

Financial assets are derecognised when the contractual rights on the cash flows deriving from the assets expire, or in the case of a transfer, when the same entails the substantial transfer of all risks and rewards related to the financial assets.

Financial assets measured at fair value through other comprehensive income (FVOCI)

Classification criteria

This category includes the financial assets that meet both the following conditions:

- financial assets that are held under a business model whose aim is achieved both through the collection of contractual cash flows and through sale (“Held to Collect and Sell” business model);
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (“SPPI Test” passed).

This item also includes equity instruments, not held for trading, for which the option was exercised upon initial recognition of their designation at fair value through other comprehensive income.

In particular, this item includes:

- debt instruments that can be attributed to a Held to Collect and Sell business model and that have passed the SPPI test;
- equity interests, that do not qualify as investments in subsidiaries, associates or joint ventures and are not held for trading, for which the option has been exercised of their designation at fair value through other comprehensive income.

Except for the equity instruments which cannot be reclassified, financial assets may be reclassified to other categories of financial assets only if the entity changes its own business model for management of the financial assets.

In such cases, which are expected to be absolutely infrequent, the financial assets may be reclassified from those measured at fair value through other comprehensive income to one of the other two categories established by IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at fair value through profit or loss). The transfer value is the fair value at the time of the reclassification and the effects of the reclassification apply prospectively from the reclassification date. In the event of reclassification from this category to the amortised cost category, the cumulative gain (loss) recognised in the valuation reserve is allocated as an adjustment to the fair value of the financial asset at the reclassification date. In the event of reclassification to the fair value through profit or loss category, the cumulative gain (loss) previously recognised in the valuation reserve is reclassified from equity to profit (loss).

Recognition criteria

Initial recognition of the financial assets is at the date of disbursement, based on their fair value including the transaction costs/income directly attributable to the acquisition of the financial instrument. Costs/income having the previously mentioned characteristics that will be repaid by the debtor or that can be considered as standard internal administrative costs are excluded.
The initial fair value of a financial instrument is usually the cost incurred for its acquisition.

Measurement and recognition criteria for income components

Following initial recognition, financial assets are measured at their fair value with any gains or losses resulting from a change in the fair value compared to the amortised cost recognised in a specific equity reserve recognised in the statement of comprehensive income up until said financial asset is derecognised or an impairment loss is recognised.
For more details on the methods of calculating the fair value please refer to paragraph 17.3 below "Criteria for determining the fair value of financial instruments".
Equity instruments, for which the choice has been made to classify them in this category, are measured at fair value and the amounts recognised in other comprehensive income cannot be subsequently transferred to profit or loss, not even if they are sold (the so-called OCI exemption). The only component related to these equity instruments that is recognised through profit or loss is their dividends. Fair value is determined on the basis of the criteria already described for Financial assets measured at fair value through profit or loss.
For the equity instruments included in this category, which are not quoted on an active market, the cost approach is used as the estimate of fair value only on a residual basis and in a small number of circumstances, i.e., when all the measurement methods referred to above cannot be applied, or when there are a wide range of possible measurements of fair value, in which cost represents the most significant estimate.
Financial assets measured at fair value through other comprehensive income are subject to the verification of the significant increase in credit risk (impairment) required by IFRS 9, with the consequent recognition through profit or loss of an impairment loss to cover the expected losses.

Derecognition criteria

Financial assets are derecognised when the contractual rights on the cash flows deriving from the assets expire, or in the case of a transfer, when the same entails the substantial transfer of all risks and rewards related to the financial assets.

Financial assets measured at amortised cost

Classification criteria

This category includes the financial assets that meet both the following conditions:

- the financial asset is held under a business model whose objective is achieved through the collection of expected contractual cash flows (Held to Collect business model);
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI Test" passed).

In particular, this item includes:

- loans and receivables with banks;
- loans and receivables with customers;
- debt instruments.

Except for the equity instruments which cannot be reclassified, financial assets may be reclassified to other categories of financial assets only if the entity changes its own business model for management of the financial assets. In such cases, which are expected to be absolutely infrequent, the financial assets may be reclassified from the amortised cost category to one of the other two categories established by IFRS 9 (Financial assets measured at fair value through other comprehensive income or Financial assets measured at fair value through profit or loss). The transfer value is the fair value at the time of the reclassification and the effects of the reclassification apply prospectively from the reclassification date. Gains and losses resulting from the difference between the amortised cost of a financial asset and its fair value are recognised through profit or loss in the event of reclassification to Financial assets measured at fair value through profit or loss and under equity, in the specific valuation reserve, in the event of reclassification to Financial assets measured at fair value through other comprehensive income.

Recognition criteria

Initial recognition of a receivable is at the date of disbursement based on its fair value including the costs/income of the transaction directly attributable to the acquisition of the receivable.

Costs/income having the previously mentioned characteristics that will be repaid by the debtor or that can be considered as standard internal administrative costs are excluded.

The initial fair value of a financial instrument is usually equivalent to the amount granted or the cost incurred by the acquisition.

Measurement and recognition criteria for income components

Following initial recognition, loans and receivables with customers are stated at amortised cost, equal to the initial recognition amount reduced/increased by principal repayments, by impairment losses/gains and the amortisation - calculated on the basis of the effective interest rate - of the difference between the amount provided and that repayable at maturity, usually the cost/income directly attributed to the individual loan.

The effective interest rate is the rate that discounts future payments estimated for the expected duration of the loan, in order to obtain the exact carrying amount at the time of initial recognition, which includes both the directly attributable transaction costs/income and all of the fees paid or received between the parties. This accounting method, based on financial logic, enables the economic effect of costs/income to be spread over the expected residual life of the receivable.

The measurement criteria are strictly connected with the stage to which the receivable is assigned, where stage 1 contains performing loans, stage 2 consists of under-performing loans, i.e. loans that have undergone a significant increase in credit risk ("significant deterioration") since the initial recognition of the instrument, and stage 3 consists of non-performing loans, i.e. the loans that show objective evidence of impairment.

The impairment losses recognised through profit or loss for the performing loans classified in stage 1 are calculated by considering an expected loss at one year, while for the performing loans in stage 2 they are calculated by considering the expected losses over the entire residual contractual lifetime of the asset (Lifetime Expected Loss). The performing financial assets are measured according to probability of default (PD), loss given default (LGD) and exposure at default (EAD) parameters, derived from internal historical series. For impaired assets, the amount of the loss, to be recognised through profit or loss, is established based on individual measurement or determined according to uniform categories and, then, individually allocated to each position, and takes account of forward-looking information and possible alternative recovery scenarios. Impaired assets include financial instruments classified as bad exposures, unlikely-to-pay or past due/overdrawn by over ninety days according to the rules issued by the Bank of Italy, in line with the IFRS and EU Supervisory Regulations. The expected cash flows take into account the expected recovery times and the estimated realisable value of any guarantees. The original effective rate of each asset remains unchanged over time even if the relationship has been restructured with a variation of the contractual interest rate and even if the relationship, in practice, no longer bears contractual interest. If the reasons for impairment are no longer applicable following an event subsequent to the recognition of impairment, impairment gains are recognised in the income statement. The impairment gains may not in any case exceed the amortised cost that the financial instrument would have had in the absence of previous impairment losses. Impairment gains with time value effects are recognised in net interest income.

Derecognition criteria

Loans and receivables are derecognised from the financial statements when they are deemed totally unrecoverable or if transferred, when this entails the substantial transfer of all loan-related risks and rewards.

Hedging transactions

At the reporting date, the Bank had not made any *"Hedging transactions"*.

Equity investments

Classification criteria

This category includes equity investments in subsidiaries, associates, and joint ventures by Banca Sistema.

Recognition criteria

Equity investments are recognised in the financial statements at purchase cost plus any related charges.

Measurement criteria

In the consolidated financial statements, equity investments in subsidiaries are consolidated using the full line-by-line method. Equity investments in associates and joint ventures are both measured at equity. At the end of each financial year or interim report date, an assessment is performed to determine if any objective evidence exists that an investment has been impaired. The recoverable value is then calculated taking into account the present value of the future cash flows that the investment will be able to generate, including the final disposal value of the investment. Any lower value, compared to the carrying amount, resulting from this calculation is charged to the income statement under "250 Gains (losses) on equity investments". The item also includes any future impairment gains where the reasons for the previous impairment losses no longer apply.

Derecognition criteria

Equity investments are derecognised from the financial statements when the contractual rights to cash flows deriving from the investment are lost or when the investment is transferred, with the substantial transfer of all related risks and rewards. Gains and losses on the sale of equity investments are charged to the income statement under the item "240 Gains (losses) on equity investments"; gains and losses on the sale of investments other than those measured at equity are charged to the income statement under the item "280 Gains (losses) on sales of investments".

Property and equipment

Classification criteria

This item includes assets for permanent use, held to generate income, to be leased, or for administrative purposes, such as land, operating property, investment property, technical installations, furniture and fittings and equipment of any nature and works of art.

They also include leasehold improvements to third party assets if they can be separated from the assets in question. If the above costs do not display functional or usefulness-related autonomy, but future economic benefits are expected from them, they are recognised under "other assets" and are depreciated over the shorter period between that of expected usefulness of the improvements in question and the residual duration of the lease. Depreciation is recognised under "Other operating income (expense)".

Property and equipment also include payments on account for the purchase and renovation of assets not yet part of the production process and therefore not yet subject to depreciation.

"Operating" property and equipment are represented by assets held for the provision of services or for administrative purposes, while property and equipment held for "investment purposes" are those held to collect lease instalments and/or held for capital appreciation.

The item also includes rights of use associated with leased assets and fees for use.

Recognition criteria

Property and equipment are initially recognised at cost, including all costs directly attributable to installation of the asset.

Extraordinary maintenance costs and costs for improvements leading to actual improvement of the asset, or an increase in the future benefits generated by the asset, are attributed to the reference assets, and are depreciated based on their residual useful life.

Under IFRS 16, leases are accounted for in accordance with the right-of-use model, whereby, at the commencement date, the lessee incurs an obligation to make payments to the lessor for the right to use the underlying asset for the term of the lease. When the asset is made available for use by the lessee, the lessee recognises both the liability and the right-of-use asset.

Measurement criteria

Following initial recognition, "operating" property and equipment are recognised at cost, less accumulated depreciation, and any impairment losses, in line with the "cost model" illustrated in paragraph 30 of IAS 16. More specifically, property and equipment are systematically depreciated each year based on their estimated useful life, using the straight-line basis method apart from:

- land, regardless of whether this was purchased separately or was incorporated into the value of the building, which, insofar as it has an indefinite useful life, is not depreciated;
- works of art, which are not depreciated as their useful life cannot be estimated and their value typically appreciates over time;
- investment property which is recognised at fair value in accordance with IAS 40.

For assets acquired during the financial year, depreciation is calculated on a daily basis from the date of entry into use of the asset. For assets transferred and/or disposed of during the financial year, depreciation is calculated on a daily basis until the date of transfer and/or disposal.

At the end of each year, if there is any evidence that property or equipment that is not held for investment purposes may have suffered an impairment loss, a comparison is made between its carrying amount and its recoverable value, equal to the higher between the fair value, net of any costs to sell, and the related value in use of the asset, intended as the present value of future cash flows expected from the asset. Any impairment losses are recognised in the income statement under "net impairment losses on property and equipment".

If the reasons that led to recognition of the impairment loss cease to apply, an impairment gain is recognised that may not exceed the value that the asset would have had, net of depreciation calculated in the absence of previous impairment losses.

For investment property, which comes within the scope of application of IAS 40, the measurement is made at the market value determined using independent surveys and the changes in fair value are recognised in the income statement under the item "fair value gains (losses) on property, equipment and intangible assets".

The right-of-use asset, recognised in accordance with IFRS 16, is measured using the cost model under IAS 16 Property, plant and equipment. In this case, the asset is subsequently depreciated and tested for impairment if impairment indicators are present.

Derecognition criteria

Property and equipment is derecognised from the statement of financial position upon disposal thereof or when the asset is permanently withdrawn from use and no future economic benefit is expected from its disposal.

Intangible assets

Classification criteria

This item includes non-monetary assets without physical substance that satisfy the following requirements:

- they can be identified;
- they can be monitored;
- they generate future economic benefits.

In the absence of one of the above characteristics, the expense of acquiring or generating the asset internally is recognised as a cost in the year in which it was incurred.

Intangible assets include software to be used over several years and other identifiable assets generated by legal or contractual rights.

Goodwill is also included under this item, representing the positive difference between the acquisition cost and fair value of the assets and liabilities acquired as part of a business combination. Specifically, an intangible asset is recognised as goodwill when the positive difference between the fair value of the assets and liabilities acquired and the acquisition cost represents the future capacity of the equity investment to generate profit (goodwill). If this difference proves negative (badwill), or if the goodwill offers no justification of the capacity to generate future profit from the assets and liabilities acquired, it is recognised directly in the income statement.

Measurement criteria

Intangible assets are systematically amortised from the time of their input into the production process.
With reference to goodwill, on an annual basis (or when impairment is detected), an assessment test is carried out on the adequacy of its carrying amount. For this purpose, the cash-generating unit to which the goodwill is attributed, is identified. The amount of any impairment is determined by the difference between the goodwill carrying amount and its recoverable value, if lower. This recoverable value is equal to the higher amount between the fair value of the cash-generating unit, net of any costs to sell, and its value in use. As stated above, any consequent impairment losses are recognised in the income statement.

Derecognition criteria

An intangible asset is derecognised from the statement of financial position at the time of its disposal and if there are no expected future economic benefits.

Non-current assets held for sale and disposal groups

Non-current assets or groups of assets for which a disposal process has been initiated and whose sale is considered highly probable are classified under "Non-current assets held for sale and disposal groups". These assets are measured at the lower of their carrying amount and their fair value, net of disposal costs, with the exception of certain types of assets (e.g. financial assets falling within the scope of IFRS 9) for which IFRS 5 specifically requires that the measurement criteria of the relevant accounting standard be applied. Income and expenses (net of the tax effect) relating to groups of assets being disposed of or recognised as such during the year, are shown in the income statement as a separate item.

Financial liabilities measured at amortised cost

Classification criteria

This item includes Due to banks, Due to customers and Securities issued.

Recognition criteria

These financial liabilities are initially recognised when the deposits are received or when the debt instruments are issued. Initial recognition is based on the fair value of the liabilities, increased by the costs/income of the transaction directly attributable to the acquisition of the financial instrument.
Costs/income having the previously mentioned characteristics that will be repaid by the creditor or that can be considered as standard internal administrative costs are excluded.
The initial fair value of a financial liability is usually equivalent to the amount collected.

Measurement and recognition criteria for income components

After the initial recognition, the previously mentioned financial liabilities are measured at amortised cost with the effective interest rate method.

Derecognition criteria

The above financial liabilities are derecognised from the statement of financial position when they expire or when they are extinguished. They are derecognised also in the event of repurchase, even temporary, of the previously-issued securities. Any difference between the carrying amount of the extinguished liability and the amount paid is recognised in the income statement, under *"Gain (loss) from sales or repurchases of: financial liabilities"*. If the Group, subsequent to the repurchase, re-places its own securities on the market, said transaction is considered a new issue and the liability is recognised at the new placement price.

Financial liabilities held for trading

Classification and recognition criteria

In particular, this category of liabilities includes the liabilities originating from technical exposures deriving from security trading activities.
Financial instruments are recognised at the date of their

subscription or issue at a value equal to their fair value, without including any transaction costs or income directly attributable to the instruments themselves.

Measurement and recognition criteria for income components

The financial instruments are measured at fair value with recognition of the measurement results in the income statement.

Derecognition criteria

Financial liabilities held for trading are derecognised when the contractual rights on the related cash flows expire or when the financial liability is sold with a substantial transfer of all risks and rewards related to the liabilities.

Financial liabilities designated at fair value through profit or loss

At the reporting date, the Bank did not hold any *"Financial liabilities designated at fair value through profit or loss"*.

Current and deferred taxes

Income taxes, calculated in compliance with prevailing tax regulations, are recognised in the income statement on an accruals basis, in accordance with the recognition in the financial statements of the costs and income that generated them, apart from those referring to the items recognised directly in equity, where the recognition of the tax is made to equity in order to be consistent.

Income taxes are provided for on the basis of a prudential estimate of the current and deferred taxes. More specifically, deferred taxes are determined on the basis of the temporary differences between the carrying amount of assets and liabilities and their tax bases. Deferred tax assets are recognised in the financial statements to the extent that it is probable that they will be recovered based on the Group's ability to continue to generate positive taxable income.

Deferred tax assets and liabilities are accounted for in the statement of financial position with open balances and without offsetting entries, recognising the former under *"Tax assets"* and the latter under *"Tax liabilities"*.

With respect to current taxes, at the level of individual taxes, advances paid are offset against the relevant tax charge, indicating the net balance under *"current tax assets"* or *"current tax liabilities"* depending on whether it is positive or negative.

Provisions for risks and charges

In line with the requirements of IAS 37, provisions for risks and charges cover liabilities, the amount or timing of which is uncertain, related to current obligations (legal or implicit), owing to a past event for which it is likely that financial resources will be used to fulfil the obligation, on condition that an estimate of the amount required to fulfil said obligation can be made at the reporting date. Where the temporary deferral in sustaining the charge is significant, and therefore the extent of the discounting will be significant, provisions are discounted at current market rates.

The provisions are reviewed at the reporting date of the annual financial statements and the interim financial statements and adjusted to reflect the current best estimate. These are recognised under their own items in the income statement in accordance with a cost classification approach based on the *"nature"* of the cost. Provisions related to future charges for employed personnel relating to the bonus system appear under *"personnel expense"*. The provisions that refer to risks and charges of a tax nature are reported as *"income taxes"*, whereas the provisions connected to the risk of potential losses not directly chargeable to specific items in the income statement are recognised as *"net accruals to provisions for risks and charges"*.

Other information

Post-employment benefits

According to the IFRIC, the post-employment benefits can be equated with a post-employment benefit of the "defined-benefit plan" type which, based on IAS 19, is to be calculated via actuarial methods. Consequentially, the end of the year measurement of the item in question is made based on the accrued benefits method using the Projected Unit Credit Method.

This method calls for the projection of the future payments based on historical, statistical, and probabilistic analysis, as well as in virtue of the adoption of appropriate demographic fundamentals. It allows the post-employment benefits vested at a certain date to be calculated actuarially, distributing the expense for all the years of estimated remaining employment of the existing workers, and no longer as an expense to be paid if the company ceases its activity on the reporting date. The actuarial gains and losses, defined as the difference between the carrying amount of the liability and the present value of the obligation at year end, are recognised in equity. An independent actuary assesses the post-employment benefits in compliance with the method indicated above.

Repurchase agreements

"Repurchase agreements" that oblige the party selling the relevant assets (for example securities) to repurchase them in the future and the "securities lending" transactions where the guarantee is represented by cash, are considered equivalent to swap transactions and, therefore, the amounts received and disbursed appear in the financial statements as payables and receivables. In particular, the previously mentioned "repurchase agreements" and "securities lending" transactions are recognised in the financial statements as payables for the spot price received, while those for investments are recognised as receivables for the spot price paid. Such transactions do not result in changes in the securities portfolio. Consistently, the cost of funds and the income from the investments, consisting of accrued dividends on the securities and of the difference between the spot price and the forward price thereof, are recognised for the accrual period under interest in the income statement.

Criteria for determining the fair value of financial instruments

Fair value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants", at a specific measurement date, excluding forced transactions. Underlying the definition of fair value is a presumption that a company is a going concern without any intention or need to liquidate, to curtail materially the scale of its operations or to undertake a transaction on adverse terms.
In the case of financial instruments quoted in active markets, the fair value is determined based on the deal pricing (official price or other equivalent price on the last stock market trading day of the financial year of reference) of the most advantageous market to which the Group has access. For this purpose, a financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.
In the absence of an active market, the fair value is determined using measurement techniques generally accepted in financial practice, aimed at establishing what price the financial instrument would have had, on the valuation date, in a free exchange between knowledgeable and willing parties. Such measurement techniques require, in the hierarchical order in which they are presented, the use:

1. of the most recent NAV (Net Asset Value) published by the management investment company for the harmonised funds (UCITS - Undertakings for Collective Investment in Transferable Securities), the Hedge Funds and the SICAVs;
2. of the recent transaction prices observable in the markets;
3. of the price indications deducible from infoproviders (e.g., Bloomberg, Reuters);
4. of the fair value obtained from measurement models (for example, Discounting Cash Flow Analysis, Option Pricing Models) that estimate all the possible factors that influence the fair value of a financial instrument (cost of money, credit exposure, liquidity risk, volatility, foreign exchange rates, prepayment rates, etc.) based on data observable in the market, also with regards to similar instruments on the measurement date. If market data cannot be referenced for one or more risk factors, metrics internally determined on a historical-statistical basis are used. The measurement models are subject to periodic review to guarantee complete and constant reliability;
5. of the price indications provided by the counterparty

issuer adjusted if necessary to take into account the counterparty and/or liquidity risk (for example, the price resolved on by the Board of Directors and/or the Shareholders for the shares of unlisted cooperative banks, the unit value communicated by the management investment company for the closed-end funds reserved to institutional investors or for other types of OEICs other than those cited in paragraph 1, the redemption value calculated in compliance with the issue regulation for the insurance contracts);

6. for the equity-linked instruments, where the measurement techniques pursuant to the previous paragraphs are not applicable: i) the value resulting from independent surveys if available; ii) the value corresponding to the portion of equity held resulting from the company's most recently approved financial statements; iii) the cost, adjusted if necessary to take into account significant reductions in value, where the fair value cannot be reliably determined.

Based on the foregoing considerations and in compliance with the IFRS, the Group classifies the measurements at fair value based on a hierarchy of levels that reflects the significance of the inputs used in the measurements. The following levels are noted:

- **Level 1** - Prices (without adjustments) reported on an active market: the measurements of the financial instruments quoted on an active market based on quotations that can be understood from the market;
- **Level 2** - The measurement is not based on prices of the same financial instrument subject to measurement, but on prices or credit spreads obtained from the official prices of essentially similar instruments in terms of risk factors, by using a given calculation method (pricing model).

  The use of this approach translates to the search for transactions present on active markets, relating to instruments that, in terms of risk factors, are comparable with the instrument subject to measurement.

  The calculation methods (pricing models) used in the comparable approach make it possible to reproduce the prices of financial instruments quoted on active markets (model calibration) without including discretionary parameters - i.e. parameters whose value cannot be obtained from the prices of financial instruments present on active markets or cannot be fixed at levels as such to replicate prices present on active markets - which may influence the final valuation price in a decisive manner.
- **Level 3** - Inputs that are not based on observable market data: the measurements of financial instruments not quoted on an active market, based on measurement techniques that use significant inputs that are not observable on the market, involving the adoption of estimates and assumptions by management (prices supplied by the issuing counterparty, taken from independent surveys, prices corresponding to the fraction of the equity held in the company or obtained using measurement models that do not use market data to estimate significant factors that condition the fair value of the financial instrument). This level includes measurements of financial instruments at cost price.

Business combinations

A business combination is the bringing together of separate entities or businesses into one reporting entity. A business combination may give rise to an investment relationship between the parent (acquirer) and the subsidiary (acquiree). A business combination may also involve the purchase of the net assets, including any goodwill, of another entity rather than the purchase of the equity of the other entity (mergers and contributions). Based on the provisions of IFRS 3, business combinations must be accounted for by applying the purchase method, which comprises the following phases:

- identification of the acquirer;
- measurement of the cost of the business combination;
- allocation, at the acquisition date, of the cost of the business combination to the assets acquired and liabilities and contingent liabilities assumed.

More specifically, the cost of a business combination must be determined as the total fair value, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, in exchange for control of the acquiree, and all costs directly attributable to the business combination.

The acquisition date is the date on which control of the acquiree is effectively obtained. When this is achieved through a single exchange transaction, the date of exchange coincides with the acquisition date.

If the business combination is carried out through several exchange transactions:

- the cost of the combination is the aggregate cost of the individual transactions
- the date of exchange is the date of each exchange transaction (i.e. the date that each individual investment is recognised in the financial statements of the acquirer), whereas the acquisition date is the date on which control of the acquiree is obtained.

The cost of a business combination is allocated by recognising the acquiree's identifiable assets, liabilities and contingent liabilities at their fair values at the acquisition date.

The acquiree's identifiable assets, liabilities and contingent liabilities are recognised separately at the acquisition date only if they satisfy the following criteria at that date:

- in the case of an asset other than an intangible asset, it is probable that any associated future economic benefits will flow to the acquirer, and its fair value can be measured reliably;
- in the case of a liability other than a contingent liability, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and its fair value can be measured reliably;
- in the case of an intangible asset or a contingent liability, its fair value can be measured reliably.

The positive difference between the cost of the business combination and the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities must be accounted for as goodwill.

After the initial recognition, the goodwill acquired in a business combination is measured at the relevant cost and is submitted to an impairment test at least once a year.

If the difference is negative, a new measurement is made. This negative difference, if confirmed, is recognised immediately as income in the income statement.

A.3 - DISCLOSURE ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

A.3.1 Reclassified financial assets: change in business model, carrying amount and interest income

No financial instruments were transferred between portfolios.

A.3.2 Reclassified financial assets: change in business model, fair value and effects on comprehensive income

No financial assets were reclassified.

A.3.3 Reclassified financial assets: change in business model and effective interest rate

No financial assets held for trading were transferred.

A.4 - FAIR VALUE DISCLOSURE

QUALITATIVE DISCLOSURE

A.4.1 Fair value levels 2 and 3: valuation techniques and inputs used

Please refer to the accounting policies.

A.4.2 Processes and sensitivity of measurements

The carrying amount of financial assets and liabilities due within one year has been assumed to be a reasonable approximation of fair value, while for those due beyond one year, the fair value is calculated taking into account both interest rate risk and credit risk.

A.4.3 Fair value hierarchy

The following fair value hierarchy was used in order to prepare the financial statements:

- Level 1- Effective market quotes

  The valuation is the market price of said financial instrument subject to valuation, obtained on the basis of quotes expressed by an active market.
- Level 2 - Comparable Approach
- Level 3 - Mark-to-Model Approach

A.4.4 Other Information

The item is not applicable for the Group.

A.4.5 Fair value hierarchy

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

Financial assets/liabilities measured at fair value	31.12.2021			31.12.2020		
	L1	L2	L3	L1	L2	L3
1. Financial assets measured at fair value through profit or loss	-	-	-	-	-	-
a) financial assets held for trading	-	-	-	-	-	-
b) financial assets designated at fair value through profit or loss	-	-	-	-	-	-
c) other financial assets mandatorily measured at fair value through profit or loss	-	-	-	-	-	-
2. Financial assets measured at fair value through other comprehensive income	446,261	-	5,000	425,966	-	5,000
3. Hedging derivatives	-	-	-	-	-	-
4. Property and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
TOTAL	**446,261**	**-**	**5,000**	**425,966**	**-**	**5,000**
1. Financial liabilities held for trading	-	-	-	-	-	-
2. Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-

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

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

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis	31.12.2021				31.12.2020			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets measured at amortised cost	2,954,174	185,666	-	2,777,129	3,075,863	452,969	72,001	2,550,893
2. Investment property	-	-	-	-	-	-	-	-
3. Non-current assets held for sale and disposal groups	-	-	-	-	-	-	-	-
TOTAL	**2,954,174**	**185,666**	**-**	**2,777,129**	**3,075,863**	**452,969**	**72,001**	**2,550,893**
1. Financial liabilities measured at amortised cost	3,257,401	-	-	3,257,401	3,274,230	-	-	3,274,230
2. Liabilities associated with disposal groups	-	-	-	-	-	-	-	-
TOTAL	**3,257,401**	**-**	**-**	**3,257,401**	**3,274,230**	**-**	**-**	**3,274,230**

Key:
CA = carrying amount
L1 = Level 1
L2 = Level 2
L3 = Level 3

A.5 DISCLOSURE CONCERNING "DAY ONE PROFIT/LOSS"

Nothing to report.

PART B - INFORMATION ON THE STATEMENT OF FINANCIAL POSITION

ASSETS

SECTION 1 - CASH AND CASH EQUIVALENTS - ITEM 10

1.1 Cash and cash equivalents: breakdown

	31.12.2021	31.12.2020
a. Cash	1,626	1,930
b. Demand deposits with Central Banks	108,965	25,057
c. Current and deposit accounts with banks	65,244	41,871
TOTAL	**175,835**	**68,858**

Effective 31 December 2021, all "demand" receivables in the form of current and deposit accounts with banks, which were previously classified under item 40, are to be classified under item 10. Therefore, the figures as at 31 December 2020 have been reclassified.

SECTION 3 - FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - ITEM 30

	31.12.2021			31.12.2020		
	L1	L2	L3	L1	L2	L3
1. Debt instruments	**445,804**	**-**	**-**	**425,348**	**-**	**-**
1.1 Structured instruments	-	-	-	-	-	-
1.2 Other debt instruments	445,804	-	-	425,348	-	-
2. Equity instruments	**457**	**-**	**5,000**	**618**	**-**	**5,000**
3. Financing	**-**	**-**	**-**	**-**	**-**	**-**
Total	**446,261**	**-**	**5,000**	**425,966**	**-**	**5,000**

3.2 Financial assets measured at fair value through other comprehensive income: breakdown by debtor/issuer

	31.12.2021	31.12.2020
1. Debt instruments	**445,804**	**425,348**
a. Central Banks	-	-
b. Public administrations	445,804	425,348
c. Banks	-	-
d. Other financial companies	-	-
of which: insurance companies	-	-
e. Non-financial companies	-	-
2. Equity instruments	**5,457**	**5,618**
a. Banks	5,000	5,000
b. Other issuers:	457	618
- other financial companies	457	618
of which: insurance companies	-	-
- non-financial companies	-	-
- other	-	-
4. Financing	**-**	**-**
a. Central Banks	-	-
b. Public administrations	-	-
c. Banks	-	-
d. Other financial companies	-	-
of which: insurance companies	-	-
e. Non-financial companies	-	-
f. Households	-	-
Total	**451,261**	**430,966**

3.3 Financial assets measured at fair value through other comprehensive income: gross amount and total impairment losses

	Gross amount					Total impairment losses				Overall partial write-offs (*)
	First stage	of which instruments with low credit risk	Second stage	Third stage	Purchased or originated credit-impaired	First stage	Second stage	Third stage	Purchased or originated credit-impaired	
Debt instruments	445,982	445,982	-	-	-	178	-	-	-	-
Financing	-	-	-	-	-	-	-	-	-	-
Total at 31.12.2021	**445,982**	**445,982**	-	-	-	**178**	**-**	**-**	-	-
Total at 31.12.2020	**425,554**	**425,554**	-	-	-	**206**	**-**	**-**	-	-

SECTION 4 - FINANCIAL ASSETS MEASURED AT AMORTISED COST - ITEM 40

4.1 Financial assets measured at amortised cost: breakdown by product of the loans and receivables with banks

	31.12.2021						31.12.2020					
	Carrying amount			Fair Value			Carrying amount			Fair Value		
	First and second stage	Third stage	Purchased or originated credit-impaired	L1	L2	L3	First and second stage	Third stage	Purchased or originated credit-impaired	L1	L2	L3
A. Loans and receivables with Central Banks	**18,319**	**-**	**-**			**18,319**	**15,213**	**-**	**-**			**15,213**
1. Term deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Minimum reserve	18,319	-	-	X	X	X	15,213	-	-	X	X	X
3. Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	-	-	-	X	X	X	0	-	-	X	X	X
B. Loans and receivables with banks	**15,092**	**-**	**-**			**15,092**	**10,340**	**-**	**-**			**10,340**
1. Financing	15,092	-	-			15,092	10,340	-	-			10,340
1.1 Current accounts and demand deposits	81	-	-	X	X	X	184	-	-	X	X	X
1.2. Term deposits	-	-	-	X	X	X	3,129	-	-	X	X	X
1.3. Other financing:	15,011	-	-	X	X	X	7,027	-	-	X	X	X
- Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
- Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
- Other	15,011	-	-	X	X	X	7,027	-	-	X	X	X
2.Debt instruments	**-**	**-**	**-**	**X**	**X**	**-**	**-**	**-**	**-**			**-**
2.1 Structured instruments	-	-	-	X	X	-	-	-	-			-
2.2 Other debt instruments	-	-	-	X	X	-	-	-	-			-
Total	**33,411**	**-**	**-**			**33,411**	**25,553**	**-**	**-**			**25,553**

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

4.2 Financial assets measured at amortised cost: breakdown by product of the loans and receivables with customers

	31.12.2021						31.12.2020					
	Carrying amount			Fair Value			Carrying amount			Fair Value		
	First and second stage	Third stage	Purchased or originated credit-impaired	L1	L2	L3	First and second stage	Third stage	Purchased or originated credit-impaired	L1	L2	L3
1. Financing	**2,481,170**	**255,552**	**-**	-	**-**	**2,736,722**	**2,397,310**	**173,437**	**31,699**	**-**	**-**	**2,568,889**
1.1 Current accounts	538	47	-	X	X	X	15,296	239	-	X	X	X
1.2 Reverse repurchase agreements	-	-	-	X	X	X	5,546	-	-	X	X	X
1.3 Loans	160,363	425	-	X	X	X	70,553	1,290	-	X	X	X
1.4 Credit cards, personal loans and salary- and pension-backed loans	909,921	11,068	-	X	X	X	913,311	7,880	-	X	X	X
1.5. Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
1.6 Factoring	995,912	230,176	-	X	X	X	949,547	147,746	31,699	X	X	X
1.7 Other financing	414,436	13,836	-	X	X	X	443,057	16,282	-	X	X	X
2. Debt instruments	**184,041**	**-**	**-**	**182,885**	**X**	**X**	**447,864**	**-**	**-**	**452,969**	**72,001**	-
2.1 Structured instruments	-	-	-	-	X	X	-	-	-	-	-	-
2.2 Other debt instruments	184,041	-	-	182,885	X	X	447,864	-	-	452,969	72,001	-
Total	**2,665,211**	**255,552**	**-**	**182,885**	**X**	**2,736,722**	**2,845,174**	**173,437**	**31,699**	**452,969**	**72,001**	**2,568,889**

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

Financing includes € 1.5 billion in loans and receivables of companies that supply goods and services mainly to the Public Administration (ASL – local health authorities – and Territorial Entities) and receivables related to the pension and salary-backed loans segment. These receivables include € 51.5 million attributable to the estimated default interest based on the current accounting model used.

For classification purposes analyses are performed, some of which are complex, aimed at identifying positions which, subsequent to disbursement/acquisition, show evidence of possible impairment based on both internal information, associated with the performance of credit positions, and external information, associated with the specific sector in question.

Measuring loans and receivables with customers is an activity with a high degree of uncertainty and subjectivity involving the use of measurement models that take into account numerous quantitative and qualitative elements. These include the historical data for collections, expected cash flows and the related expected recovery times, the existence of indicators of possible impairment, the valuation of any guarantees, and the impact of risks associated with the sectors in which the Bank's customers operate.

Subsequent to their recognition, factoring receivables are measured at amortised cost, based on the present value of the estimated cash flows of the principal, or for all receivables whose recovery strategy involves legal action, based on the present value of the cash flows, in addition to the principal, of the default interest component that will accrue up to the expected date of collection on amounts considered recoverable.

As a matter of prudence, given the limited amount of historical data available, the recovery percentages used for territorial entities and the public sector (statistical series starting from 2008) are based on a confidence interval of the twentieth percentile, while for ASL - local health authorities (statistical series starting from 2005) a confidence interval of the fifth percentile is used. The estimated recovery percentages and expected collection dates are updated based on annual analyses in light of the progressive consolidation of the historical data series, which provide increasingly solid and robust estimates. In the third quarter of 2021, the expected rates of recovery of default interest on factoring, in light of the statistical evidence that benefits from the progressive consolidation of the historical data series, have increased, as have the related collection times used. The update of these estimates led to a decrease in interest income of € 0.3 million (compared to an increase of € 1.0 million at 31 December 2020). This effect is a consequence of the fact that the historical series over the last few years have settled nearer to the average collection percentages and have stabilised in terms of the number of positions. As a result, the expected recovery percentage calculated by the statistical model is now quite stable and does not fluctuate significantly. The amount of the stock of default interest from legal actions accrued at 31 December 2021, relevant for the allocation model, was € 99 million (€ 98 million at the end of 2020), which becomes € 169 million when including default interest related to positions with troubled local authorities, a component for which default interest is not allocated in the financial statements. Therefore, the amount of default interest accrued but not recognised in the income statement is € 117 million.

Securities are mainly composed of Italian government securities with an average duration of 30.9 months and for an amount of € 184 million. The mark-to-market valuation of the securities at 31 December 2021 shows a pre-tax unrealised gain of € 1.6 million.

4.3 Financial assets measured at amortised cost: breakdown by debtor/issuer of the loans and receivables with customers

	31.12.2021			31.12.2020		
	First and second stage	Third stage	Purchased or originated credit-impaired	First and second stage	Third stage	Purchased or originated credit-impaired
1. Debt instruments	**184,041**	**-**	**-**	**447,864**	**-**	**-**
a) Public administrations	184,041	-	-	447,864	-	-
b) Other financial companies	-	-	-	-	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	-	-	-	-	-	-
2. Financing to:	**2,481,170**	**255,552**	**-**	**2,397,310**	**173,437**	**31,699**
a) Public administrations	940,190	208,863	-	1,031,084	110,584	31,699
b) Other financial companies	20,876	1	-	52,316	7	-
of which: insurance companies	9	-	-	9	5	-
c) Non-financial companies	475,716	32,825	-	285,716	52,334	-
d) Households	1,044,388	13,863	-	1,028,194	10,512	-
Total	**2,665,211**	**255,552**	**-**	**2,845,174**	**173,437**	**31,699**

4.4 Financial assets measured at amortised cost: gross amount and total impairment losses

	Gross amount					Total impairment losses				Overall partial write-offs (*)
	First stage	of which instruments with low credit risk	Second stage	Third stage	Purchased or originated credit-impaired	First stage	Second stage	Third stage	Purchased or originated credit-impaired	
Debt instruments	184,113	181,333	-	-	-	72	-	-	-	-
Financing	2,418,529	837,219	102,864	315,070	1	6,252	560	59,519	-	-
Total at 31.12.2021	**2,602,642**	**1,018,552**	**102,864**	**315,070**	**1**	**6,324**	**560**	**59,519**	**-**	**-**
Total at 31.12.2020	**2,744,065**	**1,424,756**	**113,900**	**239,055**	**32,403**	**6,751**	**610**	**45,494**	**704**	**-**

4.4a Loans measured at amortised cost subject to Covid-19 support measures: gross amount and total impairment losses

	Gross amount					Total impairment losses				Overall partial write-offs (*)
	First stage	of which instruments with low credit risk	Second stage	Third stage	Purchased or originated credit-impaired	First stage	Second stage	Terzo stadio	Purchased or originated credit-impaired	
1. Forborne loans in compliance with the EBA Guidelines	1,039	-	2,507	5,761	-	33	12	1,325	-	-
2. Loans subject to existing moratoria no longer in compliance with the EBA Guidelines and not considered forborne	-	-	-	-	-	-	-	-	-	-
3. Loans subject to other forbearance measures	-	-	-	-	-	-	-	-	-	-
4. New loans	156,627	-	-	-	-	380	-	-	-	-
Total at 31.12.2021	**157,666**	**-**	**2,507**	**5,761**	**-**	**413**	**12**	**1,325**	**-**	**-**
Total at 31.12.2020	**69,289**	**-**	**2,507**	**5,896**	**-**	**315**	**9**	**851**	**-**	**-**

SECTION 7 - EQUITY INVESTMENTS - ITEM 70

7.1 Equity investments: information on investment relationships

	Registered office	Interest %	% of votes available
A. Fully-controlled companies			
1. S.F. Trust Holdings Ltd	**London**	100%	100%
2. Largo Augusto Servizi e Sviluppo S.r.l.	**Milan**	100%	100%
3. ProntoPegno S.p.A.	**Milan**	75%	75%

	Registered office	Interest %	% of votes available
B. Joint ventures			
1. EBNSISTEMA FINANCE S.L.	**Madrid**	50%	50%

7.3 Significant equity investments: accounting information

	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total income	Net interest income (expense)	Net impairment gains and losses on property and equipment/intangible assets	Pre-tax profit (loss) from continuing operations	Post-tax profit (loss) from continuing operations	Post-tax profit (loss) from discontinued operations	Profit (loss) for the year	Other comprehensive income (expense), net of income tax	Comprehensive income (expense)
A. Fully-controlled companies														
1. S.F. Trust Holdings Ltd	-	-	-	-	18	-	(33)	-	(33)	1,460	1,493	1,460	-	1,460
2. Largo Augusto Servizi e Sviluppo S.r.l.	-	-	37,287	21,855	506	1,234	(209)	(727)	(920)	(682)	-	(682)	-	(682)
3. ProntoPegno S.p.A.	9,765	90,247	34,259	90,773	5,836	13,066	5,407	(1,024)	1,483	1,087	-	1,087	-	1,105

On 17 December 2021, the Board of Directors of the subsidiary SFT Holding initiated the process of liquidating the company. Therefore, the assets and liabilities attributable to the company were reclassified and recognised in Non-current assets/liabilities held for sale and disposal groups.

7.4 Non-significant equity investments: accounting information

	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total income	Net interest income	Net impairment gains and losses on property and equipment/intangible assets	Pre-tax profit from continuing operations	Post-tax profit from continuing operations	Post-tax profit (loss) from discontinued operations	Profit for the year	Other comprehensive income (expense), net of income tax	Comprehensive income
B. Joint ventures														
1. EBNSISTEMA FINANCE S.L.	2,563	235	-	-	792	-	375	-	4	3	-	3	-	3

7.5 Equity investments: changes

	31.12.2021	31.12.2020
A. Opening balance	**1,000**	**0**
B. Increases	**2**	**1,000**
B.1 Purchases	-	1,000
B.2 Impairment gains	-	-
B.3 Revaluations	-	-
B.4 Other increases	2	-
C. Decreases	**-**	**-**
C.1 Sales	-	-
C.2 Impairment losses	-	-
C.3 Write-offs	-	-
C.4 Other decreases	-	-
D. Closing balance	**1,002**	**1,000**
E. Total revaluations	**-**	**-**
F. Total impairment losses	**-**	**-**

Item 70 is composed of the 50% interest in the joint venture EBN SISTEMA FINANCE S.L.

SECTION 9 - PROPERTY AND EQUIPMENT - ITEM 90

9.1 Operating property and equipment: breakdown of the assets measured at cost

	31.12.2021	31.12.2020
1. Owned	**37,211**	**28,673**
a) land	10,897	8,529
b) buildings	24,922	18,966
c) furniture	427	345
d) electronic equipment	965	833
e) other	-	-
2. Under finance lease	**3,569**	**3,934**
a) land	-	-
b) buildings	2,801	3,136
c) furniture	-	-
d) electronic equipment	-	-
e) other	768	798
Total	**40,780**	**32,607**
of which: obtained from the enforcement of guarantees received	-	-

Property and equipment are recognised in the financial statements in accordance with the general acquisition cost criteria, including the related charges and any other expenses incurred to place the assets in conditions useful for the Bank, in addition to indirect costs for the portion reasonably attributable to assets that refer to the costs incurred, as at the end of the year.

Depreciation rates:

- Office furniture: 12%
- Furnishings: 15%
- Electronic machinery and miscellaneous equipment: 20%
- Assets less than Euro 516: 100%

9.6 Operating assets: changes

	Land	Buildings	Furniture	Electronic equipment	Other	Total
A. Gross opening balances	**8,529**	**24,823**	**1,456**	**2,788**	**1,644**	**39,240**
A.1 Total net impairment losses	-	2,721	1,123	1,943	846	6,633
A.2 Net opening balances	**8,529**	**22,102**	**333**	**845**	**798**	**32,607**
B. Increases	**2,368**	**7,669**	**157**	**333**	**349**	**10,876**
B.1 Purchases	2,368	7,208	150	333	349	10,408
B.2 Capitalised improvement costs	-	-	-	-	-	-
B.3 Impairment gains	-	-	-	-	-	-
B.4 Fair value gains recognised in	-	-	-	-	-	-
a. equity	-	-	-	-	-	-
b. profit or loss	-	-	-	-	-	-
B.5 Exchange rate gains	-	-	-	-	-	-
B.6 Transfers from investment property	-	-	-	-	-	-
B.7 Other increases	-	461	7	-	-	468
B.8 Business combination transactions	-	-	-	-	-	-
B.9 First-time adoption of IFRS 16	-	-	-	-	-	-
C. Decreases	**-**	**2,048**	**63**	**213**	**379**	**2,703**
C.1 Sales	-	-	-	-	-	-
C.2 Depreciation	-	1,842	63	201	365	2,471
C.3 Impairment losses recognised in	-	-	-	-	-	-
a. equity	-	-	-	-	-	-
b. profit or loss	-	-	-	-	-	-
C.4 Fair value losses recognised in	-	-	-	-	-	-
a. equity	-	-	-	-	-	-
b. profit or loss	-	-	-	-	-	-
C.5 Exchange rate losses	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a. investment property	-	-	-	-	-	-
b. on-current assets held for sale and disposal groups	-	-	-	-	-	-
C.7 Other decreases	-	206	-	12	14	232
C.8 Business combination transactions	-	-	-	-	-	-
D. Net closing balance	**10,897**	**27,723**	**427**	**965**	**768**	**40,780**
D.1 Total net impairment losses	-	4,769	1,186	2,156	1,225	9,336
D.2 Gross closing balance	**10,897**	**32,492**	**1,613**	**3,121**	**1,993**	**50,116**
E. Measurement at cost	10,897	27,723	427	965	768	40,780

SECTION 10 - INTANGIBLE ASSETS - ITEM 100

10.1 Intangible assets: breakdown by type of asset

	31.12.2021		31.12.2020	
	Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life
A.1 Goodwill	**-**	**32,355**	**-**	**32,355**
A.1.1 attributable to the owners of the Parent	-	32,355	-	32,355
A.1.2 attributable to non-controlling interests	-	-	-	-
A.2 Other intangible assets	**770**	**-**	**370**	-
A.2.1 Assets measured at cost:	770	-	370	-
a. Internally developed assets	-	-	-	-
b. Other	770	-	370	-
A.2.2 Assets measured at fair value:	-	-	-	-
a. Internally developed assets	-	-	-	-
b. Other	-	-	-	-
Total	**770**	**32,355**	**370**	**32,355**

The other intangible assets are recognised at purchase cost including related costs, and are systematically amortised over a period of 5 years. The item mainly refers to software.

Intangible assets refer to goodwill of € 32.3 million, broken down as follows:

- the goodwill originating from the merger of the former subsidiary Solvi S.r.l. which took place in 2013 amounting to € 1.8 million;
- the goodwill generated by the acquisition of Atlantide S.p.A. on 3 April 2019 amounting to € 2.1 million;
- the goodwill amounting to € 28.4 million arising from the acquisition of the former Intesa Sanpaolo collateralised lending business unit completed on 13 July 2020.

Goodwill impairment tests were conducted by referring to the "Value in use" which is based on an estimate of expected cash flows for the period 2022-2025, using the excess capital method of the Dividend Discount Model. Regarding the first explicit year, the 2022 budget was used, while for the following years it was based on estimated inertial growth. The CGU identified for the goodwill of the former Solvi and Atlantide is the Bank, while ProntoPegno as a whole has been identified for the goodwill of the former Intesa Sanpaolo business unit. The impairment test related to the goodwill of the former Intesa Sanpaolo business unit, recognised in the ProntoPegno subsidiary's accounts, was certified by an independent expert.

The main parameters used for estimation purposes were as follows:

Risk Free Rate	1.2%
Equity Risk Premium	6.0%
Beta	1.4
Cost of equity	9.3%
Growth rate "g"	1.4%

The estimated value in use obtained based on the parameters used and the growth assumptions is, for all goodwill amounts, higher than the respective equity amounts at 31 December 2021. Furthermore, considering that the value in use was determined via estimates and assumptions that may introduce elements of uncertainty, sensitivity analyses - as required by IFRS - were performed with the purpose of verifying the variations of the results previously obtained as a function of the basic assumptions and parameters.

In particular, the quantitative exercise was completed by a stress test of the parameters related to the growth rate and the discount rate of the expected cash flows (quantified in an isolated or simultaneous movement of 25 bps), that confirmed the absence of impairment indicators, confirming a value in use greater than the carrying amount of goodwill in the financial statements. Considering all the above, the conditions necessary to recognise an impairment loss on the goodwill carrying amounts in the financial statements at 31 December 2021 do not exist.

10.2 Intangible assets: changes

	Goodwill	Other intangible assets: internally developed		Other intangible assets: Other		Total
		FIN	INDEF	FIN	INDEF	
A. Opening balance	**32,355**	**-**	**-**	**3,528**	**-**	**35,883**
A.1 Total net impairment losses	-	-	-	3,158	-	3,158
A.2 Net opening balances	**32,355**	**-**	**-**	**370**	**-**	**32,725**
B. Increases	**-**	**-**	**-**	**619**	**-**	**619**
B.1 Purchases	-	-	-	619	-	619
B.2 Increases in internally developed assets	-	-	-	**-**	-	-
B.3 Impairment gains	-	-	-	**-**	-	-
B.4 Fair value gains recognised in:	-	-	-	**-**	-	-
- equity	-	-	-	**-**	-	-
- profit or loss	-	-	-	**-**	-	-
B.5 Exchange rate gains	-	-	-	**-**	-	-
B.6 Other increases	-	-	-	**-**	-	-
B.7 Business combination transactions	-	-	-	**-**	-	-
C. Decreases	**-**	-	-	**-**	-	-
C.1 Sales	-	-	-	**-**	-	-
C.2 Impairment losses	-	-	-	219	-	219
- Amortisation	-	-	-	219	-	219
- Impairment losses:	-	-	-	**-**	-	-
- equity	-	-	-	**-**	-	-
- profit or loss	-	-	-	**-**	-	-
C.3 Fair value losses recognised in:	-	-	-	**-**	-	-
- equity	-	-	-	**-**	-	-
- profit or loss	-			**-**		-
C.4 Transfers to disposal groups	-	-	-	**-**	-	-
C.5 Exchange rate losses	-	-	-	**-**	-	-
C.6 Other decreases	-	-	-	**-**	-	-
D. Net closing balance	**32,355**	-	-	**770**	-	**33,125**
D.1 Total net impairment losses	-	-	-	3,377	-	3,377
E. Gross closing balance	**32,355**	-	-	**4,147**	-	**36,502**
F. Measurement at cost	32,355	-	-	770	-	33,125

Key - Fin: finite useful life | Indef: indefinite useful life

SECTION 11 – TAX ASSETS AND TAX LIABILITIES – ITEM 110 OF ASSETS AND ITEM 60 OF LIABILITIES

Below is the breakdown of the current tax assets and current tax liabilities

	31.12.2021	31.12.2020
Current tax assets	**12,552**	**12,124**
IRES prepayments	9,829	8,863
IRAP prepayments	2,596	3,149
Other	127	112
Current tax liabilities	**(11,777)**	**(14,057)**
Provision for IRES	(8,693)	(10,827)
Provision for IRAP	(2,612)	(2,970)
Provision for substitute tax	(472)	(260)
Total	**775**	**(1,933)**

11.1 Deferred tax assets: breakdown

	31.12.2021	31.12.2020
Deferred tax assets through profit or loss:	**10,257**	**9,712**
Impairment losses on loans	1,996	2,376
Non-recurring transactions	381	414
Other	7,880	6,922
Deferred tax assets through equity:	**1,771**	**539**
Non-recurring transactions	219	239
HTCS securities	1,432	176
Other	120	124
Total	**12,028**	**10,251**

11.2 Deferred tax liabilities: breakdown

	31.12.2021	31.12.2020
Deferred tax liabilities through profit or loss:	**14,944**	**14,033**
Uncollected default interest income	14,173	13,775
Other	771	258
Deferred tax liabilities through equity:	**-**	**875**
HTCS securities	-	875
Total	**14,944**	**14,908**

11.3 Changes in deferred tax assets (through profit or loss)

	31.12.2021	31.12.2020
1. Opening balance	**9,712**	**8,143**
2. Increases	**3,004**	**4,615**
2.1 Deferred tax assets recognised in the year	-	-
a. related to previous years	-	-
b. due to changes in accounting policies	-	-
c. impairment gains	-	-
d. other	3,004	4,615
e. business combination transactions	-	-
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**2,459**	**3,046**
3.1 Deferred tax assets derecognised in the year	2,454	3,046
a. reversals	-	-
b. impairment due to non-recoverability	-	-
c. changes in accounting policies	-	-
d. other	2,454	3,046
3.2 Tax rate reductions	-	-
3.3 Other decreases	5	-
a. conversion into tax assets pursuant to Law 214/2011	-	-
b. other	5	-
4. Closing balance	**10,257**	**9,712**

11.4 Change in deferred tax assets pursuant to Law 214/2011

	31.12.2021	31.12.2020
1. Opening balance	**3,029**	**3,429**
2. Increases	**-**	**-**
3. Decreases	**433**	**400**
3.1 Reversals	-	-
3.2 Conversions into tax assets	-	-
a) arising on loss for the year	-	-
b) arising on tax losses	-	-
3.3 Other decreases	433	400
4. Closing balance	**2,596**	**3,029**

11.5 Changes in deferred tax liabilities (through profit or loss)

	31.12.2021	31.12.2020
1. Opening balance	**14,033**	**14,060**
2. Increases	**920**	**299**
2.1 Deferred tax liabilities recognised in the year	920	299
a. related to previous years	-	-
b. due to changes in accounting policies	-	-
c. other	920	299
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**9**	**326**
3.1 Deferred tax liabilities derecognised in the year	-	54
a. reversals	-	-
b. due to changes in accounting policies	-	-
c. other	-	54
3.2 Tax rate reductions	-	-
3.3 Other decreases	9	272
4. Closing balance	**14,944**	**14,033**

11.6 Change in deferred tax assets (through equity)

	31.12.2021	31.12.2020
1. Opening balance	**539**	**333**
2. Increases	**1,443**	**222**
2.1 Deferred tax assets recognised in the year	1,443	222
a. related to previous years	-	-
b. due to changes in accounting policies	-	-
c. other	1,443	222
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**211**	**16**
3.1 Deferred tax assets derecognised in the year	35	16
a. reversals	-	-
b. impairment due to non-recoverability	-	-
c. due to changes in accounting policies	-	-
d. other	35	16
3.2 Tax rate reductions	-	-
3.3 Other decreases	176	-
4. Closing balance	**1,771**	**539**

11.7 Change in deferred tax liabilities (through equity)

	31.12.2021	31.12.2020
1. Opening balance	**875**	**160**
2. Increases	**-**	**875**
2.1 Deferred tax liabilities recognised in the year	-	875
a. related to previous years	-	-
b. due to changes in accounting policies	-	-
c. other	-	875
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**875**	**160**
3.1 Deferred tax liabilities derecognised in the year	875	160
a. reversals	-	-
b. due to changes in accounting policies	-	-
c. other	875	160
3.2 Tax rate reductions	-	-
3.3 Other decreases	-	-
4. Closing balance	**0**	**875**

SECTION 13 - OTHER ASSETS - ITEM 130

13.1 Other assets: breakdown

	31.12.2021	31.12.2020
Other	19,409	3,380
Tax advances	8,001	9,447
Work in progress	5,917	2,144
Prepayments not related to a specific item	3,803	2,255
Trade receivables	1,422	1,491
Leasehold improvements	1,072	141
Security deposits	182	181
Total	**39,806**	**19,039**

Tax advances are mainly composed of advances relative to virtual stamp duties and withholding taxes on interest expense, and substitute tax on gains from securities trading.

At 31 December 2021, the item “Other” included tax credits from the "Eco-Sisma bonus 110%" product associated to the tax credit generated against specific energy efficiency and anti-seismic safety works which can be deducted at a rate of 110% over five years for an amount of € 16.5 million. This product was introduced by the Bank, within the context of the implementation of the Relaunch Decree issued in May 2020, in a very prudent manner and with modest turnover targets, to be included in the range of products offered by the Factoring Division.

LIABILITIES

SECTION 1 - FINANCIAL LIABILITIES MEASURED AT AMORTISED COST - ITEM 10

1.1 Financial liabilities measured at amortised cost: breakdown by product of due to banks

	31.12.2021				31.12.2020			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Due to Central banks	**540,095**	X	X	X	**689,686**	X	X	X
2. Due to banks	**52,062**	X	X	X	**179,962**	X	X	X
2.1 Current accounts and demand deposits	40,897	X	X	X	-	X	X	X
2.2 Term deposits	-	X	X	X	125,178	X	X	X
2.3 Financing	11,165	X	X	X	52,510	X	X	X
2.3.1 Repurchase agreements	-	X	X	X	-	X	X	X
2.3.2 Other	11,165	X	X	X	52,510	X	X	X
2.4 Commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Lease liabilities	-				-			
2.6 Other payables	-	X	X	X	2,274	X	X	X
Total	**592,157**			**592,157**	**869,648**			**869,648**

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

1.2 Financial liabilities measured at amortised cost: breakdown by product of due to customers

	31.12.2021				31.12.2020			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	777,850	X	X	X	633,461	X	X	X
2. Term deposits	1,387,255	X	X	X	1,216,417	X	X	X
3. Financing	305,268	X	X	X	306,884	X	X	X
3.1 Repurchase agreements	249,256	X	X	X	235,230	X	X	X
3.2 Other	56,012	X	X	X	71,654	X	X	X
4. Commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Lease liabilities	-				-			
6. Other payables	1,681	X	X	X	7,482	X	X	X
Total	**2,472,054**			**2,472,054**	**2,164,244**			**2,164,244**

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

1.3 Financial liabilities measured at amortised cost: breakdown by product of the securities issued

	31.12.2021				31.12.2020			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
A. Securities	**-**	**X**	**X**	**-**	**-**	**X**	**X**	**-**
1. bonds	**193,190**	**X**	**X**	**193,190**	**240,338**	**X**	**X**	**240,338**
1.1 structured	-	X	X	-	-	X	X	-
1.2 other	193,190	X	X	193,190	240,338	X	X	240,338
2. other securities	**-**	**X**	**X**	**-**	**-**	**X**	**X**	**-**
1.1 structured	-	X	X	-	-	X	X	-
1.2 other	-	X	X	-	-	X	X	-
TOTAL	**193,190**	**X**	**X**	**193,190**	**240,338**	**X**	**X**	**240,338**

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

The item includes subordinated securities relating to the senior shares of the ABS in the Quinto Sistema Sec. 2019 and BS IVA securitisations subscribed by third-party institutional investors.

SECTION 6 - TAX LIABILITIES - ITEM 60

The breakdown as well as the change in the deferred tax liabilities were illustrated in Part B Section 11 of assets in these notes to the financial statements.

SECTION 8 - OTHER LIABILITIES - ITEM 80

8.1 Other liabilities: breakdown

	31.12.2021	31.12.2020
Payments received in the reconciliation phase	84,177	73,626
Accrued expenses	16,305	11,440
Work in progress	15,860	26,993
Dividends due to shareholders	-	7,479
Trade payables	9,839	6,203
Tax liabilities with the Tax Authority and other tax authorities	5,743	5,243
Finance lease liabilities	3,655	3,976
Due to employees	1,120	943
Pension repayments	930	908
Other	366	83
Total	**137,995**	**136,894**

SECTION 9 - POST-EMPLOYMENT BENEFITS - ITEM 90

9.1 Post-employment benefits: changes

	31.12.2021	31.12.2020
A. Opening balance	**4,428**	**3,051**
B. Increases	**213**	**1,786**
B.1 Accruals	75	610
B.2 Other increases	138	236
B.3 Business combination transactions	-	940
C. Decreases	**331**	**409**
C.1 Payments	205	343
C.2 Other decreases	126	66
D. Closing balance	**4,310**	**4,428**
Total	**4,310**	**4,428**

9.2 Other Information

The actuarial amount of post-employment benefits was calculated by an external actuary, who issued an appraisal.

The other decreases refer to the actuarial gain accounted for during the year. The payments made refer to post-employment benefits paid during the year.

The technical valuations were conducted on the basis of the assumptions described in the following table:

Annual discount rate	0.98%
Annual inflation rate	1.75%
Annual post-employment benefits increase rate	2.813%
Annual salary increase rate	1.00%

The discount rate used for determining the present value of the obligation was calculated, pursuant to IAS 19.83, from the Iboxx Corporate AA index with 10+ duration during the valuation month. To this end, a choice was made to select the yield with a duration comparable to the duration of the set of workers subject to valuation.

SECTION 10 - PROVISIONS FOR RISKS AND CHARGES - ITEM 100

10.1 Provisions for risks and charges: breakdown

	31.12.2021	31.12.2020
1. Provisions for credit risk related to commitments and financial guarantees issued	39	26
2. Provisions for other commitments and other guarantees issued	-	-
3. Internal pension funds	-	-
4. Other provisions for risks and charges	28,615	23,404
4.1 legal and tax disputes	3,699	4,264
4.2 personnel expense	7,716	8,726
4.3 other	17,200	10,414
Total	**28,654**	**23,430**

10.2 Provisions for risks and charges: changes

	Provisions for other commitments and other guarantees issued	Pension funds	Other provisions for risks and charges	**Total**
A. Opening balance	**26**	**-**	**23,404**	**23,430**
B. Increases	**13**	**-**	**12,484**	**12,497**
B.1 Accruals	-	-	10,542	10,542
B.2 Discounting	-	-	-	-
B.3 Changes due to discount rate changes	-	-	-	-
B.4 Other increases	13	-	1,942	1,955
B.5 Business combination transactions	-	-	-	-
C. Decreases	**-**	**-**	**7,273**	**7,273**
C.1 Utilisations	-	-	5,586	5,586
C.2 Changes due to discount rate changes	-	-	-	-
C.3 Other decreases	-	-	1,687	1,687
D. Closing balance	**39**	**-**	**28,615**	**28,654**

The accruals for the year are mainly due to deferred amounts due to personnel and agents amounting to € 4.2 million, estimates of charges related to possible lawsuits against the Bank's customers and to the tax authorities which arose during the year amounting to € 3.7 million, and risks related to accruals concerning pre-payment and Lexitor risk, which is the risk of having to reimburse customers for up-front charges in the event of early repayment. Such amounts are set aside for CQS loans that have been assigned or for which the bank has become the assignee, depending on the terms and conditions of the agreements, for a total of € 3.9 million. The utilisations for the year refer to the release of a provision relating to a previous acquisition as a result of expected losses not being incurred and the payment of deferred bonuses.

10.3 Provisions for credit risk related to commitments and financial guarantees issued

	Provisions for credit risk related to commitments and financial guarantees issued			
	First stage	Second stage	Third stage	**Total**
Commitments to disburse funds	-	-	-	-
Financial guarantees issued	39	-	-	39
Total	**39**	**-**	**-**	**39**

10.5 Internal defined benefit pension funds

Nothing to report.

10.6 Provisions for risks and charges - other provisions

	31.12.2021	31.12.2020
Legal and tax disputes	3,699	4,264
Personnel expense	7,716	8,726
Other	17,200	10,414
Total	**28,615**	**23,404**

Legal and tax disputes include a provision for possible liabilities arising from past acquisitions and therefore recognised in accordance with IFRS 3 for an amount of € 1.1 million and, for the remainder, provisions for lawsuits where the risk of losing the case is considered probable.

"Personnel expense" includes:

- the provisions made for variable remuneration to be paid to employees in subsequent years, for which the due date and/or amount are uncertain;
- an estimate of labour-related disputes;
- the amount resulting from the actuarial valuation of the non-compete agreement under IAS 19, as described below.

The calculation method can be summarised in the following steps:

- projection for each employee in service at the valuation date of the NCA that has already been accrued, and the future obligations up to an uncertain payment date;
- determination for each employee of the NCA payments that the Group will have to make in the event of employment termination due to dismissal and retirement in case of fulfilment of the NCA commitments;
- discounting, at the valuation date, of each probable payment.

In particular, the annual discount rate used for determining the present value of the obligation was calculated, pursuant to IAS 19.83, from the Iboxx Corporate AA index with 10+ duration during the valuation month. To this end, a choice was made to select the yield with a duration comparable to the duration of the set of workers subject to valuation.

The item "Other" includes an estimate of charges related to possible liabilities to assignors that have yet to be settled of € 6.7 million and other estimated charges for ongoing lawsuits and legal disputes amounting to € 2.6 million. Also included is the provision for claims (0.7 million) and the provision to cover the estimated adverse effect of possible early repayments (also known as pre-payments) on CQS portfolios purchased from third-party intermediaries and on the assigned portfolios, for an amount of € 7.0 million.

SECTION 13 - EQUITY ATTRIBUTABLE TO THE OWNERS OF THE PARENT - ITEMS 120, 130, 140, 150, 160, 170 AND 180

13.1 "Share capital" and "Treasury shares": breakdown

The share capital of Banca Sistema is composed of 80,421,052 ordinary shares with a nominal amount of € 0.12 for a total paid-in share capital of € 9,651 thousand. All outstanding shares have regular dividend entitlement from 1 January. Based on evidence from the Shareholders' Register and more recent information available at the date of approval of the draft financial statements, the shareholders with stakes of more than 5%, the threshold above which Italian law (art. 120 of the Consolidated Law on Finance) requires disclosure to the investee and Consob, were as follows:

SHAREHOLDERS	% HELD
SGBS S.r.l.	23.10%
Garbifin S.r.l.	0.54%
Fondazione Cassa di Risparmio di Alessandria	7.91%
Chandler SARL	7.48%
Fondazione Sicilia	7.40%
Moneta Micro Entreprises	5.12%
Fondazione Cassa di Risparmio di Cuneo	5.01%
Market	43.44%

As at 31 December 2021, the Bank did not hold any treasury shares.

The breakdown of equity attributable to the owners of the parent is shown below:

	31.12.2021	31.12.2020
1. Share capital	9,651	9,651
2. Share premium	39,100	39,100
3. Reserves	141,528	122,232
4. (Treasury shares)	-	(234)
5. Valuation reserves	(3,067)	1,287
6. Equity instruments	45,500	8,000
7. Equity attributable to non-controlling interests	9,569	9,297
8. Profit for the year	23,251	26,153
Total	**265,532**	**215,486**

For changes in reserves, please refer to the statement of changes in equity.

13.2 Share capital - Parent's number of shares: changes

	Ordinary	Other
A. Opening balance	**80,421,052**	**-**
- fully paid-in	80,421,052	-
- not fully paid-in	-	-
A.1 Treasury shares (-)	(168,669)	-
A.2 Outstanding shares: opening balance	**80,252,383**	**-**
B. Increases	**168,669**	**-**
B.1 New issues	-	-
against consideration:	-	
- business combination transactions	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	-	-
bond issues:	-	
- to employees	-	-
- to directors	-	-
- other	-	-
B.2 Sale of treasury shares	-	-
B.3 Other increases	168,669	-
C. Decreases	**-**	**-**
C.1 Cancellation	-	-
C.2 Repurchase of treasury shares	-	-
C.3 Disposal of equity investments	-	-
C.4 Other decreases	-	-
D. Outstanding shares: closing balance	**80,421,052**	**-**
D.1 Treasury shares (+)	-	-
D.2 Closing balance	80,421,052	-
- fully paid-in	-	-
- not fully paid-in	-	-

13.4 Income-related reserves: other information

In compliance with art. 2427(7 bis) of the Italian Civil Code, below is the detail of the equity items revealing the origin and possibility of use and distributability.

	Amount as at 31.12.2021	Possible use	Available portion
A. Share capital	9,651	-	-
B. Equity-related reserves:	-	-	-
Share premium reserve	39,100	A,B,C	-
Reserve to provide for losses	-	-	-
C. Income-related reserves:	-	-	-
Legal reserve	1,930	B	-
Valuation reserve	(3,067)	-	-
Negative goodwill	1,774	A	
Retained earnings	134,954	A,B,C	-
Reserve for treasury shares	200	A,B,C	-
Reserve for future capital increase	-	-	-
D. Other reserves	2,670	-	-
E. Equity instruments	45,500		
F. Treasury shares	-	-	-
Total	**232,712**	-	-
Profit for the year	23,251	-	-
Total equity	**255,963**	-	-
Undistributable portion	-	-	-
Distributable portion	-	-	-

Key:
A: for share capital increase
B: to cover losses
C*:* for distribution to shareholders

13.5 Equity instruments: breakdown and changes

	Issuer	Type of issue	Coupon	Maturity date	Nominal amount	IFRS amount
Tier 1 Capital	Banca Sistema S.p.A.	Tier 1 subordinated loans with mixed rate: ISIN IT0004881444	Until 17 June 2023, fixed rate at 7%	Perpetual	8,000	8,018
			From 18 June 2023, 6-month Euribor +5% variable rate			
Tier 1 Capital	Banca Sistema S.p.A.	Subordinated ordinary loans (Tier 1): ISIN IT0005450876	Fixed rate at 9% until 25 June 2031	Perpetual	37,500	37,558
Total					**45,500**	**45,575**

In June 2021, the Tier 2 subordinated loans were repaid before maturity upon simultaneous issuance of an Additional Tier 1 (AT1) subordinated bond for the same amount.

Therefore, the breakdown of bonds issued at 31 December 2021, which given their predominant characteristics are classified under equity instruments in item 140 of equity, is as follows:

- Tier 1 subordinated loan of € 8 million, with no maturity (perpetual basis) and a fixed coupon until 18 June 2023 at 7% issued on 18 December 2012 and 18 December 2013 (reopening date). This loan was previously classified among financial liabilities measured at amortised cost;
- Tier 1 subordinated loan of € 37.5 million, with no maturity (perpetual basis) and a fixed coupon until 25 June 2031 at 9% issued on 25 June 2021.

SECTION 14 - EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS - ITEM 190

14.1 Breakdown of item 210 "Equity attributable to non-controlling interests"

	31.12.2021	31.12.2020
Equity investments in consolidated companies with significant non-controlling interests	9,569	9,297
Total	**9,569**	**9,297**

OTHER INFORMATION

1. Commitments and financial guarantees issued

	Nominal amount of commitments and financial guarantees issued					
	First stage	Second stage	Third stage	Purchased or originated credit-impaired	31.12.2021	31.12.2020
Commitments to disburse funds	**334,974**	**-**	**3,096**	**-**	**338,070**	**456,313**
a) Central Banks	-	-	-	-	-	-
b) Public administrations	-	-	-	-	-	223,860
c) Banks	-	-	-	-	-	-
d) Other financial companies	189,967	-	-	-	189,967	109,919
e) Non-financial companies	143,148	-	3,096	-	146,244	120,017
f) Households	1,859	-	-	-	1,859	2,517
Financial guarantees issued	**11,084**	**-**	**-**	**-**	**11,084**	**6,724**
a) Central Banks	-	-	-	-	-	-
b) Public administrations	20	-	-	-	20	20
c) Banks	2,446	-	-	-	2,446	2,446
d) Other financial companies	67	-	-	-	67	-
e) Non-financial companies	8,463	-	--	-	8,463	4,161
f) Households	88	-		-	88	97

The item "financial guarantees issued - banks" includes the commitments taken on with the interbank guarantee systems; the item "Irrevocable commitments to disburse funds" is related to the equivalent value of the securities to receive for transactions to be settled.

3. Assets pledged as collateral for liabilities and commitments

	31.12.2021	31.12.2020
1. Financial assets measured at fair value through profit or loss	-	-
2. Financial assets measured at fair value through other comprehensive income	94,958	71,350
3. Financial assets measured at amortised cost	363,122	285,987
4. Property and equipment	-	-
of which: Property and equipment included among inventories	-	-

6. Management and trading on behalf of third parties

	Amount
1. Execution of orders on behalf of customers	**-**
a) purchases	-
1. settled	-
2. unsettled	-
b) sales	-
1. settled	-
2. unsettled	-
2. Individual asset management	**-**
3. Securities custody and administration	**903,230**
a) third-party securities held as part of depositary bank services (excluding asset management)	-
1. securities issued by the reporting entity	-
2. other securities	-
b) third-party securities on deposit (excluding asset management): other	30,181
1. securities issued by the reporting entity	3,696
2. other securities	26,485
c) third-party securities deposited with third parties	30,181
d) securities owned by the bank deposited with third parties	873,049
4. Other transactions	**-**

SECTION 1 - INTEREST - ITEMS 10 AND 20

1.1. Interest and similar income: breakdown

	Debt instruments	Financing	Other transactions	2021	2020
1. Financial assets measured at fair value through profit or loss:	-	-		-	-
1.1 Financial assets held for trading	-	-		-	-
1.2 Financial assets designated at fair value through profit or loss	-	-		-	-
1.3 Other financial assets mandatorily measured at fair value through profit or loss	-	-		-	-
2. Financial assets measured at fair value through other comprehensive income	-	-	X	-	-
3. Financial assets measured at amortised cost:	1,743	92,946		94,689	93,845
3.1 Loans and receivables with banks	-	115	X	115	167
3.2 Loans and receivables with customers	1,743	92,831	-	94,574	93,678
4. Hedging derivatives	X	X		-	-
5. Other assets	X	X	-	-	-
6. Financial liabilities	X	X	X	3,522	4,222
Total	**1,743**	**92,946**		**98,211**	**98,067**
Of which: interest income on impaired assets	-	-		-	-
Of which: interest income on finance leases	-	-		-	-

The total contribution of the Factoring Division (which includes Government-backed loans to SMEs) to interest income was € 64.7 million, equal to 70% of the entire loans and receivables portfolio (compared to 72% at 31 December 2020), to which the commission component associated with the factoring business and the revenue generated by the assignment of private-sector receivables from the factoring portfolio need to be added.

Subsequent to their recognition, factoring receivables are measured at amortised cost, based on the present value of the estimated cash flows of the principal, or for all receivables whose recovery strategy involves legal action, based on the present value of the cash flows, in addition to the principal, of the default interest component that will accrue up to the expected date of collection on amounts considered recoverable. As a matter of prudence, given the limited amount of historical data available, the recovery percentages used for territorial entities and the public sector (statistical series starting from 2008) are based on a confidence interval of the twentieth percentile, while for ASL - local health authorities (statistical series starting from 2005) a confidence interval of the fifth percentile is used. The estimated recovery percentages and expected collection dates are updated based on annual analyses in light of the progressive consolidation of the historical data series, which provide increasingly solid and robust estimates. In the third quarter of 2021, the expected rates of recovery of default interest on factoring, in light of the statistical evidence that benefits from the progressive consolidation of the historical data series, have increased, as have the related collection times used. The combined update of these estimates led to a decrease in interest income of € 0.3 million (€ 1.0 million at 31 December 2020). This effect is a consequence of the fact that the historical series over the last few years have settled nearer to the average collection percentages and have stabilised in terms of the number of positions. As a result, the expected recovery percentage calculated by the statistical model is now quite stable and does not fluctuate significantly.

1.3 Interest and similar expense: breakdown

	Liabilities	Securities	Other transactions	2021	2020
1. Financial liabilities measured at amortised cost	13,184	2,023	-	15,207	23,047
1.1 Due to Central banks	-	X	-	-	-
1.2 Due to banks	533	X	-	533	528
1.3 Due to customers	12,651	X	-	12,651	15,434
1.4 Securities issued	X	2,023	-	2,023	7,085
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities designated at fair value through profit or loss	-	-	-	-	-
4. Other liabilities and provisions	X	X	-	-	-
5. Hedging derivatives	X	X	-	-	-
6. Financial assets	X	X	X	1,042	188
Total	**13,184**	**2,023**	**-**	**16,249**	**23,235**
of which: interest expense related to lease liabilities	46	-	-	46	35

SECTION 2 - NET FEE AND COMMISSION INCOME - ITEMS 40 AND 50

2.1 Fee and commission income: breakdown

	2021	2020
a) Financial instruments	166	151
1. Placement of securities	95	100
1.1 Underwritten and/or on a firm commitment basis	95	100
1.2 Without a firm commitment basis	-	-
2. Order collection and transmission, and execution of orders on behalf of customers	59	41
2.1 Order collection and transmission for one or more financial instruments	59	41
2.2 Execution of orders on behalf of customers	-	-
3. Other fees associated with activities related to financial instruments	12	10
of which: dealing on own account	-	-
of which: individual asset management	12	10
b) Corporate Finance	-	-
1. Mergers and acquisitions advisory services	-	-
2. Treasury services	-	-
3. Other fees related to corporate finance services	-	-
c) Investment advisory activities	-	-
d) Clearing and settlement	-	-
e) Custody and administration	1	1
1. Depositary services	-	-
2. Other fees related to custody and administration activities	1	1
f) Central administrative services for collective asset management	-	-
g) Fiduciary activities	-	-
h) Payment services	131	150
1. Current accounts	70	96
2. Credit cards	-	-
3. Debit and other payment cards	18	-
4. Bank transfers and other payment orders	-	-
5. Other fees related to payment services	43	54
i) Distribution of third party services	-	-
1. Collective asset management	-	-
2. Insurance products	-	-
3. Other products	-	-
of which: individual asset management	-	-
j) Structured finance	-	-
k) Servicing of securitisations	-	-
l) Commitments to disburse funds	-	-
m) Financial guarantees issued	46	36
of which: credit derivatives	-	-
n) Financing transactions	12,969	17,715
of which: factoring transactions	12,969	17,715
o) Foreign currency transactions	-	-
p) Commodities	-	-
q) Other fee and commission income	12,284	6,275
of which: management of multilateral trading facilities	-	-
of which: management of organised trading facilities	-	-
Total	**25,597**	**24,328**

Item q) Other fee and commission income is detailed in the following table and consists of fees and commissions arising from collateral-backed loans, origination fees on salary- and pension-backed loan (CQ) products, as well as fees and commissions from servicing of third-party factoring transactions.

	2021	2020
Fees and commissions from servicing of third-party factoring transactions	1,077	1,138
CQ origination fees and commissions	4,465	2,353
Collateralised lending fees and commissions	6,664	2,719
Other fees and commissions (residual)	78	65
Total	**12,284**	**6,275**

2.2 Fee and commission income: distribution channels of products and services

	2021	2020
a. at its branches:	**107**	**110**
1. asset management	12	10
2. placement of securities	95	100
3. third-party services and products	-	-
b. off-premises:	-	-
1. asset management	-	-
2. placement of securities	-	-
3. third-party services and products	-	-
c. other distribution channels:	-	-
1. asset management	-	-
2. placement of securities	-	-
3. third-party services and products	-	-

2.3 Fee and commission expense: breakdown

	2021	2020
a. Financial instruments	53	52
of which: trading in financial instruments	53	52
of which: placement of financial instruments	-	-
of which: individual asset management	-	-
- Proprietary	-	-
- Delegated to third parties	-	-
b. Clearing and settlement	-	-
c. Custody and administration	-	-
d. Collection and payment services	284	199
of which: credit cards, debit cards and other payment cards	218	199
e. Servicing of securitisations	-	-
f. Commitments to receive funds	-	-
g. Financial guarantees received	385	41
of which: credit derivatives	-	-
h. Off-premises distribution of securities, products and services	9,147	6,070
i. Foreign currency transactions	-	-
j. Other fee and commission expense	73	538
Total	**9,942**	**6,900**

Fees and commissions from "off-premises distribution of securities, products and services" consist mainly of fees paid to agents who place salary- and pension-backed loan (CQ) products, as well as fees for factoring brokers and for placement of the Bank's retail funding products.

SECTION 3 - DIVIDENDS AND SIMILAR INCOME - ITEM 70

3.1 Dividends and similar income: breakdown

		2021		2020	
		dividends	similar income	dividends	similar income
A.	Financial assets held for trading	-	-	-	-
B.	Other financial assets mandatorily measured at fair value through profit or loss	-	-	-	-
C.	Financial assets measured at fair value through other comprehensive income	227	-	227	-
D.	Equity investments	-	-	-	-
	Total	**227**	**-**	**227**	**-**

SECTION 4 - NET TRADING INCOME - ITEM 80

4.1 Net trading income: breakdown

	Gains (A)	Trading income (B)	Losses (C)	Trading losses (D)	Net trading income [(A+B) - (C+D)]
1. Financial assets held for trading	**-**	**21**	**-**	**-**	**21**
1.1 Debt instruments	-	20	-	-	20
1.2 Equity instruments	-	-	-	-	-
1.3 OEIC units	-	-	-	-	-
1.4 Financing	-	-	-	-	-
1.5 Other	-	1	-	-	1
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt instruments	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-		-
Financial assets and liabilities: exchange rate gains (losses)	**X**	**X**	**X**	**X**	**-**
3. Derivatives	**-**	**-**	**-**	**-**	**-**
3.1 Financial derivatives:	-	-	-	-	-
On debt instruments and interest rates	-	-	-	-	-
On equity instruments and equity indexes	-	-	-	-	-
On currencies and gold	X	X	X	X	-
Other	-	-	-	-	-
3.2 Credit derivatives	-	-	-	-	-
of which: natural hedges connected to the fair value option	X	X	X	X	-
Total	**-**	**21**	**-**	**-**	**21**

SECTION 6 - GAIN FROM SALES OR REPURCHASES - ITEM 100

6.1 Gain from sales or repurchases: breakdown

	2021			2020		
	Gain	Loss	Net gain	Gain	Loss	Net gain
Financial assets						
1. Financial assets measured at amortised cost:	6,196	(197)	5,999	5,351	(1,137)	4,214
1.1 Loans and receivables with banks	-	-	-	-	-	-
1.2 Loans and receivables with customers	6,196	(197)	5,999	5,351	(1,137)	4,214
2. Financial assets measured at fair value through other comprehensive income	4,607	(517)	4,090	5,327	(26)	5,301
2.1 Debt instruments	4,607	(517)	4,090	5,327	(26)	5,301
2.2 Financing	-	-	-	-	-	-
Total assets (A)	**10,803**	**(714)**	**10,089**	**10,678**	**(1,163)**	**9,515**
Financial liabilities measured at amortised cost						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	-	-	-	16	-	16
Total liabilities (B)	**-**	**-**	**-**	**16**	**-**	**16**

SECTION 8 - NET IMPAIRMENT LOSSES/GAINS DUE TO CREDIT RISK - ITEM 130

8.1 Net impairment losses due to credit risk related to financial assets measured at amortised cost: breakdown

	Impairment losses (1)						Impairment gains (2)				2021	2020
	First stage	Second stage	Third stage		Purchased or originated credit-impaired		First stage	Second stage	Third stage	Purchased or originated credit-impaired		
			write-offs	Other	write-offs	Other						
A. Loans and receivables with banks	**33**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**33**	**(6)**
- financing	33	-	-	-	-	-	-	-	-	-	33	(6)
- debt instruments	-	-	-	-	-	-	-	-	-	-	-	-
B. Loans and receivables with customers:	**155**	**-**	**-**	**11,144**	**-**	**-**	**(526)**	**-**	**(154)**	**-**	**10,619**	**10,954**
- financing	155	-	-	11,144	-	-	(380)	-	(154)	-	10,766	10,857
- debt instruments	-	-	-	-	-	-	(146)	-	-	-	(146)	97
C. Total	**188**	**-**	**-**	**11,144**	**-**	**-**	**(526)**	**-**	**(154)**	**-**	**10,652**	**10,948**

8.1a Net impairment losses due to credit risk related to loans measured at amortised cost subject to Covid-19 support measures: breakdown

	Net impairment losses						2021	2020
	First stage	Second stage	Third stage		Purchased or originated credit-impaired			
			write-offs	Other	write-offs	Other		
1. Forborne loans in compliance with the EBA Guidelines	(66)	3	-	474	-	-	411	456
2. Loans subject to existing moratoria no longer in compliance with the EBA Guidelines and not considered forborne	-	-	-	-	-	-	-	-
3. Loans subject to other forbearance measures	-	-	-	-	-	-	-	-
4. New loans	165	-	-	-	-	-	165	216
Total	**99**	**3**	**-**	**474**	**-**	**-**	**576**	**672**

8.2 Net impairment losses due to credit risk related to financial assets measured at fair value through other comprehensive income: breakdown

	Impairment losses (1)						Impairment gains (2)				2021	2020
	First stage	Second stage	Third stage		Purchased or originated credit-impaired		First stage	Second stage	Third stage	Purchased or originated credit-impaired		
			Write-offs	Other	Write-offs	Other						
A. Debt instruments	**-**	**-**	**-**	**-**	**-**	**-**	**(28)**	**-**	**-**	**-**	**(28)**	**52**
B. Financing	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- To customers	-	-	-	-	-	-	-	-	-	-	-	-
- To banks	-	-	-	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**(28)**	**-**	**-**	**-**	**(28)**	**52**

SECTION 9 - GAINS/LOSSES FROM CONTRACT AMENDMENTS WITHOUT DERECOGNITION - ITEM 140

9.1 Gains (losses) from contract amendments: breakdown

	2021	2020
9.1 Gains (losses) from contract amendments: breakdown	(4)	-

Losses arising from the renegotiation of loan agreements with corporate counterparties are included in this item.

SECTION 12 - ADMINISTRATIVE EXPENSES - ITEM 190

12.1 Personnel expense: breakdown

	2021	2020
1) Employees	27,010	23,837
a) wages and salaries	16,207	13,764
b) social security charges	4,352	3,791
c) post-employment benefits	-	-
d) pension costs	-	-
e) accrual for post-employment benefits	1,061	903
f) accrual for pension and similar provisions:	-	-
- defined contribution plans	-	-
- defined benefit plans	-	-
g) payments to external supplementary pension funds:	309	394
- defined contribution plans	309	394
- defined benefit plans	-	-
h) costs of share-based payment plans	-	-
i) other employee benefits	5,081	4,985
2) Other personnel	493	444
3) Directors and statutory auditors	1,478	1,249
4) Retired personnel	-	-
5) Recovery of costs for employees of the Bank seconded to other entities	-	-
6) Reimbursement of costs for employees of other entities seconded to the Bank	-	2
Total	**28,981**	**25,532**

12.2 Average number of employees by category

Employees

a) Senior managers	26
b) Middle managers (Q4 – Q3)	57
c) Remaining employees	192

12.5 Other administrative expenses: breakdown

	2021	2020
Consultancy	(5,175)	(4,422)
IT expenses	(5,932)	(5,397)
Servicing and collection activities	(3,070)	(2,951)
Indirect taxes and duties	(2,959)	(2,080)
Insurance	(908)	(719)
Other	(688)	(426)
Expenses related to management of the SPVs	(785)	(670)
Outsourcing and consultancy expenses	(480)	(404)
Car hire and related fees	(830)	(633)
Advertising and communications	(1,554)	(684)
Expenses related to property management and logistics	(2,593)	(1,600)
Personnel-related expenses	(167)	(62)
Expense reimbursement and entertainment	(466)	(387)
Infoprovider expenses	(701)	(514)
Membership fees	(349)	(299)
Audit fees	(296)	(294)
Telephone and postage expenses	(270)	(212)
Stationery and printing	(40)	(74)
Total operating expenses	**(27,263)**	**(21,828)**
Resolution Fund	(2,284)	(2,007)
Merger-related costs	-	(1,699)
Total	**(29,547)**	**(25,534)**

Administrative expenses increased mainly due to costs directly related to the businesses in which the Group operates. Specifically, in 2021, higher legal expenses were incurred for managing the legal recovery proceedings for receivables and default interest from Italian and Spanish public administration debtors and there was an increase in the origination cost of the CQ product. In 2021, investments in advertising for events and sponsorships also increased.

IT expenses consist of costs for services rendered by the IT outsourcer providing the legacy services and costs related to the IT infrastructure, which have increased compared to 2020, also due to the costs deriving from the ProntoPegno branches acquired along with the business unit and additional hardware and software to support remote work arrangements.

The increase in Expenses related to property management and logistics is tied to the purchase of the building to be used for operations in Rome.

Compared to the previous year, the Resolution Fund required a € 0.3 million higher contribution, for a total of € 2.3 million.

SECTION 13 - NET ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES - ITEM 200

13.2 Net accruals for other commitments and other guarantees issued: breakdown

	2021	2020
Net accruals for other commitments and other guarantees	(13)	18
Total	**(13)**	**18**

13.3 Net accruals to other provisions for risks and charges: breakdown

	2021	2020
Provisions for risks and charges - other provisions and risks	(1,692)	(2,538)
Release of provisions for risks and charges	-	-
Total	**(1,692)**	**(2,538)**

The item accruals to other provisions for risks and charges is mainly attributable to the measurement and review of contingent liabilities for ongoing lawsuits, and the assessment and quantification of possible future risks.

SECTION 14 - NET IMPAIRMENT LOSSES ON PROPERTY AND EQUIPMENT - ITEM 210

14.1 Net impairment losses on property and equipment: breakdown

	Depreciation (a)	Impairment losses (b)	Impairment gains (c)	**Carrying amount (a + b - c)**
A. Property and equipment				
1. Operating assets	**2,471**	-	-	**2,471**
▪ Owned	1,823	-	-	1,823
▪ Right-of-use assets acquired under a lease	648	-	-	648
2. Investment property	**-**	**-**	**-**	**-**
▪ Owned	-	-	-	-
▪ Right-of-use assets acquired under a lease	-	-	-	-
3. Inventories	**-**	**-**	**-**	**-**
Total	**2,471**	**-**	**-**	**2,471**

SECTION 15 - NET IMPAIRMENT LOSSES ON INTANGIBLE ASSETS - ITEM 220

15.1 Net impairment losses on intangible assets: breakdown

	Amortisation (a)	Impairment losses (b)	Impairment gains (c)	**Carrying amount (a + b - c)**
A. Intangible assets				
A.1 Owned	**239**	-	-	**239**
▪ Developed internally	-	-	-	-
▪ Other	239	-	-	239
A.2 Right-of-use assets acquired under a lease	-	-	-	-
Total	**239**	-	-	**239**

SECTION 16 - OTHER OPERATING INCOME AND EXPENSE - ITEM 230

16.1 Other operating expense: breakdown

	2021	2020
Amortisation of leasehold improvements	28	27
Other operating expense	3,090	1,729
Total	**3,118**	**1,756**

Other expense includes, in addition to the amortisation of improvement costs related to multiple years and contingent costs of prior years, the payment to the Interbank Deposit Protection Fund amounting to € 1.6 million (€ 1.3 million in the previous year).

16.2 Other operating income: breakdown

	2021	2020
Recoveries of expenses on current accounts and deposits for sundry taxes	633	518
Recoveries of sundry expenses	312	157
Other income	2,247	1,341
Total	**3,192**	**2,016**

"Recoveries of expenses on current accounts and deposits for sundry taxes" include the amounts recovered from customers for the substitute tax on medium and long-term loans and for the stamp duty on current account and security statements of account. Other income includes the release of estimated accrued costs of € 0.9 million for accruals made in the previous year that were not incurred in 2021.

SECTION 20 - GAINS ON SALES OF INVESTMENTS - ITEM 280

20.1 Gains on sales of investments: breakdown

	2021	2020
A. Property	-	-
- Gains on sale	-	-
- Losses on sale	-	-
B. Other assets	-	1,090
- Gains on sale	-	1,090
- Losses on sale	-	-
Net gain	**-**	**1,090**

SECTION 21 - INCOME TAXES - ITEM 300

21.1 Income taxes: breakdown

		2021	2020
1.	Current taxes (-)	(10,575)	(12,930)
2.	Changes in current taxes of previous years (+/-)	26	139
3.	Decrease in current taxes for the year (+)	-	-
3.bis	Decrease in current taxes for the year due to tax assets pursuant to Law no. 214/2011 (+)	-	-
4.	Changes in deferred tax assets (+/-)	545	1.569
5.	Changes in deferred tax liabilities (+/-)	(912)	28
6.	Tax expense for the year (-) (-1+/-2+3+3.bis+/-4+/-5)	(10,916)	(11,194)

21.2 Reconciliation between theoretical and effective tax expense

IRES (CORPORATE INCOME TAX)	Taxable income	IRES (CORPORATE INCOME TAX)	%
Theoretical IRES expense	**33,901**	**(9,323)**	**27.50%**
Permanent increases	1,401	(385)	1.14%
Temporary increases	8,139	(2,238)	6.60%
Permanent decreases	(11,674)	3,210	-9.47%
Temporary decreases	(1,447)	398	-1.17%
Effective IRES expense	**30,320**	**(8,338)**	**24.60%**
IRAP (REGIONAL BUSINESS TAX)	Taxable income	IRAP (REGIONAL BUSINESS TAX)	%
Theoretical IRAP expense	**35,384**	**(1,971)**	**5.57%**
Permanent increases	75,728	(4,218)	11.92%
Temporary increases	4,450	(248)	0.70%
Permanent decreases	(75,222)	4,189	-11.84%
Temporary decreases	(206)	11	-0.03%
Effective IRAP expense	**40,134**	**(2,237)**	**6.32%**
▪ Other tax expense	-	-	-
Total effective IRES and IRAP expense	**70,454**	**(10,575)**	**29.88%**

SECTION 22 - POST-TAX LOSS FROM DISCONTINUED OPERATIONS - ITEM 320

22.1 Post-tax loss from discontinued operations: breakdown

	2021	2020
1. Income	2	-
2. Expense	(5)	-
3. Result of the measurement of the group of assets and associated liabilities	-	-
4. Gains (losses) on sales	-	-
5. Taxes and duties	(17)	-
Loss	**(20)**	**-**

22.2 Breakdown of income taxes from discontinued operations

	2021	2020
1. Current taxes (-)	(17)	-
2. Changes in deferred tax assets (+/-)	-	-
3. Changes in deferred tax liabilities (-/+)	-	-
4. Income taxes for the year (-1+/-2+/-3)	**(17)**	**-**

SECTION 23 - PROFIT (LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTERESTS - ITEM 340

	2021	2020
Equity investments in consolidated companies with significant non-controlling interests	**272**	**(484)**
1. ProntoPegno S.p.A.	272	(484)
Other investments	**-**	**-**
Total	**272**	**(484)**

The amount shown refers to the 25% interest in the subsidiary ProntoPegno S.p.A.

SECTION 24 - OTHER INFORMATION

Nothing to report.

SECTION 25 – EARNINGS PER SHARE

Earnings per share (EPS)	2021	2020
Profit for the year (thousands of Euro)	23,251	26,153
Average number of outstanding shares	80,391,577	80,252,383
Basic earnings per share (basic EPS) (in Euro)	0.289	0.321
Diluted earnings per share (diluted EPS) (in Euro)	0.289	0.321

EPS is calculated by dividing the profit attributable to holders of ordinary shares of Banca Sistema (numerator) by the weighted average number of ordinary shares (denominator) outstanding during the year.

PART D - OTHER COMPREHENSIVE INCOME

Breakdown of comprehensive income

		2021	2020
10.	**Profit for the year**	**23,251**	**26,153**
	Items, net of tax, that will not be reclassified subsequently to profit or loss	-	-
20.	Equity instruments designated at fair value through other comprehensive income	-	-
	a) fair value gains (losses)	-	-
	b) transfers to other equity items	-	-
30.	Financial liabilities designated at fair value through profit or loss (changes in own credit rating):	-	-
	a) fair value gains (losses)	-	-
	b) transfers to other equity items	-	-
40.	Hedging of equity instruments designated at fair value through other comprehensive income:	-	-
	a) fair value gains (losses) - hedged item	-	-
	b) fair value gains (losses) - hedging instrument	-	-
50.	Property and equipment	-	-
60.	Intangible assets	-	-
70.	Defined benefit plans	(12)	(124)
80.	Non-current assets held for sale	-	-
90.	Share of valuation reserves of equity-accounted investments	-	-
100.	Income taxes on items that will not be reclassified subsequently to profit or loss	-	-
	Items, net of tax, that will be reclassified subsequently to profit or loss	-	-
110.	Hedges of foreign investments:	-	-
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
120.	Exchange rate gains (losses):	-	-
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
130.	Cash flow hedges:	-	-
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
	of which: net position gains (losses)	-	-
140.	Hedging instruments (non-designated elements):	-	-
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-

		2021	2020
150.	Financial assets (other than equity instruments) measured at fair value through other comprehensive income:	(4,342)	1,144
	a) fair value gains (losses)	(2,542)	1,092
	b) reclassification to profit or loss	-	-
	- impairment losses due to credit risk	(29)	52
	- gains/losses on sales	(1,771)	-
	c) other changes	-	-
160.	Non-current assets held for sale and disposal groups:	-	-
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
170.	Share of valuation reserves of equity-accounted investments:	-	-
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss		
	- impairment losses	-	-
	- gains/losses on sales	-	-
	c) other changes	-	-
180.	Income taxes on items that will be reclassified subsequently to profit or loss	-	-
190.	**Total other comprehensive income (expense)**	**(4,354)**	**1,020**
200.	**Comprehensive income (10+190)**	**18,897**	**27,173**
210.	Comprehensive income attributable to non-controlling interests	-	-
220.	**Comprehensive income attributable to the owners of the parent**	**18,897**	**27,173**

SECTION 1 - CONSOLIDATION RISKS

QUANTITATIVE DISCLOSURE

A. CREDIT QUALITY

A.1 Impaired and unimpaired loans: carrying amounts, impairment losses, performance and business breakdown

A.1.1 Breakdown of financial assets by portfolio and by credit quality (carrying amounts)

	Bad exposures	Unlikely to pay	Non-performing past due exposures	Other non-performing exposures	Performing exposures	Total
1. Financial assets measured at amortised cost	121,545	26,001	108,010	320,265	2,378,353	2,954,174
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	445,804	445,804
3. Financial assets designated at fair value through profit or loss	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value through profit or loss	-	-	-	-	-	-
5. Financial assets held for sale	-	-	-	-	-	-
Total at 31.12.2021	**121,545**	**26,001**	**108,010**	**320,265**	**2,824,157**	**3,399,978**
Total at 31.12.2020	**27,114**	**128,080**	**49,942**	**546,227**	**2,749,848**	**3,501,211**

A.1.2 Breakdown of financial assets by portfolio and by credit quality (gross amount and carrying amount)

	Non-performing				Performing			
	Gross amount	Total impairment losses	Carrying amount	Overall partial write-offs	Gross amount	Total impairment losses	Carrying amount	Total (carrying amount)
1. Financial assets measured at amortised cost	315,075	59,519	255,556	-	2,705,502	6,884	2,698,618	2,954,174
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	445,982	178	445,804	445,804
3. Financial assets designated at fair value through profit or loss	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily measured at fair value through profit or loss	-	-	-	-	X	X	-	-
5. Financial assets held for sale	-	-	-	-			-	-
Total at 31.12.2021	**315,075**	**59,519**	**255,556**	**-**	**3,151,484**	**7,062**	**3,144,422**	**3,399,978**
Total at 31.12.2020	**251,165**	**46,028**	**205,137**	**-**	**3,305,331**	**9,220**	**3,296,075**	**3,501,211**

B. Disclosure of structured entities (other than securitisation companies)

B.1 Consolidated structured entities

No such items existed at the reporting date.

B.2. Unconsolidated structured entities

No such items existed at the reporting date.

B.2.1. Prudentially consolidated structured entities

No such items existed at the reporting date.

B.2.2. Other structured entities

No such items existed at the reporting date.

SECTION 2 - PRUDENTIAL CONSOLIDATION RISKS

1.1 Credit risk

QUALITATIVE DISCLOSURE

1. General aspects

In order to manage the significant risks to which it is or could be exposed, the Banca Sistema Group has set up a risk management system that reflects the characteristics, size and complexity of its operations.

In particular, this system hinges on four core principles:

- suitable supervision by relevant bank bodies and departments;
- satisfactory risk management policies and procedures;
- suitable methods and instruments to identify, monitor and manage risks, with suitable measuring techniques; thorough internal controls and independent reviews.

In order to reinforce its ability to manage corporate risks, the Bank established the Risk and ALM Committee - a committee independent of the Board of Directors, which supports the CEO in defining strategies, risk policies and profitability targets.

The Risk Committee continuously monitors the relevant risks and any new or potential risks arising from changes in the working environment or forward-looking operations.

With reference to the new regulation in matters of the operation of the internal control system, in accordance with the principle of collaboration between the control functions, the Internal Control and Risk Management Committee (a Board committee) was assigned the role of coordinating all the control functions.

The Risk Department of the Parent is responsible for the guidance, coordination and management of the Group's risks.

The methods used to measure, assess and aggregate risks are approved by the Board of Directors, based on proposals from the Risk Department, subject to approval by the Risk Committee. In order to measure "Pillar 1 risks", the Group has adopted standard methods to calculate the capital requirements for Prudential Regulatory purposes.

In order to evaluate non-measurable "Pillar 2 risks", the Group adopts - where possible - the methods stipulated under Supervisory regulations or those established by trade associations. If there are no such indications, standard market practices by operators working at a level of complexity and with operations comparable to those of the Bank are assessed.

With reference to the new provisions in matters of regulatory supervision (15th update of circular no. 263 - New prudential supervisory provisions for banks), a series of obligations on risk management and control, including the Risk Appetite Framework (RAF) and the regulatory instructions defined by the Basel Committee were introduced. The Bank has tied the strategic objectives to the RAF. The key ratios and the respective levels were assessed and any revisions needed were made while defining the bank's annual objectives.

In particular, the RAF was designed with key objectives to verify that over time, the business grows and develops observing capital strength and liquidity obligations, implementing monitoring and alert mechanisms and related series of actions that allow prompt intervention in case of significant discrepancies.

The structure of the RAF is based on specific indicators so-called Key Risk Indicators (KRI) which measure the Group's solvency in the following areas:

- Share capital;
- Liquidity;
- Quality of the loans and receivables portfolio;

- Profitability;
- Other specific risks the Group is exposed to.

Target levels, which are adjusted according to the expected development of the business in the Plan and/or the Budget reviews, the level I thresholds, defined as "warning" thresholds, that trigger discussion at Risk Committee level and subsequent communication to the Board of Directors and the level II thresholds, that require direct discussion in the Board of Directors' meeting to determine the actions to be taken are associated with the various key indicators. The level I and II thresholds are defined with scenarios of potential stress with respect to the plan's objectives and on dimensions having a clear impact for the Group.

Starting from 1 January 2014, the Group used an integrated reference framework both to identify its own risk appetite and for the internal process entailing the determination of the capital adequacy (Internal Capital Adequacy Assessment Process - ICAAP). Starting in 2017, it also implemented the Internal Liquidity Adequacy Assessment Process (ILAAP).

As concerns this matter, the Bank fulfils the public disclosure requirements with the issuing of Circular no. 285 of 17 December 2013 "Prudential supervisory provisions for banks" in which the Bank of Italy transposed Directive 2013/36/EU (CRD IV) of 26 June 2013. This regulation, together with that contained in Regulation (EU) no. 575/2013 (the so-called "CRR") incorporates the standards defined by the Basel Committee on Banking Supervision (the so-called "Basel III").

The prudential supervisory provisions provide for the banks the possibility to determine the weighting coefficients for the calculation of the capital requirement with respect to credit exposure within the standardised approach based on the creditworthiness ratings issued by External Credit Assessment Institutions (ECAI) of the Bank of Italy.

As at 31 December 2021, the Group uses the appraisal issued by the ECAI "DBRS", for the exposures to Central Authorities, Territorial Entities and Public Sector Institutions, whereas, as concerns the valuations related to the regulatory business segment, it uses the agency "Fitch Ratings Ltd".

The identification of a reference ECAI does not represent in any way, in subject matter or in purposes, an assessment on the merit of the opinions made by the ECAI or a support of the methodologies used, for which the External Credit Assessment Institutions remain solely responsible.

The assessments issued by the rating agencies do not exhaust the creditworthiness assessment process that the Group performs with regard to its customers; rather they represent a further contribution to define the information framework regarding the credit quality of the customer.

The satisfactory appraisal of the borrower's creditworthiness, with regards to capital and income, and of the correct remuneration of the risk, are made based on documentation acquired by the Group; the information acquired from the Bank of Italy Central Credit Register and from other infoproviders, both when decisions are made and during the subsequent monitoring, complete the informational framework.

For Banca Sistema, credit risk is one of the Group's main components of overall exposure; the loans and receivables portfolio predominantly consists of National Institutions of the Public Administration, such as local health authorities/ Hospitals, Territorial entities (Regions, Provinces and Municipalities) and Ministries that, by definition, entail a very limited default risk.

The main components of Banca Sistema Group's operations that generate credit risk are:

- Factoring activities (with and without recourse);
- Medium-term corporate loans (with guarantee from SACE or the National Guarantee Fund - FNG);
- Acquisition without recourse of salary-/pension-backed loans;
- Collateralised Lending (mainly secured by gold).

2. Credit Risk Management Policies

The Group's organisational model provides that the preliminary credit assessment procedure be performed carefully in accordance with the decision-making powers reserved to the decision-making bodies.

In order to maintain the high credit quality of its loans and receivables portfolio, the Bank, following the divisionalisation process, has set up separate Credit Committees for the two Factoring and CQ Divisions, within which decisions may be taken up to pre-defined credit mandates, while a CEO Credit Committee has been set up for transactions that exceed the powers of the individual Divisions up to the limits delegated by the Board of Directors to the Chief Executive Officer. At the same time, the Credit Coordination Committee was introduced, which makes it possible to ensure consistency in the granting of credit and close monitoring of individual positions. Level II activities relating to risk control are centralised in the Parent's Risk Department which also coordinates with the Compliance, Anti-Money Laundering and Risk Department of the ProntoPegno subsidiary for risk-related activities.

In light of the above, the analyses conducted for the granting of credit are carried out by the Bank's Underwriting Departments, which report to their respective Divisions. For the Factoring Division, the Department performs assessments focused on the separate analysis and extension of credit to counterparties (assignor and debtor) and on managing the related financial transactions. This takes place in all normal phases of the credit process, summarised as follows:

- "analysis and assessment": the gathering of quantitative and qualitative information from the counterparties under examination and within the system allows an opinion of the party's reliability to be obtained and is helpful in quantifying the proposed line of credit;
- "deliberation and formalisation": once the proposal has been deliberated upon, the contractual documentation to be signed by the counterparty is prepared;
- "monitoring the relationship": the continuous control of the counterparties benefiting from the credit allows any anomalies to be identified and consequentially prompt intervention.

Credit risk is mainly generated as a direct result of the definitive acquisition of credit from the customer company versus the insolvency of the assigned debtor. In particular, the credit risk generated by the factoring portfolio essentially consists of public entities.

With regard to each credit acquired, Banca Sistema performs, via the Out-of-Court Collection and Legal Collection Departments, both of which report to the Credit Department of the Factoring Division, activities described further on in order to verify the credit status, and whether or not there are any impediments to the payment of the invoices to be assigned, and the date scheduled for the payment thereof.

Specifically, the structure endeavours:

- to verify that each credit is certain, liquid and collectable, i.e. there are no disputes or complaints and that there is no further request for clarification or information with regard to said credit and should there be any, that said requests are promptly satisfied;
- to verify that the debtor has received and recognised in its system the related deed of assignment, i.e. it is aware that the credit has been assigned to Banca Sistema;
- to verify that the debtor, where provided for by the assignment agreement and by the purchase offer, has formalised its acceptance of the assignment of the related credit or has not rejected it in accordance with law;
- to verify that the debtor has received all the documentation required to proceed with the payment (copy of invoice, orders, bills, transportation documents, etc.) and that it has recognised the corresponding debt in its system (existence of the credit);
- to verify c/o the local and/or regional institutions: the existence of specific allocations, available cash;
- to verify the payment status of the credits via meetings c/o the Public Administrations and/or debtor agencies, telephone contacts, emails, etc. in order to facilitate the ascertainment and the removal of any obstacles that could delay and/or impede payment.

With regard to the SME Loans product, beginning in February 2017, it was decided to exit this segment of the market as well as the run-off of prior exposures in the portfolio. On this basis, credit risk is associated with the inability of the two counterparties involved in the loan to honour their financial commitments, i.e.:

- the debtor (SME);
- the Guarantee Fund (the Government of Italy).

The type of loan follows the usual operating process concerning the preliminary assessment, the disbursement and the monitoring of the credit.

In particular, two separate due-diligence procedures are performed on this type of loan (one by the Bank and the other by Mediocredito Centrale, so-called MCC) on the borrower of funds.

The debtor's insolvency risk is mitigated by direct (i.e. that referring to an individual exposure), explicit, unconditional and irrevocable guarantee by the Guarantee Fund, the sole Manager of which is MCC.

As regards the CQ Division, this activity is carried out through the direct origination of loans mainly through agents/brokers or through the acquisition of salary-/pension-backed loan portfolios. The credit risk is associated with the inability of the three counterparties involved in the loan process to honour their financial commitments, i.e.:

- the employer (ATC)
- the financial assigning company
- the insurance company

The insolvency risk of the employer (ATC) / debtor is generated in the following cases:

- default of employer (e.g.: bankruptcy);
- the debtor losing his job (e.g.: resignation/ dismissal of the debtor) or reduction of remuneration (e.g.: redundancy fund);
- death of the debtor.

The risks described above are mitigated by the mandatory subscription of life and employment insurance policies. In detail:

- the employment risk policy fully covers any insolvency deriving from the reduction of the debtor's remuneration whereas, in case of default by the employer or debtor's loss of job, the coverage is limited to the portion of the residual debt in excess of the post-employment benefits accrued;
- the life risk policy provides that the insurance company will intervene to cover the portion of the residual debt expiring subsequent to death; any instalments previously not settled remain instead incumbent upon by the heirs

The Bank is subject to the insolvency risk of the insurance company in the event that a claim is made upon a loan. In order to mitigate this risk, the Bank requires that the outstanding loans and receivables portfolio be insured by several insurance companies observing the following terms:

- an individual company with no rating or with rating lower than Investment Grade may insure a maximum of 30% of the cases;
- an individual company of Investment Grade may insure a maximum of 40% of the cases.

The employer insolvency risk is generated in the event that a case is retroceded back to the employee, which must therefore, repay the credit to the Bank. The Framework Agreement signed with the employer provides for the possibility of returning the credit in the cases of fraud on the part of the employer/debtor or in any case, of non-observance, on the part of the employer, of the criteria underwritten in the Framework Agreement.

As concerns the financial instruments held on its own account, the Bank performs security purchase transactions regarding Italian government debt, which are allocated based on the investment strategy, to the HTC, HTCS and HTS portfolios.

With reference to the aforementioned transactions the Bank identified and selected specific IT applications to manage and monitor the treasury limits on the securities portfolio and to set up the second level controls.

The Treasury Department, operating within the limits allowed by the Board of Directors, conducts said transactions.

Effects of the Covid-19 pandemic

Regarding credit risk, Banca Sistema responded positively to all initiatives aimed at supporting the real economy implemented by the EU Government. All forbearance measures are established to respond as quickly as possible to the adverse impact caused by the temporary slowdown in the economic cycle and the related potential impact on liquidity. The potential impact on the Bank's risk profile is mitigated:

- by obtaining government guarantees that are consistent with the mechanisms put in place by the various governments;
- through an ex-ante and ongoing assessment of the customer's risk profile.

2.2 Management, measurement and control systems

The Group sets effective Credit Risk Management as a strategic objective via instruments and processes integrated to ensure a correct credit management in all phases (processing, disbursement, monitoring and management, intervening on loans with credit quality problems).

By involving the various central structures of Banca Sistema and through the specialisation of the resources and the segregation of duties at each decision-making level, it seeks to guarantee a high degree of efficiency and standardisation in overseeing credit risk and monitoring the individual positions.

With specific reference to the monitoring of credit activities, the Bank, via the collection meetings, assesses and inspects the loans and receivables portfolio based upon the guidelines defined within the "collection policy". The framework related to the above credit risk ex-post monitoring sets the objective of promptly identifying any anomalies and/or discontinuities and evaluating the persistence of risk profiles, in line with the strategic indications provided.

The purchase activities of government securities classified among HTCS financial assets (formerly classified as available-for-sale) continued during 2021 in relation to the credit risk associated with the bond securities portfolios. Said financial assets, which in virtue of their classification fall within the perimeter of the "banking book" although outside of the bank's traditional investment activity, are sources of credit risk. This risk consists in the issuer's inability to redeem, upon maturity, all or part of the bonds subscribed.

The securities held by Banca Sistema consist exclusively of Italian government securities, with an average duration of less than three years for the overall portfolio.

Furthermore, the formation of a portfolio of highly liquid assets is also expedient for anticipating the trend of the prudential regulations in relation to the governance and management of liquidity risk.

As concerns counterparty risk, Banca Sistema's operations call for extremely prudent reverse repurchase and repurchase agreements being that Italian government securities are the predominant underlying instrument and the Compensation and Guarantee Fund is the predominant counterparty.

2.3 Methods of measuring expected losses

The general approach defined by IFRS 9 for estimating impairment is based on a process aimed at giving evidence of the deterioration of a financial instrument's credit quality from the date of initial recognition to the reporting date. The regulatory guidance on assigning loans and receivables to the various stages under the Standard ("staging" or "stage allocation") calls for the identification of significant changes in credit risk based on the changes in a counterparty's creditworthiness since initial recognition, the expected life of the financial asset and other forward-looking information that may affect credit risk.

Consistently with the provisions of IFRS 9, performing loans are therefore divided into two categories:

- Stage 1: this bucket contains assets that do not show signs of significant deterioration in credit quality. For this stage the expected one-year credit loss is calculated on a collective basis;
- Stage 2: this bucket contains assets that show signs of significant deterioration in credit quality from the date of initial recognition to the reporting date. The expected loss for this bucket must be calculated on a lifetime basis, i.e. over the entire duration of the instrument, on a collective basis.

2.4 Credit Risk mitigation techniques

It should be noted that, at the reporting date, the Bank did not implement any hedging of the loans and receivables portfolio.

As concerns credit and counterparty risk on the securities portfolio and on the repurchase agreements, risk mitigation is pursued by a careful management of the operational autonomy, establishing limits in terms of both responsibility and consistency and composition of the portfolio by type of securities.

3. Non-performing exposures

The Banca Sistema Group defined its credit quality policy based on the provisions in the Bank of Italy Circular no. 272 (Accounts matrix), the main definitions of which are provided on the following pages.

The Supervisory Provisions for Banks assign to intermediaries specific obligations concerning the monitoring and classification of loans: "The obligations of the operating units in the monitoring phase of the loan granted must be deducible from the internal regulation. In particular, the terms and methods of action must be set in the event of anomalies. The criteria for measurement, management and classification of irregular loans, as well as the related responsible units, must be set through a resolution by the Board of Directors in which the methods for connecting these criteria with those required for the supervisory reports are indicated. The Board of Directors must be regularly informed on the performance of the irregular loans and the related recovery procedures".

According to the definitions in the above-mentioned Bank of Italy Circular, "non-performing" financial assets are defined as those that lie within the "bad exposures", "unlikely to pay" or "past due and/or overdrawn exposures" categories.

Exposures whose anomalous situation is attributable to factors related to "country risk" are not included in "non-performing" financial assets.

In particular, the following definitions apply:

Bad exposures

On- and off-statement of financial position exposures (loans, securities, derivatives, etc.) owed by a party in state of insolvency (even if not judicially ascertained) or in broadly similar situations, regardless of any loss forecast formulated by the Group (cf. art. 5 bankruptcy law). The definition therefore applies regardless of the existence of any collateral or personal guarantee provided as protection against the exposures.

This class also includes:

- the exposure to local institutions (municipalities and provinces) in state of financial difficulty for the portion subject to the applicable liquidation procedure;
- receivables acquired from third parties in which the main debtors are non-performing, regardless of the portfolio's accounting allocation.

Unlikely to pay

The classification in this category is first and foremost based on the Bank's judgement regarding the unlikelihood that, without having to resort to actions such as enforcing the guarantees, the debtor will completely (with regard to principal and/or interest) fulfil its credit obligations. This assessment is made independently of whether any sums (or instalments) are past due and not paid. It is therefore unnecessary to wait for explicit symptoms of irregularity (non-repayment) if there are elements that entail a situation of default risk on the part of the debtor (e.g. a crisis in the industrial sector in which the debtor operates). The set of on- and off-statement of financial position exposures to the same debtor in the above conditions is named "unlikely to pay", unless the conditions for classifying the debtor under bad exposures exist. The exposures to retail parties may be classified in the unlikely to pay category at the level of the individual transaction, provided that the Bank has assessed that the conditions for classifying the set of exposures to the same debtor in that category do not exist.

Past due and/or overdrawn exposures

These are understood to be the on-statement of financial position exposures at carrying amount and off-statement of financial position exposures (loans, securities, derivatives, etc.), other than those classified as bad exposures and unlikely to pay, that, on the reference date of the report, are past due or overdrawn.

Past due and/or overdrawn exposures can also be determined by referring to the individual debtor or the individual transaction.

Starting from 1 January 2021, the Banca Sistema Group applies the rules envisaged by the introduction of the new definition of default by applying the EBA Guidelines.

a) Individual debtor approach

The overall exposure to a debtor shall be recognised as past due and/or overdrawn, in accordance with Delegated Regulation (EU) No 171/2018 of the European Commission of 19 October 2017, if, at the date of the report, the amount of principal, interest or fees outstanding at the due date exceeds both of the following thresholds: a) absolute limit of € 100 for retail exposures and of € 500 for non-retail exposures; b) relative limit of 1% as determined by the ratio of the total past due and/or overdrawn amount to the total amount of all credit exposures to the same debtor.

The thresholds must be exceeded continuously, in other words for 90 consecutive days except for certain types of commercial exposures to central authorities, local authorities and public sector entities for which the provisions of paragraphs 25 and 26 of the Guidelines apply. The provisions set out in paragraphs 16 to 20 of the Guidelines apply when calculating the number of past due days. The provisions set out in paragraph 23(d) and paragraphs 27 to 32 of the Guidelines apply to factoring transactions. For exposures involving instalments, the rules set out in article 1193 of the Italian Civil Code apply to the allocation of payments to individual instalments that are past due, unless otherwise specifically agreed in the contract. Where credit exposures are required to be broken down by past due range, the number of past due days is counted from the date when the first default occurs for each exposure, regardless of whether the thresholds are exceeded. If a debtor has several exposures that are past due and/or overdrawn by more than 90 days, these exposures shall be reported separately in the corresponding past due ranges.

b) Individual transaction approach

Past due and/or overdrawn exposures to retail parties may be determined at the level of the individual transaction. Whether an individual transaction approach or an individual debtor approach is chosen shall reflect internal risk management practices. An exposure that is past due or overdrawn shall be recognised as past due and/or overdrawn, in accordance with Delegated Regulation (EU) No 171/2018 of the European Commission of 19 October 2017, if, at the date of the report, it exceeds both of the following thresholds: a) absolute limit of € 100; b) relative limit of 1% as determined by the ratio of the total amount past due or overdrawn to the total amount of the entire credit exposure. The thresholds must be exceeded continuously, in other words for 90 consecutive days. If the entire amount of an on-statement of financial position credit exposure that is past due and/or overdrawn for more than 90 days is equal to or greater than 20% of the total on-statement of financial position credit exposures to the same debtor, the total on- and off-statement of financial position credit exposures to that debtor must be considered past due and/or overdrawn (the so-called "pulling effect"). The numerator and denominator are calculated using the carrying amount for securities and the on-statement of financial position credit exposure for other credit positions.

In the calculation of the capital requirement for the credit and counterparty risk, Banca Sistema uses the standardised approach. This envisages that the exposures that lie within the portfolios related to "Central Authorities and Central Banks", "Territorial entities", and "Public sector institutions" and "Businesses", must apply the notion of past due and/or overdrawn exposures at the level of the debtor party.

Forborne exposures

Forborne exposures are defined as exposures that fall into the category "Non-performing exposures with forbearance measures" and "Forborne performing exposures" as defined by the Implementing Technical Standards (ITS).

A forbearance measure represents a concession towards a debtor which faces or is about to face difficulties in fulfilling its financial obligations ("financial difficulties"); a "concession" indicates one of the following actions:

- an amendment of the previous terms and conditions of a contract which the debtor is considered unable to fulfil due to its financial difficulties, that would not have been granted if the debtor was not in financial difficulty;
- a total or partial refinancing of a problem loan that would not have been granted if the debtor was not in financial difficulty.

Non-performing exposures with forbearance measures: individual on-statement of financial position exposures and revocable and irrevocable commitments to disburse funds that meet the definition of "Non-performing exposures with forbearance measures" in Annex V, Part 2, paragraph 262 of the ITS. Such exposures shall be classified as bad exposures, unlikely to pay or past due and/or overdrawn exposures, as appropriate, and shall not form a separate category of impaired assets.

The qualitative and quantitative criteria set out in paragraphs 49 to 55 of the EBA Guidelines for a distressed restructuring must also be considered when classifying forborne exposures among non-performing exposures.

Forborne performing exposures: this category includes other credit exposures that fall within the category of "forborne performing exposures" as defined in the ITS.

3.1 Management strategies and policies

The current regulatory framework requires impaired financial assets to be classified according to their criticality. More specifically, there are three categories: “bad exposures”, “unlikely to pay” and “past due and/or overdrawn exposures”.

- Bad exposures: exposures owed by a party in state of insolvency (even if not judicially ascertained) or in broadly similar situations, regardless of the loss forecasts formulated by the institution.
- Unlikely to pay: exposures for which the institution considers it unlikely that the debtor will fully meet its obligations without having to resort to actions such as the enforcement of guarantees, regardless of whether there are any past due and/or overdrawn amounts.
- Past due and/or overdrawn exposures: exposures, other than those classified as bad exposures or unlikely to pay, which have been continuously past due and/or overdrawn for more than 90 days.

Forborne exposures, which refer to exposures that are subject to renegotiation and/or refinancing due to the customer's financial difficulties (whether evident or developing), are also classified. These exposures may constitute a subset of non-performing loans (non-performing exposures with forbearance measures) and performing loans (forborne performing exposures). The management of these exposures, in compliance with the regulatory provisions regarding timing and classification methods, is supported by specific work processes and IT tools.

The Group has a policy that establishes criteria and methods for recognising impairment losses by standardising the rules that, depending on the type of non-performing loan and its original technical form, define the methods and processes used to determine expected losses. The management of non-performing exposures is assigned to the Credit Departments of the Divisions, which are responsible for identifying strategies for maximising collection on individual positions and establishing the impairment losses to be recognised for those positions through a formalised process.

The expected loss reflects a number of elements derived from various internal and external assessments of the financial condition of the main debtor and any guarantors. Expected losses are continuously monitored and compared to the changes in each position. The Risk Department oversees the collection of non-performing loans.

In order to maximise collections, the relevant departments identify the best strategy for managing non-performing exposures, which, based on the subjective characteristics of the individual counterparty/exposure and internal policies, may include amending the contractual terms (forbearance), establishing the methods for loan collection, or assigning the credit to third parties (either for individual exposures or for a group of positions with similar characteristics).

3.2 Write-offs

Non-performing exposures for which collection is not possible (whether in full or in part) are written off from the accounting records in compliance with the policies in force at the time and subject to approval by the Group's Board of Directors.

3.3 Purchased or originated credit-impaired financial assets

In accordance with “IFRS 9 - Financial Instruments”, in some cases a financial asset is considered impaired at initial recognition because the credit risk is very high, and in the case of a purchase, it is acquired at a significant discount (compared to the original disbursement value). If the financial assets in question, based on the application of the classification drivers (i.e. SPPI test and business model), are classified among assets measured at amortised cost or at fair value through other comprehensive income, they are classified as "Purchased or Originated Credit-Impaired" (in short "POCI") and are subject to specific treatment. More specifically, impairment losses equal to the lifetime expected credit loss (ECL) are recognised from the date of initial recognition over the asset’s entire life. In light of the above, POCI financial assets are initially recognised in stage 3, although they may be subsequently reclassified to performing loans, in which case an expected loss equal to the lifetime ECL (stage 2) will continue to be recognised. A POCI financial asset is therefore classified as such in the expected credit loss (ECL) reporting and calculation processes.

4. Financial assets subject to commercial renegotiation and forborne exposures

In the event the debtor is experiencing financial difficulties, the contractual terms of the exposures may be amended in favour of the debtor in order to make repayment financially sustainable. Depending on the subjective characteristics of the exposure and the reasons behind the debtor's financial difficulties, the amendments may be short term (temporary suspension of the payment of the principal of a loan or extension of a maturity) or long term (extension of the duration of a loan, adjustment of the interest rate) and result in the exposure (both performing and non-performing) being classified as “forborne”. “Forborne” exposures are subject to specific provisions for classification in accordance with EBA ITS 2013-35, as transposed in the Group's credit policies. If the forbearance measures are applied to performing exposures, these are included in the group of stage 2 exposures. All exposures classified as “forborne” are included in specific monitoring processes by the relevant departments.

QUANTITATIVE DISCLOSURE

A. Credit quality

A.1 Impaired and unimpaired loans: carrying amounts, impairment losses, performance and business breakdown

A.1.1 Prudential consolidation - Breakdown of financial assets by past due range (carrying amounts)

	First stage			Second stage			Third stage			Purchased or originated credit-impaired		
	From 1 day to 30 days	From more than 30 days to 90 days	More than 90 days	From 1 day to 30 days	From more than 30 days to 90 days	More than 90 days	Up to 30 days	From more than 30 days to 90 days	More than 90 days	From 1 day to 30 days	From more than 30 days to 90 days	More than 90 days
1. Financial assets measured at amortised cost	29,827	12,845	276,169	38	888	500	1,296	3,504	187,195	-	-	-
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL AT 31.12.2021	**29,827**	**12,845**	**276,169**	**38**	**888**	**500**	**1,296**	**3,504**	**187,195**	**-**	**-**	**-**
TOTAL AT 31.12.2020	**13,514**	**18,292**	**504,135**	**948**	**1,063**	**8,676**	**405**	**1,137**	**175,108**	**-**	**-**	**-**

A.1.2 Prudential consolidation - Financial assets, commitments to disburse funds and financial guarantees issued: changes in impaired positions and accruals to provisions

	Total impairment losses																							Overall accruals to provisions on commitments to disburse funds and financial guarantees issued				Total
	Assets included in the first stage						Assets included in the second stage						Assets included in the third stage						Purchased or originated credit-impaired financial assets									
	Demand loans and receivables with banks and Central Banks Financial assets measured at amortised cost	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual impairment losses	of which: collective impairment losses	Demand loans and receivables with banks and Central Banks Financial assets measured at amortised cost	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual impairment losses	of which: collective impairment losses	Demand loans and receivables with banks and Central Banks Financial assets measured at amortised cost	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual impairment losses	of which: collective impairment losses	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual impairment losses	of which: collective impairment losses	First stage	Second stage	Third stage	Purchased or originated credit-impaired commitments to disburse funds and financial guarantees issued	
Opening total impairment losses	**2**	**8,253**	**206**	**-**	**-**	**8,461**	**-**	**781**	**-**	**-**	**-**	**781**	**-**	**46,028**	**-**	**-**	**46,028**	**-**	**-**	**-**	**-**	**-**	**-**	**26**	**-**	**-**	**-**	**55,297**
Increases in purchased or originated financial assets	5	3,219	-	-	-	3,225	-	90	-	-	-	90	-	12,429	-	-	12,429	-	-	-	-	-	-	20	-	-	-	15,764
Derecognition other than write-offs	-	716	28	-	-	744	-	93	-	-	-	93	-	76	-	-	76	-	-	-	-	-	-	-	-	-	-	914
Net impairment losses/gains due to credit risk (+/-)	-	(4,432)	-	-	-	(4,432)	-	(218)	-	-	-	(218)	-	1,562	-	-	1,562	-	-	-	-	-	-	(7)	-	-	-	(3,095)
Contract amendments without derecognition	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in estimation method	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs not recognised directly through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	(424)	-	-	(424)	-	-	-	-	-	-	-	-	-	-	(424)
Other changes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Closing total impairment losses	**7**	**6,324**	**178**	**-**	**-**	**6,510**	**-**	**560**	**-**	**-**	**-**	**560**	**-**	**59,519**	**-**	**-**	**59,519**	**-**	**-**	**-**	**-**	**-**	**-**	**39**	**-**	**-**	**-**	**66,628**
Recoveries from collection on financial assets that have been written off	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs recognised directly through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.1.3 Prudential consolidation - Financial assets, commitments to disburse funds and financial guarantees issued: transfers between different credit risk stages (gross amount and nominal amount)

	Gross amount / Nominal amount					
	Transfers between the first and second stage		Transfers between the second and third stage		Transfers between the first and third stage	
	From the first to the second stage	From the second to the first stage	From the second to the third stage	From the third to the second stage	From the first to the second stage	From the third to the first stage
1. Financial assets measured at amortised cost	52,779	48,291	6,543	211	53,665	53,096
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-
4. Commitments to disburse funds and financial guarantees issued	-	22,277	-	-	1,260	3,002
TOTAL AT 31.12.2021	**52,779**	**70,568**	**6,543**	**211**	**54,925**	**56,098**
TOTAL AT 31.12.2020	**54,954**	**35,496**	**4,371**	**15,456**	**43,355**	**49,307**

A.1.3a Loans subject to Covid-19 support measures: transfers between different credit risk stages (gross amount and nominal amount)

	Gross amount / Nominal amount					
	Transfers between the first and second stage		Transfers between the second and third stage		Transfers between the first and third stage	
	From the first to the second stage	From the second to the first stage	From the second to the third stage	From the third to the second stage	From the first to the third stage	From the third to the first stage
A. Loans measured at amortised cost	**-**	**-**	**-**	**-**	**-**	**50**
A.1 forborne in compliance with the EBA Guidelines	-	-	-	-	-	50
A.2 subject to existing moratoria no longer in compliance with the EBA Guidelines and not considered forborne	-	-	-	-	-	-
A.3 subject to other forbearance measures	-	-	-	-	-	-
A.4 new loans	-	-	-	-	-	-
B. Loans measured at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**
B.1 forborne in compliance with the EBA Guidelines	-	-	-	-	-	-
B.2 subject to existing moratoria no longer in compliance with the EBA Guidelines and not considered forborne	-	-	-	-	-	-
B.3 subject to other forbearance measures	-	-	-	-	-	-
B.4 new loans	-	-	-	-	-	-
TOTAL AT 31.12.2021	**-**	**-**	**-**	**-**	**-**	**50**
TOTAL AT 31.12.2020	**-**	**-**	**-**	**2,507**	**135**	**-**

A.1.4 Prudential consolidation - On- and off-statement of financial position loans and receivables with banks: gross amounts and carrying amounts

	Gross amount					Total impairment and allowances					Carrying amount	Overall partial write-offs *
		First stage	Second stage	Third stage	Purchased or originated credit-impaired		First stage	Second stage	Third stage	Purchased or originated credit-impaired		
A. ON-STATEMENT OF FINANCIAL POSITION LOANS AND RECEIVABLES												
A.1 ON DEMAND												
a) Non-performing	-	X	-	-	-	-	X	-	-	-	-	
b) Performing	174,217	174,217	-	-	-	8	8	-	-	-	174,209	
A.2 OTHER	**-**	**-**	**-**	**-**	**-**	-	X	**-**	**-**	**-**	-	
a) Bad exposures	-	X	-	-	-	-	X	-	-	-	-	
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	
b) Unlikely to pay	-	X	-	-	-	-	X	-	-	-	-	
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	
c) Non-performing past due exposures	3	X	3	-	-	-	X	-	-	-	3	
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	
d) Performing past due exposures	6	6	-	X	-	-	-	-	-	-	6	
- of which: forborne exposures	-	-	-	X	-	-	-	-	X	-	-	
e) Other performing exposures	33,447	33,447	-	X	-	45	45	-	-	-	33,402	
- of which: forborne exposures	-	-	-	X	-	-	-	-	X	-	-	
TOTAL A	**207,673**	**207,670**	**3**	**-**	**-**	**53**	**53**	**-**	**-**	**-**	**207,620**	
B. OFF-STATEMENT OF FINANCIAL POSITION LOANS AND RECEIVABLES				**-**		**-**	**-**		**-**		**-**	
a) Non-performing	-	-	-	-	-	-	X	-	-	-	-	
b) Performing	2,446	2,446	-	X	-	-	-	-	X	-	2,446	
TOTAL B	**2,446**	**2,446**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,446**	
TOTAL (A+B)	**210,119**	**210,116**	**3**	**-**	**-**	**53**	**53**	**-**	**-**	**-**	**210,066**	

A.1.5 Prudential consolidation - On- and off-statement of financial position loans and receivables with customers: gross amounts and carrying amounts

	Gross amount					Total impairment and allowances					Carrying amount	Overall partial write-offs *
		First stage	Second stage	Third stage	Purchased or originated credit-impaired		First stage	Second stage	Third stage	Purchased or originated credit-impaired		
A. ON-STATEMENT OF FINANCIAL POSITION LOANS AND RECEIVABLES												
a) Bad exposures	169,100	X	-	169,100	-	47,555	X	-	47,555	-	121,545	-
- of which: forborne exposures	1,144	X	-	1,144	-	499	X	-	499	-	645	-
b) Unlikely to pay	37,374	X	-	37,373	1	11,373	X	-	11,373	-	26,001	-
- of which: forborne exposures	357	X	-	357	-	140	X	-	140	-	217	-
c) Non-performing past due exposures	108,598	X	-	108,598	-	591	X	-	591	-	108,007	-
- of which: forborne exposures	322	X	-	322	-	1	X	-	1	-	321	-
d) Performing past due exposures	322,059	320,627	1,433	X	-	1,801	1,794	7	X	-	320,259	-
- of which: forborne exposures	7	7	-	X	-	-	-	-	X	-	7	-
e) Other performing exposures	2,795,960	2,694,535	101,425	X	-	5,204	4,651	553	X	-	2,790,756	-
- of which: forborne exposures	1,055	1,055	-	X	-	-	-	-	X	-	1,054	-
TOTAL A	**3,433,091**	**3,015,162**	**102,858**	**315,071**	**1**	**66,524**	**6,445**	**560**	**59,519**	**-**	**3,366,568**	**-**
B. OFF-STATEMENT OF FINANCIAL POSITION LOANS AND RECEIVABLES					-							
a) Non-performing	3,096	X	-	3,096	-	-	X	-	-	-	3,096	-
b) Performing	343,611	343,611	-	X	-	39	39	-	X	-	343,572	-
TOTAL B	**346,707**	**343,611**	**-**	**3,096**	**-**	**39**	**39**	**-**	**-**	**-**	**346,668**	**-**
TOTAL (A+B)	**3,779,798**	**3,358,773**	**102,858**	**318,167**	**1**	**66,563**	**6,484**	**560**	**59,519**	**-**	**3,713,236**	**-**

A.1.6 Prudential consolidation - On-statement of financial position loans and receivables with banks: gross non-performing exposures

	Bad exposures	Unlikely to pay	Non-performing past due exposures
A. Opening gross balance	**-**	**-**	**-**
- of which: positions transferred but not derecognised	-	-	-
B. Increases	**-**	**-**	**20**
B.1 transfers from performing loans	-	-	-
B.2 transfers from purchased or originated credit-impaired financial assets	-	-	-
B.3 transfers from other categories of non-performing exposures	-	-	-
B.4 contract amendments without derecognition	-	-	-
B.5 other increases	-	-	20
C. Decreases	**-**	**-**	**17**
C.1 transfers to performing loans	-	-	-
C.2 write-offs	-	-	-
C.3 collections	-	-	17
C.4 gains on sales	-	-	-
C.5 losses on sales	-	-	-
C.6 transfers to other categories of non-performing exposures	-	-	-
C.7 contract amendments without derecognition	-	-	-
C.8 other decreases	-	-	-
D. Closing gross balance	**-**	**-**	**3**
- of which: positions transferred but not derecognised	-	-	1

A.1.6bis Prudential consolidation – On-statement of financial position loans and receivables with banks: breakdown of gross forborne exposures by credit quality

No positions to report.

A.1.7 Prudential consolidation - On-statement of financial position loans and receivables with customers: gross non-performing exposures

	Bad exposures	Unlikely to pay	Non-performing past due exposures
A. Opening gross balance	**52,354**	**148,433**	**50,377**
- of which: positions transferred but not derecognised	8	718	3,875
B. Increases	**158,503**	**24,699**	**241,877**
B.1 transfers from performing loans	1,515	4,901	145,511
B.2 transfers from purchased or originated credit-impaired financial assets	7,337	994	6,353
B.3 transfers from other categories of non-performing exposures	40,385	107	2,588
B.4 contract amendments without derecognition	-	-	-
B.5 other increases	109,266	18,697	87,425
C. Decreases	**41,757**	**135,758**	**183,657**
C.1 transfers to performing loans	376	2,424	81,057
C.2 write-offs	245	-	-
C.3 collections	40,133	93,117	100,742
C.4 gains on sales	-	-	-
C.5 losses on sales	-	-	-
C.6 transfers to other categories of non-performing exposures	1,006	40,217	1,858
C.7 contract amendments without derecognition	-	-	-
C.8 other decreases	-	-	-
D. Closing gross balance	**169,100**	**37,374**	**108,597**
- of which: positions transferred but not derecognised	25	1,546	5,375

A.1.7a Loans subject to Covid-19 support measures: gross amount and carrying amount

	Gross amount					Total impairment and allowances					Carrying amount	Overall partial write-offs *
		First stage	Second stage	Third stage	Purchased or originated credit-impaired		First stage	Second stage	Third stage	Purchased or originated credit-impaired		
A. BAD LOANS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Forborne in compliance with the EBA Guidelines	-	-	-	-	-	-	-	-	-	-	-	-
b) Subject to moratoria no longer in compliance with the EBA Guidelines and not considered forborne	-	-	-	-	-	-	-	-	-	-	-	-
c) Subject to other forbearance measures	-	-	-	-	-	-	-	-	-	-	-	-
d) New loans	-	-	-	-	-	-	-	-	-	-	-	-
B. UNLIKELY-TO-PAY LOANS	**5,761**	**-**	**-**	**5,761**	**-**	**1,325**	**-**	**-**	**1,325**	**-**	**4,436**	**-**
a) Forborne in compliance with the EBA Guidelines	5,761	-	-	5,761	-	1,325	-	-	1,325	-	4,436	-
b) Subject to moratoria no longer in compliance with the EBA Guidelines and not considered forborne	-	-	-	-	-	-	-	-	-	-	-	-
c) Subject to other forbearance measures	-	-	-	-	-	-	-	-	-	-	-	-
d) New loans	-	-	-	-	-	-	-	-	-	-	-	-
C. IMPAIRED PAST DUE LOANS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Forborne in compliance with the EBA Guidelines	-	-	-	-	-	-	-	-	-	-	-	-
b) Subject to moratoria no longer in compliance with the EBA Guidelines and not considered forborne	-	-	-	-	-	-	-	-	-	-	-	-
c) Subject to other forbearance measures	-	-	-	-	-	-	-	-	-	-	-	-
d) New loans	-	-	-	-	-	-	-	-	-	-	-	-
D. PERFORMING LOANS	**17,516**	**17,516**	**-**	**-**	**-**	**44**	**44**	**-**	**-**	**-**	**17,472**	**-**
a) Forborne in compliance with the EBA Guidelines	66	66	-	-	-	2	2	-	-	-	64	-
b) Subject to moratoria no longer in compliance with the EBA Guidelines and not considered forborne	-	-	-	-	-	-	-	-	-	-	-	-
c) Subject to other forbearance measures	-	-	-	-	-	-	-	-	-	-	-	-
d) New loans	17,450	17,450	-	-	-	42	42	-	-	-	17,408	-
E. OTHER PERFORMING LOANS	**142,657**	**140,150**	**2,507**	**-**	**-**	**381**	**369**	**12**	**-**	**-**	**142,276**	**-**
a) Forborne in compliance with the EBA Guidelines	3,480	973	2,507	-	-	43	31	12	-	-	3,437	-
b) Subject to moratoria no longer in compliance with the EBA Guidelines and not considered forborne	-	-	-	-	-	-	-	-	-	-	-	-
c) Subject to other forbearance measures	-	-	-	-	-	-	-	-	-	-	-	-
d) New loans	139,177	139,177	-	-	-	338	338	-	-	-	138,839	-
TOTAL (A+B+C+D+E)	**165,934**	**157,666**	**2,507**	**5,761**	**-**	**1,750**	**413**	**12**	**1,325**	**-**	**164,184**	**-**

A.1.7bis Prudential consolidation – On-statement of financial position loans and receivables with customers: breakdown of gross forborne exposures by credit quality

	Non-performing exposures with forbearance measures	Other forborne exposures
A. Opening gross balance	**664**	**1,062**
- of which: positions transferred but not derecognised	**-**	**-**
B. Increases	**1,824**	**-**
B.1 transfers from performing exposures without forbearance measures	**-**	-
B.2 transfers from forborne performing exposures	**-**	X
B.3 transfers from non-performing exposures with forbearance measures	X	-
B.4 transfers from non-performing exposures without forbearance measures	1,423	-
B.5 other increases	401	-
C. Decreases	**666**	**-**
C.1 transfers to performing exposures without forbearance measures	**-**	-
C.2 transfers to forborne performing exposures	**-**	X
C.3 transfers to non-performing exposures with forbearance measures	X	-
C.4 write-offs	-	-
C.5 collections	1	-
C.6 gains on sales	-	-
C.7 losses on sales	-	-
C.8 other decreases	665	-
D. Closing gross balance	**1,822**	**1,062**
- of which: positions transferred but not derecognised	**-**	**-**

A.1.8 Prudential consolidation - On-statement of financial position non-performing loans and receivables with banks: changes in impaired positions

No positions to report.

A.1.9 Prudential consolidation - On-statement of financial position non-performing loans and receivables with customers: changes in impaired positions

	BAD EXPOSURES		UNLIKELY TO PAY		NON-PERFORMING PAST DUE EXPOSURES	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Opening total impairment losses	**25,241**	**369**	**20,352**	**118**	**435**	**-**
- of which: positions transferred but not derecognised	-	-	66	-	27	-
B. Increases	**26,873**	**130**	**2,416**	**21**	**496**	1
B.1 impairment losses on purchased or originated credit-impaired financial assets	-	X	-	X	-	X
B.2 other impairment losses	22,139	130	2,367	21	359	1
B.3 losses on sales	-	-	-	-	-	-
B.4 transfers from other categories of non-performing exposures	4,726	-	26	-	8	-
B.5 contract amendments without derecognition	-	-	-	-	-	-
B.6 other increases	8	-	23	-	129	-
C. Decreases	**4,559**	**-**	**11,395**	**-**	**340**	**-**
C.1 impairment gains	4,554	-	6,522	-	174	-
C.2 impairment gains due to collections	-	-	68	-	10	-
C.3 gains on sales	-	-	-	-	-	-
C.4 write-offs	-	-	-	-	-	-
C.5 transfers to other categories of non-performing exposures	-	-	4,730	-	30	-
C.6 contract amendments without derecognition	-	-	-	-	-	-
C.7 other decreases	5	-	75	-	126	**-**
D. Closing total impairment losses	**47,555**	**499**	**11,373**	**139**	**591**	**1**
- of which: positions transferred but not derecognised	-	-	202	-	6	**-**

A.2 Classification of the exposures based on external and internal rating

A.2.1 Prudential consolidation - Breakdown of financial assets, commitments to disburse funds and financial guarantees issued by external rating class (gross amounts)

The risk categories for the external rating indicated in this table refer to the creditworthiness classes of the debtors/ guarantors pursuant to prudential requirements.

The Bank uses the standardised approach in accordance with the risk mapping of the rating agencies:

- "DBRS Ratings Limited", for exposures to: central authorities and central banks; supervised brokers; public sector institutions; territorial entities;
- "Fitch Ratings", for exposures to companies and other parties.

	External rating class							
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	Without rating	**Total**
A. Financial assets measured at amortised cost	**-**	**-**	**184,114**	**-**	**-**	**-**	**2,836,463**	**3,020,577**
- First stage	-	-	184,114	-	-	-	2,418,527	2,602,641
- Second stage	-	-	-	-	-	-	102,864	102,864
- Third stage	-	-	-	-	-	-	315,071	315,071
- Purchased or originated credit-impaired	-	-	-	-	-	-	1	1
B. Financial assets measured at fair value through other comprehensive income	**-**	**-**	**445,982**	**-**	**-**	**-**	**-**	**445,982**
- First stage	-	-	445,982	-	-	-	-	445,982
- Second stage	-	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	-	-
- Purchased or originated credit-impaired	-	-	-	-	-	-	-	-
C. Financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- First stage	-	-		-	-	-	-	-
- Second stage	-	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	-	-
- Purchased or originated credit-impaired	-	-	-	-	-	-	-	-
Total (A+B+C)	**-**	**-**	-	**-**	**-**	**-**	**2,836,463**	**3,466,559**
D. Commitments to disburse funds and financial guarantees issued	**-**	**-**	**630,096** **-**	**-**	**-**	**-**	**349,154**	**349,154**
- First stage	-	-	-	-	-	-	346,058	346,058
- Second stage	-	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	3,096	3,096
- Purchased or originated credit-impaired	-	-	-	-	-	-	-	-
Total D	**-**	**-**	**-**	**-**	**-**	**-**	**349,154**	**349,154**
Total (A + B + C + D)	**-**	**-**	**630,096**	**-**	**-**	**-**	**3,185,617**	**3,815,713**

of which long-term rating

	Risk weighting factors				ECAI
Creditworthiness class	Central authorities and central banks	Supervised brokers, public sector institutions and territorial entities	Multilateral development banks	Companies and other parties	DBRS Ratings Limited
1	0%	20%	20%	20%	AAA, AA
2	20%	50%	50%	50%	A
3	50%	100%	50%	100%	BBB
4	100%	100%	100%	100%	BB
5	100%	100%	100%	150%	B
6	150%	150%	150%	150%	CCC, CC, C, D

of which short-term rating (for exposures to companies)

		ECAI
Creditworthiness class	Risk weighting factors	DBRS Ratings Limited
1	20%	R-1 H, R-1 M
2	50%	R-1
3	100%	R-2; R-3
4	150%	R-4, R-5, D
5	150%	
6	150%	

"Fitch Ratings", for exposures to companies and other parties.

of which long-term rating

	Risk weighting factors				ECAI
Creditworthiness class	Central authorities and central banks	Supervised brokers, public sector institutions and territorial entities	Multilateral development banks	Companies and other parties	Fitch Ratings
1	0%	20%	20%	20%	AAA, AA
2	20%	50%	50%	50%	A
3	50%	100%	50%	100%	BBB
4	100%	100%	100%	100%	BB
5	100%	100%	100%	150%	B
6	150%	150%	150%	150%	CCC, CC, C, RD, D

of which short-term rating (for exposures to companies)

		ECAI
Creditworthiness class	Risk weighting factors	Fitch Ratings
1	20%	F1+
2	50%	F1
3	100%	F2, F3
from 4 to 6	150%	B, C, RD,D

A.3 Breakdown of guaranteed credit exposures by type of guarantee

A.3.1 Prudential consolidation - Guaranteed on- and off-statement of financial position loans and receivables with banks

No positions to report.

A.3.2 Prudential consolidation - Guaranteed on- and off-statement of financial position loans and receivables with customers

	Gross amount	Carrying amount	Collateral (1)				CLN	Personal guarantees (2)								Total (1)+(2)
								Credit derivatives				Endorsement credits				
								Other derivatives								
			Mortgaged estate	Properties under finance lease	Securities	Other collateral		Central Counterparties	Banks	Other financial companies	Other	Public administrations	Banks	Other financial companies	Other	
1. Guaranteed on-statement of financial position loans:	**1,231,729**	**1,221,696**	**2,245**	**-**	**118**	**1,008,825**	**-**	**-**	**-**	**-**	**-**	**140,189**	**-**	**37,108**	**19,432**	**1,207,916**
1.1 fully guaranteed	1,124,787	1,116,664	2,245	-	118	1,008,286	-	-	-	-	-	50,845	-	37,108	18,063	1,116,664
- of which impaired	22,618	16,333	-	-	-	11,119	-	-	-	-	-	398	-	17	4,799	16,333
1.2 partially guaranteed	106,942	105,032	-	-	-	539	-	-	-	-	-	89,344	-	-	1,369	91,252
- of which impaired	2,287	665	-	-	-	2	-	-	-	-	-	594	-	-	69	665
2. Guaranteed off-statement of financial position loans:	**23,899**	**23,878**	**-**	**-**	**857**	**4,117**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**7,784**	**4,301**	**17,059**
2.1 fully guaranteed	15,692	15,671	-	-	857	4,117	-	-	-	-	-	-	-	7,784	2,913	15,671
- of which impaired	407	407	-	-	-	-	-	-	-	-	-	-	-	-	407	407
2.2 partially guaranteed	8,207	8,207	-	-	-	-	-	-	-	-	-	-	-	-	1,388	1,388
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

B. BREAKDOWN AND CONCENTRATION OF CREDIT EXPOSURES

B.1 Prudential consolidation - Breakdown by business segment of on- and off-statement of financial position loans and receivables with customers

	Public administrations		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Households	
	Carrying amount	Total impairment	Carrying amount	Total impairment	Carrying amount	Total impairment	Carrying amount	Total impairment	Carrying amount	Total impairment
A. On-statement of financial position loans and receivables										
A1. Bad exposures	117,134	12,336	-	-	-	-	4,249	34,559	161	660
- of which: forborne exposures	645	130						369		
A.2 Unlikely to pay	248	55	-	-	-	-	22,641	9,257	3,112	2,061
- of which: forborne exposures							217	140		
A.3 Non-performing past due exposures	91,483	337	1	-	-	-	5,935	174	10,589	80
- of which: forborne exposures	321	1								
A.4 Performing exposures	1,464,135	3,291	126,775	59	9	-	475,716	2,010	1,044,389	1,657
- of which: forborne exposures	1,062	-								
Total (A)	**1,673,000**	**16,019**	**126,776**	**59**	**9**	**-**	**508,541**	**46,000**	**1,058,251**	**4,458**
B. Off-statement of financial position loans and receivables										
B.1 Non-performing exposures		-	-	-	-	-	3,096	-	-	-
B.2 Performing exposures	20	-	190,033	-	-	-	151,572	39	1,947	-
Total (B)	**20**	**-**	**190,033**	**-**	**-**	**-**	**154,668**	**39**	**1,947**	**-**
Total (A+B) at 31.12.2021	**1,673,020**	**16,019**	**316,809**	**59**	**9**	**-**	**663,209**	**46,039**	**1,060,198**	**4,458**
Total (A+B) at 31.12.2020	**2,219,797**	**12,708**	**200,132**	**1,538**	**34**	**-**	**475,049**	**36,399**	**1,041,320**	**4,648**

B.2 Prudential consolidation - Breakdown by geographical segment of on- and off-statement of financial position loans and receivables with customers

	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Carrying amount	Total impairment losses	Carrying	Total impairment losses	Carrying amount	Total impairment losses	Carrying amount	Total impairment losses	Carrying amount	Total impairment losses
A. On-statement of financial position loans and receivables	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
A.1 Bad exposures	121,545	47,475	-	80	-	-	-	-	-	-
A.2 Unlikely to pay	26,001	11,373	-	-	-	-	-	-	-	-
A.3 Non-performing past due exposures	108,007	591	-	-	-	-	-	-	-	-
A.4 Performing exposures	3,023,617	6,668	82,922	328	4,251	20	101	-	124	1
Total (A)	**3,279,170**	**66,107**	**82,922**	**408**	**4,251**	**20**	**101**	**-**	**124**	**1**
B. Off-statement of financial position loans and receivables	**-**	**-**	**-**	**-**	**-**	**-**	-	**-**	**-**	**-**
B.1 Non-performing exposures	3,096	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	322,368	27	18,700	-	-	-	2,505	12	-	-
Total (B)	**325,464**	**27**	**18,700**	**-**	**-**	**-**	**2,505**	**12**	**-**	**-**
Total (A+B) at 31.12.2021	**3,604,634**	**66,134**	**101,622**	**408**	**4,251**	**20**	**2,606**	**12**	**124**	**1**
Total (A+B) at 31.12.2020	**3,858,296**	**53,439**	**74,231**	**1,817**	**2,754**	**17**	**3,567**	**19**	**261**	**2**

B.3 Prudential consolidation - Breakdown by geographical segment of on- and off-statement of financial position loans and receivables with banks

	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Carrying amount	Total impairment losses	Carrying amount	Total impairment losses	Carrying amount	Total impairment losses	Carrying amount	Total impairment losses	Carrying amount	Total impairment losses
A. On-statement of financial position loans and receivables	**-**	**-**	-	-	-	-	-	-	-	-
A.1 Bad exposures	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Non-performing past due exposures	3	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	210,395	53	-	-	-	-	-	-	-	-
Total (A)	**210,398**	**53**	-	-	-	-	-	-	-	-
B. Off-statement of financial position loans and receivables	**-**	**-**	-	-	-	-	-	-	-	-
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	2,446	-	-	-	-	-	-	-	-	-
Total (B)	**2,446**	**-**	-	-	-	-	-	-	-	-
Total A+B at 31.12.2021	**212,844**	**53**	-	-	-	-	-	-	-	-
Total A+B at 31.12.2020	**96,427**	**20**	-	-	-	-	-	-	-	-

As at 31 December 2021, the large exposures of the Group are as follows:

- Carrying amount € 1,894,697 (in thousands)
- Weighted value € 217,107 (in thousands)
- No. of positions 16.

D. TRANSFERS

A. Financial assets transferred and not derecognised

QUALITATIVE DISCLOSURE

The financial assets transferred and not derecognised refer to Italian government securities used for repurchase agreements. Said financial assets are classified in the financial statements among the available-for-sale financial assets, while the repurchase agreement loan is predominantly presented in due to customers. As a last resort the financial assets transferred and not derecognised comprise trade receivables used for loan transactions in the ECB (Abaco).

D.1. Prudential consolidation – Financial assets transferred and recognised in full, and associated financial liabilities: carrying amount

	Financial assets transferred and recognised in full				Associated financial liabilities		
	Carrying amount	of which: subject to securitisation transactions	of which: subject to a sales contract with repurchase agreement	of which impaired	Carrying amount	of which: subject to securitisation transactions	of which: subject to a sales contract with repurchase agreement
A. Financial assets held for trading	-	-	-	X	-	-	-
1. Debt instruments	-	-	-	X	-	-	-
2. Equity instruments	-	-	-	X	-	-	-
3. Financing	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. Other financial assets mandatorily measured at fair value through profit or loss	-	-	-		-	-	-
1. Debt instruments	-	-	-	X	-	-	-
2. Equity instruments	-	-	-		-	-	-
3. Financing	-	-	-		-	-	-
C. Financial assets designated at fair value through profit or loss	-	-	-		-	-	-
1. Debt instruments	-	-	-		-	-	-
2. Financing	-	-	-		-	-	-
D. Financial assets measured at fair value through other comprehensive income	**94,958**	-	**94,958**		**95,133**	-	**95,133**
1. Debt instruments	94,958	-	94,958	X	95,133	-	95,133
2. Equity instruments	-	-	-		-	-	-
3. Financing	-	-	-		-	-	-
E. Financial assets measured at amortised cost	**469,007**	**316,094**	**152,913**	**1,999**	**347,402**	**193,280**	**154,122**
1. Debt instruments	152,913	-	152,913		154,122	-	154,122
2. Financing	316,094	316,094	-	1,999	193,280	193,280	-
Total at 31.12.2021	**563,965**	**316,094**	**247,871**	**1,999**	**442,535**	**193,280**	**249,256**
Total at 31.12.2020	**364,504**	**129,666**	**234,838**	**556**	**322,448**	**87,218**	**235,230**

1.2. Market risks

The Group did not conduct trading activity on financial instruments. At 31 December 2021 asset positions, except for shares, included in the regulatory trading book that may generate market risk are not recognised.

The existing limit system defines a careful and balanced management of the operational autonomy, establishing limits in terms of portfolio amounts and composition by type of security.

1.2.1 Interest rate risk and price risk - regulatory trading book

QUALITATIVE DISCLOSURE

No positions to report.

1.2.2 Interest rate risk and price risk - Banking Book

QUALITATIVE DISCLOSURE

A. General aspects, management procedures and methods of measuring the interest rate risk and the price risk

Interest rate risk is defined as the risk that the financial assets/liabilities increase/decrease because of movements contrary to the interest rate curve. The Bank identified the sources that generate interest rate risk with reference to the credit processes and to the Bank's funding.

The exposure to interest rate risk on the banking book is calculated as provided for by current regulations, via the simplified regulatory approach (Cf. Bank of Italy Circular no. 285/2013, Part One, Title III, Chapter 1, Schedule C implementing the recent guidelines of the European Banking Authority); by using this method the Bank is able to monitor the impact of unexpected changes in market conditions on equity, thus identifying the related mitigation measures to be implemented.

In greater detail, the process of estimating the exposure to interest rate risk of the banking book provided by the simplified method is organised in the following phases:

- Determination of material currencies. "Material currencies" are considered those that represent a portion of total assets, or also of the banking book liabilities, greater than 5%. For the purposes of the methodology for calculating exposure to interest rate risk, the positions denominated in "material currencies" are considered individually, while the positions in "non-material currencies" are aggregated for the equivalent amount in Euro;
- Classification of the assets and liabilities in time buckets. 19 time buckets are defined. The fixed-rate assets and liabilities are classified based on their residual maturity, while those at floating rates based on the interest rate renegotiation date. Specific classification rules are prescribed for specific assets and liabilities. With particular reference to the deposit and savings product "Si conto! Deposito", the Bank proceeded with the bucketisation that takes into account the implied redemption option.
- Within each time bucket, the asset and liability positions are multiplied by the weights derived from the product of a hypothetical change in rates and an approximation of the modified duration for each individual bucket.
- Within each time bucket, the asset positions are offset against the liability positions, so as to obtain a net position.
- Aggregation in the various currencies. The absolute values of the exposures regarding the individual "material currencies" and the aggregate of the "non-material currencies" are summed together, obtaining an amount that represents the change of the economic value of the Bank based on the assumed rate trends.

With reference to the Bank's financial assets, the main sources that generate interest rate risk are loans and receivables with customers and the bond securities portfolio. As concerns the financial liabilities, relevant instead are the customer deposits and savings activities via current accounts, the deposit account, and funding on the interbank market.

Given the foregoing submissions, it should be noted that:

- the interest rates applied to the factoring customers are at a fixed rate and can also be modified unilaterally by the Bank (in compliance with regulations in force and existing contracts);
- the average financial term of the bond securities portfolio is approximately 2.6 years;
- the salary/pension-backed loan portfolio that contains fixed rate contracts is that with the longest duration, however on the reporting date this portfolio was small and it was not deemed necessary to enter into interest rate hedge transactions on said maturities;
- the REPO deposits c/o the Central Bank are of short duration (the maximum maturity is equal to 3 months);
- the customers' deposits on the deposit account product are at a fixed rate for the entire duration of the constraint, which can be unilaterally renegotiated by the Bank (in compliance with regulations in force and existing contracts);
- the REPO and reverse REPO agreements are generally of short duration, without prejudice to different funding needs.

The Bank continuously monitors the main assets and liabilities subject to interest rate risk; furthermore, no hedging instruments were used as at the reporting date.

QUANTITATIVE DISCLOSURE

1. Banking book: Breakdown by residual term (by repricing date) of financial assets and liabilities

EURO

	on demand	up to 3 months	from more than 3 months up to 6 months	from more than 6 months up to 1 year	from more than 1 year up to 5 years	from more than 5 years up to 10 years	more than 10 years	open term
1. Assets	**1,208,116**	**412,400**	**71,984**	**96,699**	**1,166,077**	**504,455**	**66**	**-**
1.1 Debt instruments	-	-	11,108	-	568,722	59,341	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	11,108	-	568,722	59,341	-	-
1.2 Financing to banks	14,874	18,485	-	-	-	-	-	-
1.3 Financing to customers	1,193,242	393,915	60,876	96,699	597,355	445,114	66	-
- current accounts	157,027	-	-	-	-	-	-	-
- other financing	1,036,215	393,915	60,876	96,699	597,355	445,114	66	-
- with early repayment option	131,579	219,934	60,767	96,334	483,873	325,100	66	-
- other	904,636	173,980	109	365	113,482	120,014	-	-
2. Liabilities	**1,094,487**	**417,571**	**101,963**	**278,686**	**1,379,351**	**38,329**	**102**	**-**
2.1 Due to customers	967,077	417,571	101,963	278,686	839,256	38,329	102	-
- current accounts	820,669	155,528	100,356	274,235	811,828	30,137	102	-
- other payables	146,408	262,043	1,607	4,452	27,428	8,192	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	146,408	262,043	1,607	4,452	27,428	8,192	-	-
2.2 Due to banks	127,410	-	-	-	540,095	-	-	-
- current accounts	386	-	-	-	-	-	-	-
- other payables	127,024	-	-	-	540,095	-	-	-
2.3 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**57,094**	**6,506**	**10,254**	**38,359**	**1,072**	**80**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	57,094	6,506	10,254	38,359	1,072	80	-
- Options	-	57,094	6,506	10,254	38,359	1,072	80	-
+ long positions	-	411	6,506	10,254	38,359	1,072	80	-
+ short positions	-	56,683	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other off-statement of financial position transactions	**157,850**	**153,081**	**-**	**4,769**	**-**	**-**	**-**	**-**
+ long positions	153,081	-	-	4,769	-	-	-	-
+ short positions	4,769	153,081	-	-	-	-	-	-

1. Banking book: Breakdown by residual term (by repricing date) of financial assets and liabilities

OTHER CURRENCIES - The positions shown relate solely to the US dollar.

	on demand	up to 3 months	from more than 3 months up to 6 months	from more than 6 months up to 1 year	from more than 1 year up to 5 years	from more than 5 years up to 10 years	more than 10 years	open term
1. Assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Financing to banks	-	-	-	-	-	-	-	-
1.3 Financing to customers	-	-	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other financing	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2. Liabilities	**90**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Due to customers	90	-	-	-	-	-	-	-
- current accounts	90	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	-	-	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
2.3 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other off-statement of financial position transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-

1.2.3 Currency risk

QUALITATIVE DISCLOSURE

A. General aspects, management processes and methods of measuring the currency risk

All items are in Euro, except for the security in the HTCS portfolio. The currency risk is limited due to the size of the investment.

QUANTITATIVE DISCLOSURE

1. Breakdown of assets, liabilities and derivatives by currency of denomination

	CURRENCIES					
	US DOLLARS	UK POUNDS	YEN	CANADIAN DOLLARS	SWISS FRANCS	OTHER CURRENCIES
A. Financial assets	**-**	**-**	**-**	**-**	**-**	**-**
A.1 Debt instruments	-	-	-	-	-	-
A.2 Equity instruments	-	-	-	-	-	-
A.3 Financing to banks	-	-	-	-	-	-
A.4 Financing to customers	-	-	-	-	-	-
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**106**	**1**	**1**	**1**	**11**	**7**
C. Financial liabilities	**90**	**-**	**-**	**-**	**-**	**-**
C.1 Due to banks	-	-	-	-	-	-
C.2 Due to customers	90	-	-	-	-	-
C.3 Debt instruments	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**-**	**-**	**-**	**-**	**-**	**-**
E. Financial derivatives	**-**	**-**	**-**	**-**	**-**	**-**
- Options	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-
Total assets	**106**	**1**	**1**	**1**	**11**	**7**
Total liabilities	**90**	**-**	**-**	**-**	**-**	**-**
Difference (+/-)	**16**	**1**	**1**	**1**	**11**	**7**

1.3 Derivatives and hedging policies

1.3.1 Derivatives held for trading

A. Financial derivatives

No amount was recognised for this item at the reporting date.

B. Credit derivatives

No amount was recognised for this item at the reporting date.

1.3.2 Hedge Accounting

The Bank did not perform any such transactions during the year.

1.3.3 Other disclosure of derivatives (held for trading and hedging)

No such items existed at the reporting date.

1.4 Liquidity risk

QUALITATIVE DISCLOSURE

A. General aspects, management processes and methods of measuring the liquidity risk

Liquidity risk is represented by the possibility that the Group is unable to maintain its payment commitments due to the inability to procure funds or to the inability to sell assets on the market to manage the financial imbalance. It is also represented by the inability to procure adequate new financial resources, in terms of amount and cost, with respect to operational need/ advisability, that forces the Group to slow or stop the development of activity, or to incur excessive funding costs to deal with its commitments, with significant negative impacts on the profitability of its activity.

The financial sources are represented by capital, funding from customers, the funds procured on the domestic and international interbank market as well from the Eurosystem.

To monitor the effects of the intervention strategies and to limit the liquidity risk, the Group identified a specific section dedicated to monitoring the liquidity risk in the Risk Appetite Framework (RAF).

Furthermore, in order to promptly detect and manage any difficulties in procuring the funds necessary to conduct its activity, every year, Banca Sistema, consistent with the prudential supervisory provisions, updates its liquidity policy and Contingency Funding Plan, i.e. the set of specific intervention strategies in case of liquidity stress, establishing procedures to procure funds in the event of an emergency.

This set of strategies is of fundamental importance to attenuate liquidity risk.

The aforesaid policy defines, in terms of liquidity risk, the objectives, the processes and the intervention strategies in case of liquidity stress, the organisational structures responsible for implementing the interventions, the risk indicators, the relevant calculation method and warning thresholds, and procedures to procure the funding sources that can be used in case of emergency.

In 2021, the Bank continued to pursue a particularly prudent financial policy aimed at funding stability. This approach allowed a balanced distribution between inflows from retail customers and corporate and institutional counterparties.

To date, the financial resources available are satisfactory for the current and forward-looking volumes of activity. The Bank is continuously active ensuring a coherent business development, always in line with the composition of its financial resources.

In particular, Banca Sistema, prudentially, has constantly maintained a high quantity of securities and readily liquid assets to cover all of the deposits and savings products oriented towards the retail segment.

Moreover, the Bank uses as source of funding the ABS securities of the securitisation transactions, whose SPVs were established solely for funding purposes. For self-securitisations, the receivables assigned to the SPV remain entirely recognised in the Bank's financial statements. Details of the ABS securities of the existing securitisations are provided below.

At 31 December 2021, the characteristics of the securities of the Quinto Sistema Sec. 2017 transaction were as follows.

Quinto Sistema Sec. 2017	ISIN	Amount outstanding at 31.12.2021	Rating (DBRS/Moody's)	Interest Rate	Maturity
Class A (senior)	IT0005246811	100,866,059	A-high / Aa3	0.40%	2034
Class B1 (mezzanine)	IT0005246837	47,400,134	A-low / Baa1	0.50%	2034
Class B2 (sub-mezzanine)	IT0005246845	20,769,355	n.a.	0.50%	2034
Class C (junior)	IT0005246852	2,370,007	n.a.	0.50%	2034
		171,405,555			

The transaction is held entirely by Banca Sistema, which uses the senior securities in bilateral ECB and repo transactions under the GMRA framework, and the class B1 security in repo transactions under the GMRA framework.

At 31 December 2021, the characteristics of the securities of the Quinto Sistema Sec. 2019 transaction were as follows.

Quinto Sistema Sec. 2019	ISIN	Amount outstanding at 31.12.2020	Rating (DBRS/Moody's)	Interest Rate	Maturity
Class A (senior)	IT0005382996	147,736,661	Not Rated	1M Euribor +0.65%	2038
Class B (mezzanine)	IT0005383002	19,400,000	Not Rated	0.50%	2038
Class C (junior)	IT0005383010	29,600,000	Not Rated	0.50%	2038
		196,736,661			

The senior security is held by a third party for funding purposes.

At 31 December 2021, the characteristics of the securities of the BS IVA SPV transaction were as follows.

BS IVA SPV	ISIN	Amount outstanding at 31.12.2021	Rating	Interest Rate	Maturity
Class A Notes (Senior)	IT0005218802	55,614,936	n.a.	3M Euribor +0.90%	2038
Class B Notes (junior)	IT0005218810	6,543,524	n.a.	0.50%	2038
		62,158,460			

QUANTITATIVE DISCLOSURE

1. Breakdown of financial assets and liabilities by remaining contractual term

EURO

	on demand	from more than 1 day up to 7 days	from more than 7 days up to 15 days	from more than 15 days up to 1 month	from more than 1 month up to 3 months	from more than 3 months up to 6 months	from more than 6 months up to 1 year	from more than 1 year up to 5 years	over 5 years	open term
A. Assets	**1,277,130**	**2,973**	**4,143**	**37,130**	**122,798**	**127,753**	**145,716**	**1,179,657**	**456,655**	**18,319**
A.1 Government securities	-	-	28	-	84	78	189	581,058	50,000	-
A.2 Other debt instruments	-	-	-	180	-	180	361	-	9,324	-
A.3 OEIC units	-	-	-	-	-	-	-	-	-	-
A.4 Financing	1,277,130	2,973	4,115	36,950	122,714	127,495	145,166	598,599	397,331	18,319
- banks	14,906	1	-	25	145	-	-	-	-	18,319
- customers	1,262,225	2,972	4,115	36,925	122,570	127,495	145,166	598,599	397,331	-
B. Liabilities	**1,088,048**	**252,080**	**9,801**	**69,879**	**85,952**	**102,235**	**279,784**	**1,379,351**	**38,431**	**-**
B.1 Deposits and current accounts	855,513	40,474	9,799	19,603	85,794	100,628	275,332	811,828	30,239	-
- banks	41,283	-	-	-	-	-	-	-	-	-
- customers	814,231	40,474	9,799	19,603	85,794	100,628	275,332	811,828	30,239	-
B.2 Debt instruments	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	232,535	211,607	2	50,276	158	1,607	4,452	567,522	8,192	-
C. Off-statement of financial position transactions	**387,243**	**153,081**	**-**	**478**	**1,078**	**4,119**	**5,244**	**2,527**		**-**
C.1 Financial derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and financing to be received	153,081	153,081	-	-	-	-	-	-	-	-
- long positions	153,081	-	-	-	-	-	-	-	-	-
- short positions	-	153,081	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	231,716	-	-	76	-	119	4,769	-	-	-
- long positions	113,376	-	-	76	-	119	4,769	-	-	-
- short positions	118,340	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	2,446	-	-	402	1,078	4,000	475	2,527	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

1. Breakdown of financial assets and liabilities by remaining contractual term

OTHER CURRENCIES

	on demand	from more than 1 day up to 7 days	from more than 7 days up to 15 days	from more than 15 days up to 1 month	from more than 1 month up to 3 months	from more than 3 months up to 6 months	from more than 6 months up to 1 year	from more than 1 year up to 5 years	over 5 years	open term
A. Assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt instruments	-	-	-	-	-	-	-	-	-	-
A.3 OEIC units	-	-	-	-	-	-	-	-	-	-
A.4 Financing	-	-	-	-	-	-	-	-	-	-
- banks	-	-	-	-	-	-	-	-	-	-
- customers	-	-	-	-	-	-	-	-	-	-
B. Liabilities	**90**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	90	-	-	-	-	-	-	-	-	-
- banks	-	-	-	-	-	-	-	-	-	-
- customers	90	-	-	-	-	-	-	-	-	-
B.2 Debt instruments	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
C. Off-statement of financial position transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
C.1 Financial derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and financing to be received	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

The positions shown relate solely to the US dollar.

With reference to the financial assets subject to “self-securitisation”, at the end of 2021, Banca Sistema has three securitisation transactions in place.

1.5 Operational risks

QUALITATIVE DISCLOSURE

Operational risk is the risk of loss arising from inadequate or non-functioning internal processes, human resources or systems, or from external events. This type of risk includes - among other things - the ensuing losses from fraud, human errors, business disruption, unavailability of systems, breach of contract, and natural catastrophes. Operational risk, therefore, refers to other types of events that, under present conditions, would not be individually relevant if not analysed jointly and quantified for the entire risk category.

A. General aspects, management processes and methods of measuring operational risk

In order to calculate the internal capital generated by the operational risk, the Group adopts the Basic Indicator Approach, which provides for the application of a regulatory coefficient (equal to 15%) to the three-year average of the relevant indicator defined in Article 316 of Regulation (EU) no. 575/2013 of 26 June 2013. The above-said indicator is given by the sum (with sign) of the following elements:

- interest and similar income;
- interest and similar expense;
- income on shares, quotas and other variable/fixed yield securities;
- income for commissions/fees;
- expense for commissions/fees;
- profit (loss) from financial transactions;
- other operating income.

Consistent with that provided for by the relevant legislation, the indicator is calculated gross of provisions and operating costs; also excluded from computation are:

- profits and losses on the sale of securities not included in the trading portfolio;
- income deriving from non-recurring or irregular items;
- income deriving from insurance.

As of 2014, the Bank measured the operational risk events via a qualitative performance indicator (IROR - Internal Risk Operational Ratio) defined within the operational risk management and control process (ORF - Operational Risk Framework). This calculation method allows a score to be defined between 1 and 5, inclusive (where 1 indicates a low risk level and 5 indicates a high risk level) for each event that generates an operational risk.

The Bank assesses and measures the level of the identified risk by also considering the controls and the mitigating actions implemented. This method requires a first assessment of the possible associated risks in terms of probability and impact (so-called "Gross risk level") and a subsequent analysis of the existing controls (qualitative assessment on the effectiveness and efficiency of the controls) which could reduce the gross risk, on the basis of which specific risk levels (the so-called "Residual risk") are determined. Finally, the residual risks are mapped on a predefined scoring grid, useful for the subsequent calculation of IROR via appropriate aggregation of the scores defined for the individual operational procedure.

Moreover, the Bank assesses the operational risk associated with the introduction of new products, activities, processes and relevant systems mitigating the onset of the operational risk via a preliminary evaluation of the risk profile.

The Bank places strong emphasis on possible ICT risks. The Information and Communication Technology (ICT) risk is the risk of incurring financial, reputational and market losses in relation to the use of information and communication technology. In the supplemented representation of the business risks, this type of risk is considered, in accordance with the specific aspects, among operational, reputational and strategic risks.

The Bank monitors the ICT risks based on the continuous information flows between the departments concerned defined in its IT security policies.

In order to conduct consistent and complete analyses with respect to the activities performed by the Bank's other control departments, the results of the compliance risks audits conducted by the Compliance and Anti-Money Laundering Department were shared internally with the Internal Control and Risk Management Committee, as well as with the CEO. The Internal Audit

Department also monitors the Bank's operations and processes to ensure they are properly carried out and assesses the overall effectiveness and efficiency of the internal control system put in place to oversee activities that are exposed to risks.

Finally, as an additional protection against operational risk, the Bank has:

- insurance coverage on the operational risks deriving from actions of third parties or caused to third parties. In order to select the insurance coverage, the Bank initiated specific assessment activities, with the support of a primary market broker, to identify the best offers in terms of price/conditions proposed by several insurance undertakings;
- appropriate contractual riders to cover damages caused by infrastructure and service suppliers;
- a business continuity plan;
- the assessment of each operational procedure in effect, in order to define the controls implemented to protect against risk activities.

PART F - INFORMATION ON EQUITY

SECTION 1 - EQUITY

A. QUALITATIVE DISCLOSURE

The objectives pursued in the Group’s equity management are inspired by the prudential supervisory provisions, and are oriented towards maintaining adequate levels of capitalisation to take on risks typical to credit positions.

The income allocation policy aims to strengthen the Group's capital with special emphasis on common equity, to the prudent distribution of the operating results, and to guaranteeing a correct balance of the financial position.

B. QUANTITATIVE DISCLOSURE

B.1 Equity: breakdown by business type

		31.12.2021	31.12.2020
1	Share capital	9,651	9,651
2	Share premium	39,100	39,100
3	Reserves	141,528	122,232
4	Equity instruments	45,500	8,000
5	(Treasury shares)	-	(234)
6	Valuation reserves	(3,067)	1,287
	- Equity instruments designated at fair value through other comprehensive income	(463)	(355)
	- Hedging of equity instruments designated at fair value through other comprehensive income	-	-
	- Financial assets (other than equity instruments) measured at fair value through other comprehensive income	(2,257)	1,977
	- Property and equipment	-	-
	- Intangible assets	-	-
	- Hedges of foreign investments	-	-
	- Cash flow hedges	-	-
	- Hedging instruments (non-designated elements)	-	-
	- Exchange rate gains (losses)	-	-
	- Non-current assets held for sale and disposal groups	-	-
	- Financial liabilities designated at fair value through profit or loss (changes in own credit rating)	-	-
	- Net actuarial losses on defined benefit pension plans	(347)	(335)
	- Shares of valuation reserves of equity-accounted investees	-	-
	- Special revaluation laws	-	-
	- Other	-	-
7	Group profit for the year (+/-)	23,251	26,153
	Total	**255,962**	**206,189**

B.2 Valuation reserves for financial assets measured at fair value through other comprehensive income: breakdown

	TOTAL AT 31.12.2021		TOTAL AT 31.12.2020	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt instruments	-	2,257	1,977	-
2. Equity instruments	-	463	-	(355)
3. Financing	-	-	-	-
Total	**-**	**2,720**	**1,977**	**(355)**

B.3 Valuation reserves for financial assets measured at fair value through other comprehensive income: changes

	Debt instruments	Equity instruments	Financing
1. Opening balance	**1,977**	**(355)**	-
2. Increases	**2,079**	**229**	-
2.1 Fair value gains	-	-	-
2.2 Impairment losses due to credit risk	-	X	-
2.3 Reclassifications of negative reserves to profit or loss on sale	-	X	-
2.4 Transfers to other equity items (equity instruments)	-	-	-
2.5 Other increases	2,079	229	-
3. Decreases	**6,313**	**337**	-
3.1 Fair value losses	-	161	-
3.2 Impairment gains due to credit risk	28	-	-
3.3 Reclassifications of positive reserves to profit or loss: on sale	2,646	X	
3.4 Transfers to other equity items (equity instruments)	-	-	-
3.5 Other decreases	3,639	176	-
4. Closing balance	**(2,257)**	**(463)**	-

B.4 Valuation reserves related to defined benefit plans: changes

	31.12.2021
A. Opening balance	**(335)**
B. Increases	**35**
B.1 Actuarial gains	-
B.2 Other increases	35
C. Decreases	**48**
C.1 Actuarial losses	-
C.2 Other decreases	48
D. Closing balance	**(347)**
Total	**(347)**

2.1 Own funds

A. QUALITATIVE DISCLOSURE

Own funds, risk-weighted assets and solvency ratios as at 31 December 2021 were determined based on the new regulation, harmonised for Banks, contained in Directive 2013/36/EU (CRD IV) and in Regulation (EU) 575/2013 (CRR) of 26 June 2013, that transpose in the European Union the standards defined by the Basel Committee on Banking Supervision (the so-called Basel 3 framework), and based upon Bank of Italy Circulars no. 285 and no. 286 (enacted in 2013), and the update of Circular no. 154. The Banca Sistema Group has not availed itself of the option provided for by Article 473 bis of Regulation (EU) 575/2013 (CRR), which concerns the transitional measures aimed at mitigating the impact of the introduction of IFRS 9.

Reconciliation of Group equity and Own Funds

	31.12.2021	31.12.2020
Group equity	265,532	215,486
Equity attributable to non-controlling interests	(9,569)	(9,297)
Equity attributable to the owners of the parent	**255,963**	**206,189**
Dividends distributed and other foreseeable expenses	(5,790)	(6,434)
Equity assuming dividends are distributed to shareholders	**250,173**	**199,755**
Regulatory adjustments	**(36,614)**	**(35,753)**
- Commitment to repurchase treasury shares	(1,745)	(283)
- Deduction of intangible assets	(32,415)	(32,725)
- Prudent valuation adjustment (1)	(451)	(431)
- Prudential filter for insufficient coverage of NPEs	(1,908)	-
- Other adjustments (2)	(95)	(2,314)
Eligible equity attributable to non-controlling interests	**8,017**	**7,795**
Equity instruments not eligible for inclusion in CET1	(45,500)	(8,000)
Common Equity Tier 1 (CET1)	**176,076**	**163,797**
Equity instruments eligible for inclusion in AT1	45,500	8,000
Additional Tier 1 Capital (AT1)	**45,500**	**8,000**
Securities issued by Banca Sistema (3)	-	37,500
Equity attributable to non-controlling interests eligible for inclusion in T2	114	155
Tier 2 Capital	**114**	**37,655**
Total Own Funds	**221,690**	**209,452**

(1) Regulatory filter for additional valuation adjustments (AVA) to the prudential valuation under the provisions of Regulation 2016/101
(2) At 31 December 2020, following the financial difficulty of a local authority, the Bank had used this filter to manage an overdraft position
(3) Included in the item "Financial liabilities at amortised cost"

A. QUANTITATIVE DISCLOSURE

	31.12.2021
A. Common Equity Tier 1 (CET1) before application of prudential filters	**208,762**
of which CET 1 instruments covered by transitional measures	-
B. CET1 prudential filters (+/-)	**8,017**
C. CET1 including items to be deducted and the effects of the transitional regime (A+/-B)	**216,779**
D. Items to be deducted from CET1	**40,703**
E. Transitional regime - Impact on CET (+/-)	**-**
F. Total Common Equity Tier 1 (CET1) (C-D+/-E)	**176,076**
G. Additional Tier 1 (AT1) including items to be deducted and the effects of the transitional regime	**45,500**
of which AT1 instruments covered by transitional measures	-
H. Items to be deducted from AT1	**-**
I. Transitional regime - Impact on AT1 (+/-)	**-**
L. Total Additional Tier 1 (AT1) (G-H+/-I)	**45,500**
M. Tier 2 (T2) including items to be deducted and the effects of the transitional regime	**114**
of which T2 instruments covered by transitional measures	-
N. Items to be deducted from T2	-
O. Transitional regime - Impact on T2 (+/-)	-
P. Total Tier 2 (T2) (M-N+/-O)	**114**
Q. Total Own Funds (F+L+P)	**221,690**

2.2 Capital adequacy

A. QUALITATIVE DISCLOSURE

Total own funds were € 222 million at 31 December 2021 and included the profit for the year, net of dividends estimated on the profit for the year which were equal to a pay-out of 25% of the Parent's profit.

As at 31 December 2021, the Group had a CET1 capital ratio equal to 11.6%, a Tier 1 capital ratio equal to 14.6% and a Total capital ratio of 14.6%.

B. QUANTITATIVE DISCLOSURE

	UNWEIGHTED AMOUNTS		WEIGHTED AMOUNTS/ REQUIREMENTS	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
A. EXPOSURES	-	-	-	-
A.1 Credit and counterparty risk	**4,576,069**	**4,285,516**	**1,334,176**	**1,120,413**
1. Standardised approach	4,576,069	4,285,516	1,334,176	1,120,413
2. Internal ratings based approach	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	-	-	-	-
B. CAPITAL REQUIREMENTS			-	-
B.1 Credit and counterparty risk			106,734	89,633
B.2 Credit valuation adjustment risk			-	-
B.3 Settlement risk			-	-
B.4 Market risk			-	-
1. Standard approach			-	-
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operational risk			14,671	14,147
1. Basic indicator approach			14,671	14,147
2. Standardised approach			-	-
3. Advanced measurement approach			-	-
B.6 Other calculation elements			-	-
B.7 Total prudential requirements			121,405	103,780
C. EXPOSURES AND CAPITAL RATIOS			**1,517,568**	**1,297,255**
C.1 Risk-weighted assets			1,517,568	1,297,255
C.2 CET1 capital/risk-weighted assets (CET1 Capital Ratio)			11.6%	12.6%
C.3 Tier 1 capital/risk-weighted assets (Tier 1 Capital Ratio)			14.6%	13.2%
C.4 Total Own Funds/risk-weighted assets (Total Capital Ratio)			14.6%	16.1%

PART G - BUSINESS COMBINATIONS

Section 1 - Transactions performed in the year

No transactions to report.

Section 2 - Transactions performed after the end of the year

No transactions to report.

Section 3 - Retrospective adjustments

No transactions to report.

PART H - RELATED PARTY TRANSACTIONS

Related party transactions including the relevant authorisation and disclosure procedures, are governed by the “Procedure governing related party transactions” approved by the Board of Directors and published on the internet site of Banca Sistema S.p.A.

Transactions between Group companies and related parties were carried out in the interests of the Bank, including within the scope of ordinary operations; these transactions were carried out in accordance with market conditions and, in any event, on the basis of mutual financial advantage and in compliance with all procedures.

With respect to transactions with parties who exercise management and control functions in accordance with article 136 of the Consolidated Law on Banking, it should be noted that they, where applicable, have been included in the Board of Directors’ resolutions and received approval from the Board of Statutory Auditors, subject to compliance with the obligations provided under the Italian Civil Code with respect to matters relating to the conflict of interest of directors.

Pursuant to IAS 24, the related parties of Banca Sistema include:

- shareholders with significant influence;
- companies belonging to the banking Group;
- companies subject to significant influence;
- key management personnel;
- the close relatives of key management personnel and the companies controlled by (or connected with) such personnel or their close relatives.

DISCLOSURE ON THE REMUNERATION OF KEY MANAGEMENT PERSONNEL

The following data show the remuneration of key management personnel, as per IAS 24 and Bank of Italy Circular no. 262 of 22 December 2005 as subsequently updated, which requires the inclusion of the members of the Board of Statutory Auditors.

In thousands of Euro	BOARD OF DIRECTORS	BOARD OF STATUTORY AUDITORS	OTHER MANAGERS	31.12.2021
Remuneration to Board of Directors and Board of Statutory Auditors	2,546	222	10	2,778
Short-term benefits for employees	-	-	2,799	2,799
Post-employment benefits	66	-	163	229
Other long-term benefits	329	-	253	582
Termination benefits	-	-	-	-
Share-based payments	301	-	60	361
Total	**3,242**	**222**	**3,285**	**6,749**

DISCLOSURE ON RELATED PARTY TRANSACTIONS

The following table shows the assets and liabilities as at 31 December 2021, differentiated by type of related party with an indication of the impact on each individual caption.

In thousands of Euro	DIRECTORS, BOARD OF STATUTORY AUDITORS AND KEY MANAGEMENT PERSONNEL	OTHER RELATED PARTIES	% OF CAPTION
Loans and receivables with customers	602	944	0.1%
Due to customers	1,845	6,356	0.3%
Other liabilities	-	-	0.00%

The following table indicates the costs and income for 2021, differentiated by type of related party.

In thousands of Euro	DIRECTORS, BOARD OF STATUTORY AUDITORS AND KEY MANAGEMENT PERSONNEL	OTHER RELATED PARTIES	% OF CAPTION
Interest income	2	-	0.0%
Interest expense	18	96	0.7%
Other administrative expenses	-	-	-

The following tables set forth the details of each related party:

	AMOUNT (thousands of Euro)	PERCENTAGE (%)
LIABILITIES	**4,904**	**0.13%**
Due to customers		
Shareholders - SGBS	2,886	0.11%
Shareholders - Fondazione CR Alessandria	51	0.00%
Shareholders - Fondazione Sicilia	55	0.00%
Shareholders - Fondazione Pisa	1,912	0.07%

	AMOUNT (thousands of Euro)	PERCENTAGE (%)
COSTS	**81**	**0.18%**
Interest expense		
Shareholders - SGBS	-	0.00%
Shareholders - Fondazione Sicilia	74	0.45%
Shareholders - Fondazione CR Alessandria	1	0.01%
Shareholders - Fondazione Pisa	6	0.04%

PART I - SHARE-BASED PAYMENT PLANS

QUALITATIVE DISCLOSURE

As indicated in the 2020 Policy Document, Banca Sistema, having total assets of less than € 4 billion at both separate and consolidated levels, could be considered to be a "smaller bank". However, in virtue of its status as a listed company, and of the EBA guidelines, the Bank has opted to apply the rules relating to "medium size" banks under Circular 285, Title IV, Chapter 2.

As a medium size bank, therefore, and in accordance with the principle of proportionality, it shall apply the provisions relating to key personnel subject to percentages and to deferral and retention periods that may be reduced to less than half of those set out in the applicable legislation, but in doing so it shall weigh up a prudential alignment criterion also in relation to the provisions of the Code of Conduct, for longer deferral in the case of members of the Board of Directors and key management personnel, that are thus extended to all Key Personnel.

The Bank also indicates 25% of average total remuneration of Italian high earners, as indicated in the latest EBA report published in 2019 and relating to data processed at the end of 2017, as being a particularly high level of variable remuneration. In 2021, the variable component of remuneration for "key personnel" will be paid as follows upon approval of the financial statements:

- for amounts equal to or lower than € 30,000, variable remuneration shall be paid entirely up-front and in cash, subject to the necessary approval of the Board of Directors and of the Shareholders' Meeting provided for in these Policies;
- for amounts greater than € 30,000 and up to € 425,000, 70% of the variable remuneration shall be paid up-front (50% in cash and 50% in shares of the Bank), and the remaining 30% (50% in cash and 50% in shares of the Bank) shall be deferred and paid at the end of the three-year deferral period;
- for amounts greater than € 425,000, 60% of the variable remuneration shall be paid up-front (50% in cash and 50% in shares of the Bank) and the remaining 40% (24% in cash and 76% in shares of the Bank) shall be deferred and paid at the end of the three-year deferral period.

The aforesaid limits and parameters are established by the Bank, even though, in accordance with the principles of proportionality set out in Paragraph 7 of Circular 285, Title IV, Chapter 2 - General provisions, governing medium-sized banks, more flexible, less complex terms and proportions may be established in regard to the deferral and balancing of shares and cash.

Please see Annex 3 "Bonus Payment Regulation", and insofar as it applies, the Information Document published in the 'Governance' section of the website www.bancasistema.it, regarding the calculation of the Bank shares to be assigned and the applicable provisions.

Disclosure of the fees paid to the independent auditors

Pursuant to the provisions of Art. 149 duodecies of the Consob Issuers' Regulations, the information regarding the fees paid to the independent auditors BDO Italia S.p.A. and to the companies included in the same network is reported below for the following services:

1. Audit services that include:
   - The audit of the annual accounts, for the purpose of expressing an opinion thereon.
   - The audit of the interim accounts.
2. Certification services that include tasks whereby the auditor evaluates a specific element, the determination of which is performed by another party who is responsible thereof, through appropriate criteria, in order to express a conclusion that provides the recipient party with a degree of confidence concerning said specific element.
3. Tax advisory services.
4. Other services.

The fees presented in the table, pertaining to 2021, are those contracted, without index-linking (and excluding out-of-pocket expenses, any supervisory contribution and VAT).

They do not include, in accordance with the cited provision, the fees paid to any secondary auditors or to parties of the respective networks.

Type of services	Entity providing the service	Entity receiving the service	Remuneration
Audit of the separate and consolidated financial statements and interim reports	BDO Italia S.p.A.	Banca Sistema S.p.A.	190
Other certifications	BDO Italia S.p.A.	Banca Sistema S.p.A.	31
Audit of the separate financial statements	BDO Italia S.p.A.	Largo Augusto Servizi e Sviluppo S.r.l	13
Audit of the separate financial statements	BDO Italia S.p.A.	Quinto Sistema SEC. 2017	22
Audit of the separate financial statements	BDO Italia S.p.A.	ProntoPegno S.p.A.	35

For the purposes of segment reporting as per IFRS 8, the income statement is broken down by segment as follows.

Breakdown by segment: income statement for 2021

Income statement (€,000)	Factoring Division	CQ Division	Collateralised Lending Division	Corporate Centre	GROUP TOTAL
Net interest income (expense)	57,671	18,966	5,407	(82)	81,962
Net fee and commission income (expense)	10,858	(1,813)	6,596	14	15,655
Dividends	140	87	-	-	227
Net trading income (expense)	13	8	-	-	21
Gain from sales or repurchases of financial assets/liabilities	4,685	5,404	-	-	10,089
Total income (expense)	**73,367**	**22,652**	**12,003**	**(68)**	**107,954**
Net impairment losses on loans and receivables	(10,071)	(280)	132	(405)	(10,624)
Gains/losses from contract amendments without derecognition	(4)	-	-	-	(4)
Net financial income (expense)	**63,292**	**22,372**	**12,135**	**(473)**	**97,326**

Breakdown by segment: statement of financial position data as at 31 December 2021

Statement of Financial Position (€,000)	Factoring Division	CQ Division	Collateralised Lending Division	Corporate Centre	GROUP TOTAL
Cash and cash equivalents	108,651	67,185	-	-	175,835
Financial assets (HTS and HTCS)	278,839	172,422	-	-	451,261
Loans and receivables with banks	26,279	7,133	90,030	-	33,411
Loans and receivables with customers	1,820,009	1,007,117	90,030	3,608	2,920,763
Loans and receivables with customers - loans	*1,706,287*	*936,797*	-	*3,608*	*2,736,722*
Loans and receivables with customers - debt instruments	*113,721*	*70,320*	-	-	*184,042*
Due to banks	-	-	-	592,157	592,157
Due to customers	56,012	-		2,416,043	2,472,054

This segment reporting includes the following divisions:

- Factoring Division, which includes the business segment related to the origination of trade and tax receivables with and without recourse and the management and recovery of default interest. In addition, the division includes the business segment related to the origination of state-guaranteed loans to SMEs disbursed to factoring customers and the management and recovery of receivables on behalf of third parties;
- CQ Division, which includes the business segment related to the purchase of salary- and pension-backed loans (CQS/CQP) portfolios and salary- and pension-backed loans disbursed through the direct channel;
- Collateralised Lending Division, which includes the business segment related to collateral-backed loans;
- Corporate Division, which includes activities related to the management of the Group's financial resources and costs/income in support of the business activities. In particular, the cost of funding managed in the central treasury pool is allocated to the divisions via an internal transfer rate ("ITR"), while income from the management of the securities portfolio and income from liquidity management (the result of asset and liability management activities) is allocated entirely to the business divisions through a pre-defined set of drivers. The division also includes income from the management of SME loan run-offs.

The secondary disclosure by geographical segment has been omitted as immaterial, since the customers are mainly concentrated in the domestic market.

PART M - LEASE DISCLOSURE

SECTION 1 - LESSEE

QUALITATIVE DISCLOSURES

The Bank has contracts that fall within the scope of IFRS 16 attributable to the following categories:

- Property used for business and personal purposes;
- Cars.

At 31 December 2021, there were 57 leases, 17 of which were property leases for a total right of use value of € 5.4 million, while 40 were for cars, for a total right of use value of € 0.8 million. Property leases, which refer to lease payments for buildings used for business purposes such as offices and for personal use, have terms exceeding 12 months and typically have renewal and termination options that may be exercised by the lessor and the lessee as provided for by law.

Contracts referring to other leases are long-term leases for cars which are generally used exclusively by the employees to whom they are assigned. These contracts have a maximum term of 5 years with monthly lease payments, no renewal option, and no option to purchase the asset.

Contracts with a term of less than 12 months or those for which the replacement value of the individual leased asset is low, i.e. less than € 20 thousand, are excluded from the application of the standard.

QUANTITATIVE DISCLOSURES

The following table provides a summary of the Statement of Financial Position items relating to leases expressed in Euro; for further information, please refer to Part B of the notes to the financial statements:

Type of contract	Right of use (*)	Lease liabilities
Property lease payments	5,358,105	5,472,640
Long-term car lease	767,699	780,013
Total	**6,125,804**	**6,252,653**

(*) This is the right of use value net of accumulated depreciation.

The following table provides a summary of the Income Statement items relating to leases; for further information, please refer to Part B of the notes to the financial statements:

Type of contract	Interest expense	Net impairment losses on property and equipment
Property lease payments	72,697	2,034,280
Long-term car lease	8,430	364,355
Total	**81,127**	**2,398,635**

SECTION 2 - LESSOR

QUALITATIVE DISCLOSURES

At the reporting date, the Bank does not engage in leases as a lessor.

STATEMENTS ON THE CONSOLIDATED FINANCIAL STATEMENTS STATEMENTS ON THE CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH ARTICLE 81-TER OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999 AS AMENDED AND SUPPLEMENTED

1. The undersigned, Gianluca Garbi, CEO, and Alexander Muz, Manager in charge of financial reporting of Banca Sistema S.p.A., hereby state, having taken into account the provisions of Art. 154-bis, paragraphs 3 and 4, of Legislative Decree no. 58 of 24 February 1998:
   - the suitability as regards the characteristics of the bank and
   - the effective application of the administrative and accounting procedures for the drafting of the consolidated financial statements during 2021.
2. Reference model

   The suitability of the administrative and accounting procedures for the drafting of the consolidated financial statements at 31 December 2021 was assessed based on an internal model defined by Banca Sistema S.p.A. that was designed in a manner consistent with the framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the Control Objectives for IT and Related Technology (COBIT) framework, which represent the reference standards for the internal control system generally accepted on an international level.
3. Moreover, the undersigned hereby state that:

   3.1 the consolidated financial statements:

   a) were drafted in accordance with the applicable international accounting standards endorsed by the European Union, pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;

   b) match the accounting books and records;

   c) are suitable for providing a true and fair view of the financial position, results of operations and cash flows of the issuer and all the companies included in the scope of consolidation.

   3.2 The Directors' Report includes a reliable analysis of business performance and results, as well as of the position of the issuer and the companies included in the scope of consolidation, together with a description of the main risks and uncertainties to which they are exposed.

Milan, 11 March 2022

Gianluca Garbi

Chief Executive Officer

Alexander Muz

Manager in charge of financial reporting

INDEPENDENT AUDITORS' REPORT

Banca Sistema S.p.A.

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated January 27 2010 and article 10 of EU Regulation n. 537/2014

Consolidated financial statements as at December 31, 2021

AMZ/FBR/cpo - RC043882021BD1086

BDO

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www.bdo.it

Viale Abruzzi, 94
20131 Milano

Independent auditor's Report
pursuant to article 14 of Legislative Decree n. 39, dated January 27 2010
and article 10 of EU Regulation n. 537/2014

To the shareholders of
Banca Sistema S.p.A.

Report on the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Banca Sistema Group (the "Group"), which comprise the consolidated balance sheet as at December 31, 2021, the profit and loss account, the statement of other comprehensive income, the statement of changes in net equity, the cash flow statement for the year then ended, and notes and comments to the financial statements.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2021 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as the regulation issued to implement article 9 of Legislative Decree NO. 38/05 as well as article 43 of Legislative Decree NO. 136/15.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We are independent of Banca Sistema S.p.A. (the "Company") in accordance with the ethical and independence requirements applicable in Italy to the audit of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	Audit responses
CLASSIFICATION AND MEASUREMENT OF LOANS AND RECEIVABLES WITH CUSTOMERS BOOKED UNDER THE FINANCIAL ASSETS MEASURED AT AMORTISED COST	
Notes to the consolidated financial statements: Part A) Accounting policies – paragraph A.2, “Information on the main items of the consolidated financial statements”: “Financial assets measured at amortised cost”; Part B) Information on the statement of financial position, Assets – Section 4 “Financial assets measured at amortised cost”; Part C) Information on the income statement – Section 8.1 “Net impairment losses due to credit risk related to financial assets measured at amortised cost: breakdown”; Part E) Information concerning risk and related hedging policies Loans and receivables with customers, which are booked under the financial assets measured at amortised cost as of December 31, 2021, are equal to Euro 2,921 million and represent the 79% of the Group’s total assets. The acquisition by the Company of non-impaired loans claimed by companies supplying goods and services, mainly towards the public administration (the “factoring credits”) and origination of credits relating to the sector of the transfers of salary or pension backed loans (the “CQS/CQP credits”) represens the Company's main activities. Factoring credits and CQS/CQP credits as of December 31, 2021, are equal to, respectively, Euro 1,226 million and Euro 932 million. For classification purposes, the directors of the Company carry out analyses, sometimes complex, aimed at identifying the positions which, after the disbursement and / or acquisition, show evidence of a possible loss of value, considering both internal information related to the trend credit positions, and external information related to the sector of reference or to the overall exposure of such debtors to the banking system. The evaluation of loans and receivables with customers is a complex estimation activity, characterized by a high degree of uncertainty and subjectivity, in which the Company’s directors use evaluation models that take into consideration numerous quantitative and qualitative elements such as, among others, historical data relating to collections, expected cash flows and related recovery times, the existence of indicators of possible impairment, the assessment of any guarantee, the impact of macroeconomic variables, future scenarios and risks of the sectors in which the Group customers operate.	Our main audit procedures carried out in response to the key audit matter relating to the classification and measurement of loans and receivables with customers, also carried out with the support of our specialists, concerned the following activities: ▪ analysis of the procedures and processes related to the item and verification of the effectiveness of controls to monitor these procedures and processes; ▪ analysis of the adequacy of the IT environment related to IT applications that are relevant to the process of evaluating loans to banks and customers; ▪ procedures for reconciling data between management systems and information reported in the financial statements; ▪ comparative analysis procedures and analysis of the results with the management involved; ▪ analysis of the criteria and methods for the evaluation of credits (analytical and collective) and verification on a sample basis of the reasonableness of the assumptions and of the components used for the assessment and the relative results; ▪ examination on a sample basis of the classification and valuation in the financial statements in accordance with the IFRS adopted by the European Union and the provisions issued pursuant to Article 43 of Legislative Decree 136/2015; ▪ examination of the disclosures provided in the explanatory notes.

For these reasons, we have considered the classification and evaluation of loans and receivables with customers booked under financial assets valued at amortized cost, a significant key matter in the context of the auditing activity.

DETECTION OF DEFAULT INTEREST PURSUANT TO LEGISLATIVE DECREE NO. 231 OF 9 OCTOBER 2002 ON PERFORMING RECEIVABLES ACQUIRED WITHOUT RECOURSE

Notes to the consolidated financial statements: Part A) Accounting policies – paragraph A.2., "Information on the main items of the consolidated financial statements"; Part C) Information on the income statement - Section 1 "interest – item 10 and 20"; Part E) Information concerning risk and related hedging policies

The Company's directors account for accrued default interest pursuant to legislative decree no. 231 of 9 october 2002 on performing receivables acquired without recourse.

Default interest recognized on an accrual basis, which will be collected in the forthcoming years, in the year ended on December 31, 2021 amount to Euro 11 million and represent the 11% of the Group's interest and similar income.

The default interest deemed recoverable by the directors of the Company is estimated by using models based on the analysis of the time series concerning the recovery percentages and actual collection times observed internally.

These analyses are periodically updated following the progressive consolidation of the time series.

The aforementioned estimate, characterized by a high degree of uncertainty and subjectivity, is made on the basis of models that take into account numerous quantitative and qualitative elements such as, among others, the historical data relating to collections, expected cash flows, the relative times collection costs and the impact of the risks associated with the geographical areas in which the Company's customers operate.

For these reasons, we have considered the detection of default interest pursuant to legislative decree no. 231 of 9 october 2002 on performing receivables acquired without recourse a significant key matter in the context of the auditing activity.

The main audit procedures carried out in response to the key audit matter relating to the detection of default interest pursuant to legislative decree no. 231 of 9 october 2002 on performing receivables acquired without recourse, also carried out with the support of our specialists, concerned the following activities:

- analysis of the procedures and processes related to the item and verification of the effectiveness of controls to monitor these procedures and processes;
- analysis of the adequacy of the IT environment related to IT applications that are relevant to the process of detection of default interest;
- procedures for reconciling data between management systems and information reported in the financial statements;
- comparative analysis procedures and analysis of the results with the management involved;
- analysis of the models used to estimate default interest and examination of the reasonableness of the main assumptions contained in them;
- analysis of the adequacy of the information provided in the explanatory notes.

VALUATION OF GOODWILL

Notes to the consolidated financial statements: Part A) Accounting policies – paragraph A.2., "Information on the main items of the consolidated financial statements": "Intangible assets"; Part B) Information on the statement of financial position – Section 10 "Intangible assets"

The Group recorded among intangibles in the financial statements, a goodwill for Euro 32 million. Goodwill, as required by IAS 36 "Impairment of assets", is not depreciated but tested for impairment ("Impairment test"), at least annually, by means of comparison of the carrying value with recoverable amounts of each CGU represented by the value in use.

The impairment test performed by the Company confirmed the recoverability of goodwill registered in the consolidated financial statements.

We focused on this area due to the significance of its amount and the significant judgement and complexity of the evaluation process; the recoverable amount of goodwill is based on the realisation of the assumptions of the strategic plan, discount rates and expected future growth rates and other subjective assumptions.

Our main audit procedures performed in response to the key audit matter regarding the valuation of goodwill, also carried out with the support of our specialists, included the following:

- we challenged the reasonableness of the key underlying assumptions of the plan;
- we assessed and challenged the adequacy of the impairment model adopted;
- we assessed the main key underlying assumptions for the impairment model, in particular the ones related to cash flow projections, discount rates, long term growth rates.
- we verified the clerical accuracy of the impairment model adopted.
- we performed sensitivity analysis of the control model of impairment when key assumptions change;
- we verified the disclosures provided in the explanatory notes.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, as well as the regulation issued to implement article 9 of Legislative Decree NO. 38/05 and article 43 of Legislative Decree NO. 136/15 and, within the terms provide by the law, for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the holding Banca Sistema S.p.A. or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also have:

- identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We have communicated with those charged with governance, as properly identified in accordance with ISA Italia, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have also provided those charged with governance with a statement that we have complied with relevant ethical and independence requirements applicable in Italy, and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described those matters in the auditor's report.

Other information communicated pursuant to article 10 of Regulation (EU) 537/2014

We were initially engaged by the shareholders meeting of Banca Sistema S.p.A. on April 18, 2019 to perform the audit of the separate and the consolidated financial statements of each fiscal year starting from December 31, 2019 to December 31, 2027.

We declare that we did not provide prohibited non audit services, referred to article 5, paragraph 1, of Regulation (EU) 537/2014, and that we remained independent of the company in conducting the audit.

We confirm that the opinion on the consolidated financial statements included in this audit report is consistent with the content of the additional report prepared in accordance with article 11 of the EU Regulation n.537/2014, submitted to those charged with governance.

Report on other legal and regulatory requirements

Opinion on the compliance to the requirements of the Delegated Regulation (EU) 2019/815

The directors of Banca Sistema S.p.A. are responsible for the application of the requirements of Delegated Regulation (EU) 2019/815 of European Commission regarding the regulatory technical standards pertaining the electronic reporting format specifications (ESEF – European Single Electronic Format) (hereinafter the "Delegated Regulation") to the consolidated financial statements.

We have performed the procedures required under audit standard (SA Italia) no. 700B in order to express an opinion on the compliance of the consolidated financial statements to the requirements of the Delegated Regulation.

In our opinion, the consolidated financial statements have been prepared in XHTML format and have been marked-up, in all material respects, in compliance to the requirements of the Delegated Regulation.

Opinion pursuant to article 14, paragraph 2, letter e), of Legislative Decree n. 39/10 and of article 123-bis of Legislative Decree n. 58/98.

The directors of Banca Sistema S.p.A. are responsible for the preparation of the report on operations and of the corporate governance report of Banca Sistema S.p.A. as at December 31, 2021, including their consistency with the consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and of specific information of the corporate governance report as provided by article 123-bis, paragraph. 4, of Legislative Decree n. 58/98, with the consolidated financial statements of Banca Sistema S.p.A. as at December 31, 2021 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the report on operations and the above mentioned specific information of the corporate governance report are consistent with the consolidated financial statements of Banca Sistema Group as at December 31, 2021 and are compliant with applicable laws and regulations.

With reference to the assessment pursuant to article 14, paragraph. 2, letter e), of Legislative Decree n. 39/10 based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Milan, March 29, 2022

BDO Italia S.p.A.

(signed in the original)
Andrea Mezzadra

Partner

As disclosed by the Directors, the accompanying consolidated financial statements of Banca Sistema S.p.A. constitute a non-official version which is not compliant with the provisions of the Commission Delegated Regulation (EU) 2019/815. This independent auditor's report has been translated into the English language solely for the convenience of international readers. Accordingly, only the original text in Italian language is authoritative.

Banca SISTEMA Group

SEPARATE FINANCIAL STATEMENTS AT 31 DECEMBER 2021

BANCA
SISTEMA

These separate financial statements constitute a non-official version and they are not compliant with the provisions of Commission Delegated Regulation (EU) 2019/815. Accordingly, only the original text in Italian language is authoritative.

DIRECTORS' REPORT
AT 31 DECEMBER 2021

Introduction to the Directors' Report of Banca Sistema S.p.A.

This Directors' Report provides commentary on the Parent's performance and the related figures and results. For other information required by the applicable legal and regulatory provisions, please see the Directors' Report in the Banca Sistema Group's consolidated financial statements as regards the following:

- composition of management bodies
- composition of the internal committees
- significant events during the year
- the macroeconomic scenario
- factoring
- salary- and pension-backed loans
- funding activities
- composition and organisational structure of the Group
- capital and shares
- risk management and support control methods
- significant events after the reporting date
- business outlook and main risks and uncertainties.

With respect to the notes to the separate financial statements, the sections where reference is made to the consolidated financial statements are provided below:

REFERRING SECTION OF THE SEPARATE FINANCIAL STATEMENTS	SECTION OF THE CONSOLIDATED FINANCIAL STATEMENTS TO WHICH REFERENCE IS MADE
Part B Section 9 - Intangible assets - Item 90 Narrative section	Part B Section 10 - Intangible assets - Item 100 Narrative section
Part E Section 1 - Credit risk Qualitative disclosure	Part E Section 2 - Prudential consolidation risks, 1.1 Credit risk Qualitative disclosure
Part E Section 2 - Market risk 2.1 Interest rate risk and price risk - regulatory trading book Qualitative disclosure	Part E 1.2 Market risk 1.2.1 Interest rate risk and price risk - regulatory trading book Qualitative disclosure
Part E Section 2 - Market risk 2.2 Interest rate risk and price risk - Banking Book Qualitative disclosure	Part E 1.2 Market risk 1.2.2 Interest rate risk and price risk - Banking Book Qualitative disclosure
Part E Section 2 - Market risk 2.3 Currency risk Qualitative disclosure	Part E 1.2 Market risk 1.2.3 Currency risk Qualitative disclosure
Part E Section 4 - Liquidity risk Qualitative disclosure	Part E 1.4 Liquidity risk Qualitative disclosure
Part E Section 5 - Operational risks Qualitative disclosure	Part E 1.4 Operational risks Qualitative disclosure

FINANCIAL HIGHLIGHTS AT 31 DECEMBER 2021

Statement of financial position data (€,000)

	31 Dec 2021	31 Dec 2020	
Total Assets	3,650,173	3,588,741	1.7%
Securities Portfolio	643,672	881,183	-27.0%
Loans - Factoring	1,435,788	1,443,914	-0.6%
Loans - Salary-backed loans and SME	1,091,842	1,008,282	8.3%
Funding - Banks and REPOs	830,247	1,054,230	-21.2%
Funding - Term Deposits	1,387,416	1,216,523	14.0%
Funding - Current Accounts	805,766	639,546	26.0%

Income statement data (€,000)

	31 Dec 2021	31 Dec 2020	
Net interest income	74,387	72,120	3.1%
Net fee and commission income	9,216	14,747	-37.5%
Total Income	95,796	96,681	-0.9%
Personnel Expenses	(23,100)	(21,742)	6.2%
Other administrative expenses	(25,195)	(21,570)	16.8%
Profit for the year	23,143	26,121	-11.4%

Performance Indicators

	31 Dec 2021	31 Dec 2020	
Cost/Income	53.4%	48.8%	9.4%
ROTE	11.1%	13.4%	-16.6%

HUMAN RESOURCES

As at 31 December 2021, the Bank had staff of 206, broken down by category as follows:

FTES	31.12.2021	31.12.2020
Senior managers	24	24
Middle managers (QD3 and QD4)	50	42
Other personnel	132	132
Total	**206**	**198**

A total of 24 new employees were hired during the year to join the following departments: ICT, Legal Affairs, Administration and Finance, Banking Services Department, the Commercial and Operations Departments of the CQ Division, and the Credit and Commercial Departments of the Factoring Division.

To further streamline and simplify the Bank's organisational structure to achieve better results and improve the monitoring of costs and operational risks, the Bank has introduced a number of organisational changes, both by continuing its efforts to extend the divisional model introduced last year to additional areas of the Bank, and by implementing new initiatives to simplify and streamline the organisation.

More specifically, the Banking Services Department finalised the adoption of the divisional model and established ICT and Organisation departments in the CQ and Factoring Divisions, leaving the direct management of technical and organisational issues at Group level to the Bank's ICT/Organisation Department, while at the same time delegating to the newly established departments all activities that relate strictly to the business they manage (typically product-related, application of specific regulations and division-specific projects and initiatives). The Banking Services ICT/Organisation Department also ensures that the homonymous division level departments carry out their activities in compliance with the more general Group level policies. During the first few months of the year, certain areas were simplified, including those of the CQ Division (creation of a single Network Commercial Department), the Factoring Division (Credit, Operations and Product Specialists areas), the Finance Department (broadening of the responsibilities of the Treasury and Structured Finance Department) and the Banking Services Department (creation of a single Back Office area).

In managing the pandemic crisis, the Bank continued to apply measures to prevent the spread of infections, encouraging business continuity through a remote working model, with the only exceptions being the operations of the Banking branches and the Departments having the greatest impact on managing the emergency, namely ICT, Logistics, Human Capital, and Treasury. Gradually, since July, and in line with national and regional health provisions to prevent and counter the spread of the COVID-19 virus, a more balanced remote working schedule has been organised, with two days of remote work and three days of work on site at the Bank's premises each week, always excluding personnel who do not work in close contact with the public and who carry out duties most critical with respect to the management of the emergency. The remote medical counselling programme for all Group employees, which had been organised back in 2020 to respond to possible difficulties in accessing advice and initial medical assistance, was extended for another year.

During the first half of the year, various professional training courses were organised covering regulatory topics affecting the Bank, both with internal and external instructors. Some of these courses were rescheduled for the second half of the year because of the health emergency. Specific training courses and coaching programmes were also developed and launched focusing on managerial and professional topics mainly for the Commercial Department and new managers. In the second half of the year, individual coaching, training on the regulatory and legal framework, as well as technical and language training for all Group personnel also continued. In 2021, 164 days of training were provided to Banca Sistema personnel, a decrease of about 34% compared to the previous year because of the postponement and remote rescheduling of some training courses and because of the implementation of a greater number of individual training activities also in observance of the measures aimed at combating the spread of the pandemic.

The average age of Bank employees is 44 for men and 41 for women. The breakdown by gender is essentially balanced with men accounting for 51.5% of the total.

INCOME STATEMENT RESULTS

INCOME STATEMENT (€,000)	2021	2020	€ Change	% Change
Net interest income	74,387	72,120	2,267	3.1%
Net fee and commission income	9,216	14,747	(5,531)	-37.5%
Dividends and similar income	227	227	-	0.0%
Net trading income	21	56	(35)	-62.5%
Gain from sales or repurchases of financial assets/liabilities	10,089	9,531	558	5.9%
Gain (loss) on other financial assets/liabilities measured at fair value	1,856	-	1,856	n.a.
Total income	**95,796**	**96,681**	**(885)**	**-0.9%**
Net impairment losses on loans and receivables	(10,719)	(12,481)	1,762	-14.1%
Net financial income	**85,077**	**84,200**	**877**	**1.0%**
Personnel expense	(23,100)	(21,742)	(1,358)	6.2%
Other administrative expenses	(25,195)	(21,570)	(3,625)	16.8%
Net accruals to provisions for risks and charges	(1,705)	(2,520)	815	-32.3%
Net impairment losses on property and equipment/intangible assets	(1,583)	(1,618)	35	-2.2%
Other operating income	407	232	175	75.0%
Operating costs	**(51,176)**	**(47,218)**	**(3,958)**	**8.4%**
Gains (losses) on sales of investments	-	1,090	(1,090)	-100.0%
Pre-tax profit from continuing operations	**33,901**	**38,072**	**(4,171)**	**-11.0%**
Income taxes for the year	(10,758)	(11,951)	1,193	-10.0%
Profit for the year	**23,143**	**26,121**	**(2,978)**	**-11.4%**

(*) For more information reference should be made to the "General basis of preparation" section in the Accounting Policies of this report.

Profit of € 23.1 million was reported in 2021, down on the previous year, considering that 2020 included the € 1.1 million gain on the sale of 25% of the share capital of the subsidiary ProntoPegno. Despite the difficult market conditions, total income grew by 5.8% driven by the increased contribution of the collateralised lending division and an optimisation of the cost of funding, which offset the reduction in factoring margins. The growth in margin was absorbed by an increase in costs mainly to support growth and sustain the volumes generated by the Bank's divisions.

NET INTEREST INCOME (€,000)	2021	2020	€ Change	% Change
Interest and similar income				
Loans and receivables portfolios	83,599	87,620	(4,021)	-4.6%
Factoring	57,765	64,528	(6,763)	-10.5%
CQ	21,438	22,415	(977)	-4.4%
Government-backed loans to SMEs	4,396	677	3,719	>100%
Securities portfolio	1,775	1,872	(97)	-5.2%
Other	1,526	1,533	(7)	-0.5%
Financial liabilities	3,521	4,223	(702)	-16.6%
Total interest income	**90,421**	**95,248**	**(4,827)**	**-5.1%**
Interest and similar expense				
Due to banks	(460)	(412)	(48)	11.7%
Due to customers	(12,660)	(15,468)	2,808	-18.2%
Securities issued	(1,872)	(7,060)	5,188	-73.5%
Financial assets	(1,042)	(188)	(854)	>100%
Total interest expense	**(16,034)**	**(23,128)**	**7,094**	**-30.7%**
Net interest income	**74,387**	**72,120**	**2,267**	**3.1%**

(*) For more information reference should be made to the "General basis of preparation" section in the Accounting Policies of this report.

Net interest income increased compared to the prior year due to the reduction in the cost of funding. Interest income was driven by the increased contribution of the Collateralised Lending Division and the good performance of guaranteed SME loans to factoring customers.

The total contribution of the Factoring Division (which includes Government-backed loans to SMEs) to interest income was € 62.2 million, equal to 74% of the entire loans and receivables portfolio (like at 31 December 2020), to which the commission component associated with the factoring business and the revenue generated by the assignment of private-sector receivables from the factoring portfolio need to be added.

In the third quarter of 2021, the estimated rates of recovery of default interest on factoring and the related collection times used were updated in the light of the progressive consolidation of the historical data series; the combined adjustment of these estimates led to lower interest income of € -0.3 million. The results for the same period of the previous year had benefited from the recognition of higher interest income of € 1.0 million resulting from an update to the estimates.

The component linked to default interest from legal action at 31 December 2021 was € 21.5 million (€ 21.6 million at 31 December 2020):

- of which € -0.3 million resulting from the updated recovery estimates and expected collection times (€ 1.0 million in 2020);
- of which € 11.7 million resulting from the current recovery estimates (€ 9 million in 2020);
- of which € 10.1 million (€ 11.6 million in 2020) coming from net collections during the year, i.e. the difference between the amount collected during the year, equal to € 17.5 million (€ 21.5 million in 2020) and that recognised on an accruals basis in previous years. In 2020, this item included gross collections of € 5.2 million from transfers to third parties, whereas in 2021, gross collections were € 0.7 million.

The amount of the stock of default interest from legal actions accrued at 31 December 2021, relevant for the allocation model, was € 99 million (€ 98 million at the end of 2020), which becomes € 169 million when including default interest related to positions with troubled local authorities, a component for which default interest is not allocated in the financial statements. Loans and receivables recognised in the financial statements under the current accounting model amount to € 51.5 million. Therefore, the amount of default interest accrued but not recognised in the income statement is € 117 million.

The contribution of interest on the salary- and pension-backed portfolios is down slightly on the previous year at € 21.4 million as a result of the early redemption of several positions.

Compared to 2020, the interest component from government-backed loans granted by the Bank to factoring customers, a support measure in response to the Covid-19 pandemic, has had a positive impact.

The item "financial liabilities" mainly includes income arising from the financing activity of the securities portfolio in repurchase agreements and ECB loans at negative rates, which account for € 3.5 million.

Interest expense, which decreased compared to the previous year thanks to the funding strategies introduced to carefully contain the cost of funding, made a significant positive contribution to total net interest income. In particular, interest on term deposits from customers decreased as a result of the reduction in the interest rate applied to deposit accounts. The cost of bonds also decreased following the full repayment in the last quarter of 2020 of the € 175 million senior bond which the Bank deemed appropriate to refinance with other more cost-effective forms of funding.

The accrued interest expense component related to AT1 instruments, the coupon component of which is classified within equity reserves, amounted to € 2.3 million (€ 0.6 million at 31 December 2020).

NET FEE AND COMMISSION INCOME (€,000)	2021	2020	€ Change	% Change
Fee and commission income				
Factoring activities	12,813	17,726	(4,913)	-27.7%
Fee and commission income - off-premises CQ	4,503	2,388	2,115	88.6%
Collateralised loans (fee and commission income)	3	2	1	50.0%
Collection activities	1,235	1,138	97	8.5%
Other	538	365	173	47.4%
Total fee and commission income	**19,092**	**21,619**	**(2,527)**	**-11.7%**
Fee and commission expense				
Factoring portfolio placement	(1,426)	(1,279)	(147)	11.5%
Placement of other financial products	(1,988)	(1,767)	(221)	12.5%
Fees - off-premises CQ	(5,717)	(3,013)	(2,704)	89.7%
Other	(745)	(813)	68	-8.4%
Total fee and commission expense	**(9,876)**	**(6,872)**	**(3,004)**	**43.7%**
Net fee and commission income	**9,216**	**14,747**	**(5,531)**	**-37.5%**

Net fee and commission income of € 9.2 million was down on the previous year due to the reduction in the contribution from factoring linked to extraordinarily rapid collections.

Fee and commission income from factoring should be considered together with interest income, since it makes no difference from a management point of view whether profit is recognised in the commissions and fees item or in interest in the without recourse factoring business.

Commissions on collection activities, related to the service of reconciliation of third-party invoices collected from Public Administration are in line with 2020.

Other fee and commission income includes commissions and fees from collection and payment services, and the keeping and management of current accounts.

Fee and commission income - off-premises CQ refers to the commissions on the salary- and pension-backed loan (CQ) origination business of € 4.5 million, which should be considered together with the item Fees - off-premises CQ, amounting to € 5.7 million, which are composed of the commissions paid to financial advisers for the off-premises placement of the salary- and pension-backed loan product, including the estimated year-end bonuses payable to them and commissions borne solely by the Bank.

Fees and commissions for the placement of financial products paid to third parties are attributable to returns to third party intermediaries for the placement of the SI Conto! Deposito product under the passporting regime, whereas the fee and commission expense of placing the factoring portfolios is linked to the origination costs of factoring receivables, which are in line with those reported in the same period of the previous year.

Other fee and commission expense includes commissions for trading third-party securities and for interbank collections and payment services.

GAIN FROM SALES OR REPURCHASES (€,000)	2021	2020	€ Change	% Change
Gains from HTCS portfolio debt instruments	4,090	5,301	(1,211)	-22.8%
Gains from HTC portfolio debt instruments	458	340	118	34.7%
Gains from financial liabilities	-	16	(16)	-100.0%
Gains from receivables (Factoring portfolio)	1,875	2,425	(550)	-22.7%
Gains from receivables (CQ portfolio)	3,666	1,449	2,217	>100%
Total	**10,089**	**9,531**	**558**	**5.9%**

The item Gain (loss) from sales or repurchases includes gains generated by the proprietary HTCS and HTC securities portfolio of € 4.5 million, net realised gains from factoring receivables of € 1.9 million, the revenue from which derives from the sale of factoring portfolios to private-sector assignors, and gains realised from the sale of CQ portfolios to third parties.

The item "Gain (loss) on other financial assets/ liabilities measured at fair value" includes the fair value measurement of the Junior security of the BS IVA securitisation.

Impairment losses on loans and receivables at 31 December 2021 amounted to € 10.7 million and were affected by a valuation adjustment made in the first quarter of 2021 of € 2.4 million on a portion of invoices included in the insolvency procedure of a local authority which will not occur again in future quarters and will be largely recovered from the default interest (almost all of which has already been recognised by the court and not yet accounted for in the income statement, like all the default interest related to troubled local authorities), which will be collected when the settlement agreement with the OSL (Organo Straordinario di Liquidazione - Extraordinary Liquidation Committee) concerning the items identified by the Bank is finalised and in part when the insolvency procedure is completed. The impairment losses in the second quarter of 2021 were also negatively impacted by a lengthening of the estimated collection times for positions with municipalities in financial difficulty, reflecting an increase in the average time to emerge from financial difficulties, resulting in a one-off effect of € 1.4 million. As at 30 June 2021, the Bank had already accepted the increased hedging requirements communicated by the Bank of Italy inspectors as a result of their audit. The loss rate stood at 0.40% compared to 0.42% in 2020

PERSONNEL EXPENSE (€,000)	2021	2020	€ Change	% Change
Wages and salaries	(18,373)	(17,175)	(1,198)	7.0%
Social security contributions and other costs	(3,491)	(3,460)	(31)	0.9%
Directors' and statutory auditors' remuneration	(1,236)	(1,107)	(129)	11.7%
Total	**(23,100)**	**(21,742)**	**(1,358)**	**6.2%**

The increase in personnel expense is mainly due to the increase in the average number of employees from 192 to 202 and to salary adjustments.

OTHER ADMINISTRATIVE EXPENSES (€,000)	2021	2020	€ Change	% Change
Consultancy	(5,059)	(3,943)	(1,116)	28.3%
IT expenses	(5,311)	(4,987)	(324)	6.5%
Servicing and collection activities	(3,070)	(2,951)	(119)	4.0%
Indirect taxes and duties	(2,518)	(782)	(1,736)	> 100%
Insurance	(464)	(468)	4	-0.9%
Other	(638)	(353)	(285)	80.7%
Expenses related to management of the SPVs	(468)	(537)	69	-12.8%
Outsourcing and consultancy expenses	(391)	(364)	(27)	7.4%
Car hire and related fees	(716)	(546)	(170)	31.1%
Advertising and communications	(1,225)	(400)	(825)	>100%
Expenses related to property management and logistics	(1,022)	(1,016)	(6)	0.6%
Personnel-related expenses	(121)	(60)	(61)	>100%
Expense reimbursement and entertainment	(355)	(302)	(53)	17.5%
Infoprovider expenses	(701)	(514)	(187)	36.4%
Membership fees	(337)	(288)	(49)	17.0%
Audit fees	(235)	(240)	5	-2.1%
Telephone and postage expenses	(258)	(193)	(65)	33.7%
Stationery and printing	(22)	(16)	(6)	37.5%
Total operating expenses	**(22,911)**	**(17,960)**	**(4,951)**	**27.6%**
Resolution Fund	(2,284)	(2,007)	(277)	13.8%
Merger-related costs	-	(1,603)	1,603	-100.0%
Total	**(25,195)**	**(21,570)**	**(3,625)**	**16.8%**

Administrative expenses increased mainly due to costs directly related to the businesses in which the Bank operates. Specifically, in 2021, higher legal expenses were incurred for managing the legal recovery proceedings for receivables and default interest from Italian and Spanish public administration debtors and there was an increase in the origination cost of the CQ product. In 2021, investments in advertising for events and sponsorships also increased.

IT expenses consist of costs for services rendered by the IT outsourcer providing the legacy services and costs related to the IT infrastructure, which have increased compared to 2020, due to additional hardware and software to support remote work arrangements.

The increase in Expenses related to property management and logistics is tied to the purchase of the building to be used for operations in Rome.

Compared to the previous year, the Resolution Fund required a € 0.3 million higher contribution, for a total of € 2.3 million.

The impairment losses on property and equipment/ intangible assets are the result of higher provisions for property used for business purposes, as well as the depreciation of the "right-of-use" asset following the application of IFRS 16.

Other income includes the release of estimated accrued costs of € 0.9 million for accruals made in the previous year that were not incurred in 2021.

THE MAIN STATEMENT OF FINANCIAL POSITION AGGREGATES

ASSETS (€,000)	31.12.2021	31.12.2020	€ Change	% Change
Cash and cash equivalents	168,902	66,253	102,649	>100%
Financial assets measured at fair value through profit or loss	8,368	2,353	6,015	>100%
Financial assets measured at fair value through other comprehensive income	451,261	430,966	20,295	4.7%
Financial assets measured at amortised cost	2,917,200	3,007,535	(90,335)	-3.0%
a) loans and receivables with banks	33,141	24,289	8,852	36.4%
b1) loans and receivables with customers - loans	2,700,017	2,535,382	164,635	6.5%
b2) loans and receivables with customers - debt instruments	184,042	447,864	(263,822)	-58.9%
Equity investments	45,250	45,250	-	0.0%
Property and equipment	4,499	5,427	(928)	-17.1%
Intangible assets	3,980	3,932	48	1.2%
of which: goodwill	*3,920*	*32,355*	(28,435)	*-87.9%*
Tax assets	10,973	8,835	2,138	24.2%
Other assets	39,740	18,190	21,550	>100%
Total assets	**3,650,173**	**3,588,741**	**61,432**	**1.7%**

(*) Effective 31 December 2021, all "demand" receivables in the form of current and deposit accounts with banks, which were previously classified under item 40, are to be classified under item 10. Therefore, the figures as at 31 December 2020 have been reclassified.

The year ended 31 December 2021 closed with total assets up by 1.7% over the end of 2020 and equal to € 3.7 billion.

The securities portfolio relating to Financial assets measured at fair value through other comprehensive income (“HTCS” or “Held to collect and Sell”) of the Bank was up compared to 31 December 2020 and continues to be mainly comprised of Italian government bonds with an average duration of about 31.4 months (the average remaining duration at the end of 2020 was 14.8 months). This is consistent with the Group investment policy. The carrying amount of the government bonds held in the HTCS portfolio amounted to € 446 million at 31 December 2021 (€ 425 million at 31 December 2020). The associated valuation reserve was negative at the end of the year, amounting to € 3.6 million before the tax effect. In addition to government securities, the HTCS portfolio also includes 200 shares of the Bank of Italy, amounting to € 5 million, and the Axactor Norway shares, which at 31 December 2021 had a negative fair value reserve of € 0.05 million, resulting in a year-end amount of € 0.5 million.

LOANS AND RECEIVABLES WITH CUSTOMERS (€,000)	31.12.2021	31.12.2020	€ Change	% Change
Factoring	1,435,788	1,443,914	(8,126)	-0.6%
Salary-/pension-backed loans (CQS/CQP)	931,767	933,873	(2,106)	-0.2%
Collateralised loans	-	-	-	n.a.
Loans to SMEs	160,075	74,409	85,666	>100%
Current accounts	156,840	62,522	94,318	>100%
Compensation and Guarantee Fund	9,147	12,639	(3,492)	-27.6%
Other loans and receivables	6,400	8,025	(1,625)	-20.2%
Total loans	**2,700,017**	**2,535,382**	**164,635**	**6.5%**
Securities	184,042	447,864	(263,822)	-58.9%
Total loans and receivables with customers	**2,884,059**	**2,983,246**	**(99,187)**	**-3.3%**

The item loans and receivables with customers under Financial assets measured at amortised cost (hereinafter HTC, or "Held to Collect"), is composed of loan receivables with customers and the "held-to-maturity securities" portfolio.

Outstanding loans for factoring receivables compared to Total loans, therefore excluding the amounts of the securities portfolio, were 53% (57% at the end of 2020).

The volumes generated during the year amounted to € 3,611 million (€ 3,101 million at 31 December 2020).

Salary- and pension-backed loans are in line with the end of the previous year, mainly as a result of the sale of portfolios originated by the Bank. Compared to the previous year, volumes disbursed decreased slightly because of fewer portfolios purchased, whereas volumes of directly originated loans increased from € 37 million in 2020 to € 85 million.

Government-backed loans to SMEs increased following new disbursements made under SACE and SME Fund guarantees and amounted to € 160.3 million.

HTC Securities are composed entirely of Italian government securities with an average duration of 30.9 months for an amount of € 184 million. The mark-to-market valuation of the securities at 31 December 2021 was a positive fair value of € 1.6 million.

The following table shows the quality of receivables in the loans and receivables with customers item, excluding the securities positions.

STATUS	31.12.2020	31.12.2021
Bad exposures	52,354	169,100
Unlikely to pay	147,431	36,693
Past due	50,377	108,598
Non-performing	**250,162**	**314,391**
Performing	**2,337,945**	**2,448,801**
Stage 2	134,159	102,858
Stage 1	2,203,786	2,345,943
Total loans and receivables with customers	**2,588,107**	**2,763,192**
Individual impairment losses	**45,151**	**59,201**
Bad exposures	25,240	47,555
Unlikely to pay	19,476	11,055
Past due	435	591
Collective impairment losses	**8,787**	**6,755**
Stage 2	781	560
Stage 1	8,006	6,195
Total impairment losses	**53,938**	**65,956**
Net exposure	**2,534,169**	**2,697,236**

The ratio of gross non-performing loans to the total portfolio increased to 11.4% compared to 9.7% at 31 December 2020, following the increase in past due loans, mainly due to the entry into force of the new definition of default on 1 January 2021 ("New DoD"). Past due loans are associated with factoring receivables without recourse from Public Administration and are considered normal for the sector. Despite the new technical rules used to report past due loans for regulatory purposes, this continues not to pose particular problems in terms of credit quality and probability of collection.

The increase in bad exposures is the result of reclassifying, as requested by the Bank of Italy during its recent routine audit, exposures to local authorities in financial difficulty, which the Group had previously classified as unlikely to pay because, pursuant to the consolidated text of the laws on the structure of local authorities (TUEL), until the settlement proposed by the OSL is accepted, the exposure does not fall under the liquidation procedure. This reclassification has no impact on prudential ratios, nor on the quality of the receivable that the Group will collect in full at the end of the financial difficulties, including default interest accrued up to that date and not recognised in the income statement. The coverage ratio for non-performing loans is 18.8%, up from 18.0% at 31 December 2020.

Property and equipment includes the right of use for the property located in Milan which is also being used as Banca Sistema's offices. The other capitalised costs include furniture, fittings and IT devices and equipment, as well as the right of use relating to the lease payments for branches and company cars.

Intangible assets refer to goodwill of € 3.9 million, broken down as follows:

- the goodwill originating from the merger of the former subsidiary Solvi S.r.l. which took place in 2013 amounting to € 1.8 million;
- the goodwill generated by the acquisition of Atlantide S.p.A. on 3 April 2019 amounting to € 2.1 million.

At the end of 2020, Banca Sistema entered into an equal partnership with EBN Banco de Negocios S.A., taking a stake in the capital of EBNSISTEMA Finance S.L., and thereby entering the Spanish factoring market. Banca Sistema acquired an equity investment in EBNSISTEMA through a capital increase of € 1 million which gave Banca Sistema a 50% stake in the Madrid-based company. The aim of the joint venture is to develop the Public Administration factoring business on the Iberian peninsula, with its core business being the purchase of healthcare receivables. In 2021, EBNSISTEMA purchased € 240 million in receivables (50% of which were attributable to the Group).

Other assets mainly include amounts being processed after the end of the year and advance tax payments.

At 31 December 2021, the item included tax credits from the "Eco-Sisma bonus 110%" product associated to the tax credit generated against specific energy efficiency and anti-seismic safety works which can be deducted at a rate of 110% over five years for an amount of € 16.5 million. This product was introduced by the Bank, within the context of the implementation of the Relaunch Decree issued in May 2020, in a very prudent manner and with modest turnover targets, to be included in the range of products offered by the Factoring Division.

Comments on the main aggregates on the liability side of the statement of financial position are shown below.

LIABILITIES AND EQUITY (€,000)	31.12.2021	31.12.2020	€ Change	% Change
Financial liabilities measured at amortised cost	3,219,805	3,202,631	17,174	0.5%
a) due to banks	580,991	819,000	(238,009)	-29.1%
b) due to customers	2,638,814	2,253,541	385,273	17.1%
c) securities issued	-	130,090	(130,090)	-100.0%
Tax liabilities	14,173	16,645	(2,472)	-14.9%
Other liabilities	127,425	136,007	(8,582)	-6.3%
Post-employment benefits	3,360	3,374	(14)	-0.4%
Provisions for risks and charges	28,340	22,636	5,704	25.2%
Valuation reserves	(2,986)	1,386	(4,372)	<100%
Reserves	181,762	162,524	19,238	11.8%
Equity instruments	45,500	8,000	37,500	>100%
Share capital	9,651	9,651	-	0.0%
Treasury shares (-)	-	(234)	234	-100.0%
Profit for the year	23,143	26,121	(2,978)	-11.4%
Total liabilities and equity	**3,650,173**	**3,588,741**	**61,432**	**1.7%**

(*) For more information reference should be made to the “General basis of preparation” section in the Accounting Policies of this report.

Wholesale funding, which represents about 26% of the total (37% at 31 December 2020), decreased in absolute terms from the end of 2020 mainly following the decrease in interbank funding and ECB loans.

DUE TO BANKS (€,000)	31.12.2021	31.12.2020	€ Change	% Change
Due to Central banks	540,095	689,686	-149,591	-21.70%
Due to banks	40,896	129,315	-88,419	-68.40%
Current accounts and demand deposits	*40,897*	*125,178*	*-84,281*	*-67.30%*
Term deposits with banks	*0*	*0*	*0*	*n.a.*
Financing from other banks	*-1*	*0*	*-1*	*0.00%*
Other amounts due to banks	*0*	*4,137*	*-4,137*	*-100.00%*
Total	**580,991**	**819,001**	**-238,010**	**-29.10%**

The item "Due to banks" decreased by 29% compared to 31 December 2020 as a result of the decrease in interbank funding; the item "Due to Central banks" dropped by 22% with respect to 31 December 2020 reflecting the repayment of the Pandemic Emergency Longer-Term Refinancing Operations (PELTROs). ECB loans are backed by ABS from the salary- and pension-backed loans (CQS/CQP) securitisation, government bonds, CQS/CQP receivables and some factoring receivables.

DUE TO CUSTOMERS (€,000)	31.12.2021	31.12.2020	€ Change	% Change
Term deposits	1,387,416	1,216,523	170,893	14.0%
Financing (repurchase agreements)	249,256	235,230	14,026	6.0%
Current accounts	805,766	639,546	166,220	26.0%
Due to assignors	56,012	75,021	(19,009)	-25.3%
Other payables	140,364	87,221	53,143	60.9%
Total	**2,638,814**	**2,253,541**	**385,273**	**17.1%**

The item Due to customers increased compared to the end of the previous year, mainly due to an increase in funding from current accounts and term deposits. The year-end amount of term deposits increased by 14% compared to the end of 2020, reflecting net positive deposits (net of interest accrued) of € 171 million coming mainly through the international channel; gross deposits from the beginning of the year were € 1,078 million, against withdrawals totalling € 907 million.

Due to assignors includes payables related to the unfunded portion of acquired receivables.

The value of bonds issued decreased compared to 31 December 2020 due to the repayment of the € 90 million senior bond that matured in May, partially offset by the increase in the senior shares of the ABS financed by third-party investors.

Bonds issued at 31 December 2021 are as follows:

- Tier 1 subordinated loan of € 8 million, with no maturity (perpetual basis) and a fixed coupon until 18 June 2023 at 7% issued on 18 December 2012 and 18 December 2013 (reopening date);
- Tier 1 subordinated loan of € 37.5 million, with no maturity (perpetual basis) and a fixed coupon until 25 June 2031 at 9% issued on 25 June 2021.

The Tier 2 subordinated loans were repaid before maturity upon simultaneous issuance of an Additional Tier 1 (AT1) subordinated bond for the same amount. It should be noted that given their predominant characteristics, starting this year all AT1 instruments are classified under item 140 “Equity instruments” in equity, including the € 8 million previously classified under financial liabilities.

The provision for risks and charges of € 28.3 million includes the provision for possible liabilities attributable to past acquisitions of € 1.1 million, the estimated amount of personnel-related charges mainly for the portion of the bonus for the year, the deferred portion of the bonus accrued in previous years, and the estimate related to the non-compete agreement totalling € 7.4 million. The provision also includes an estimate of charges related to possible liabilities to assignors that have yet to be settled of € 6.7 million and other estimated charges for ongoing lawsuits and legal disputes amounting to € 2.6 million. Also included is the provision for claims and the provision to cover the estimated adverse effect of possible early repayments (also known as pre-payments) on CQS portfolios purchased from third-party intermediaries and on the assigned portfolios, for an amount of € 7.0 million.

Other liabilities mainly include payments received after the end of the year from the assigned debtors and which were still being allocated and items being processed during the days following year-end, as well as trade payables and tax liabilities.

CAPITAL ADEQUACY

Provisional information concerning the regulatory capital and capital adequacy of Banca Sistema is shown below.

OWN FUNDS (€,000) AND CAPITAL RATIOS	31.12.2021	31.12.2020
Common Equity Tier 1 (CET1)	**197,634**	**188,367**
ADDITIONAL TIER 1	45,500	8,000
Tier 1 capital (T1)	**243,134**	**198,367**
TIER 2	0	37,500
Total Own Funds (TC)	**243,134**	**233,867**
Total risk-weighted assets	**1,504,323**	**1,289,079**
of which, credit risk	1,332,507	1,116,262
of which, operational risk	171,816	172,817
Ratio - CET1	13.1%	14.6%
Ratio - T1	16.2%	15.2%
Ratio - TCR	16.2%	18.1%

Total own funds were € 243 million at 31 December 2021 and included the profit for the year, net of dividends estimated on the profit for the year which were equal to a pay-out of 25% of the profit. CET1 includes a negative reserve resulting from the OCI reserve on securities for € 2.4 million (positive for € 1.8 million at 31 December 2020) and interest on AT1 which increased following the issue of € 37.5 million in June 2021.

The increase in risk-weighted assets with respect to 31 December 2020 is mainly attributable to the increase in non-performing exposures due to the introduction of the new definition of default and increased exposure to businesses.

On 23 February, Banca Sistema's new individual capital requirements were announced:

- CET1 ratio of 10.50%;
- TIER1 ratio of 12.00%;
- Total Capital Ratio of 14.00%.

OTHER INFORMATION

Report on corporate governance and ownership structure

Pursuant to art. 123-bis, paragraph 3 of Legislative Decree no. 58 dated 24 February 1998, a "Report on corporate governance and ownership structure" has been drawn up; the document - published jointly with the financial statements as at and for the year ended 31 December 2021 - is available in the "Governance" section of the Banca Sistema website (www.bancasistema.it).

Remuneration Report

Pursuant to art. 84-quater, paragraph 1 of the Issuers' Regulation implementing Legislative Decree no. 58 dated 24 February 1998, a "Remuneration Report" has been drawn up; the document - published jointly with the financial statements as at and for the year ended 31 December 2021 - is available in the "Governance" section of the Banca Sistema website (www.bancasistema.it).

Research and Development Activities

No research and development activities were carried out in 2021.

Future activities and new initiatives

In line with the Bank's values and corporate culture and with the activities already in place in terms of sustainability, the Banca Sistema Group is pursuing, on a voluntary basis, a structured approach for defining its positioning on ESG issues, with sustainability reporting aligned with industry best practices and leading international guidelines, as well as an action plan aimed at identifying ways of improving its sustainability profile.

RELATED PARTY TRANSACTIONS

Related party transactions including the relevant authorisation and disclosure procedures, are governed by the "Procedure governing related party transactions" approved by the Board of Directors and published on the internet site of the Parent, Banca Sistema S.p.A.
Transactions between Group companies and related parties were carried out in the interests of the Bank, including within the scope of ordinary operations; these transactions were carried out in accordance with market conditions and, in any event, based on mutual financial advantage and in compliance with all procedures.

ATYPICAL OR UNUSUAL TRANSACTIONS

During the year, the Group did not carry out any atypical or unusual transactions, as defined in Consob Communication no. 6064293 of 28 July 2006.

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

Reference should be made to the corresponding section of the Directors' Report in the Banca Sistema Group's consolidated financial statements, which is deemed to be fully reported here.

BUSINESS OUTLOOK AND MAIN RISKS AND UNCERTAINTIES

Reference should be made to the corresponding section of the Directors' Report in the Banca Sistema Group's consolidated financial statements, which is deemed to be fully reported here.

PROPOSED ALLOCATION OF PROFIT FOR THE YEAR

Dear Shareholders,

The separate financial statements as at and for the year ended 31 December 2021, which we submit for your approval, show a profit for the year of € 23,142,841.44. We recommend allocating the profit for the year as follows:

- a *dividend* of € 5,790,315.74;
- the remainder of € 17,352,525.70 to *retained earnings*.

An allocation to the Legal Reserve was not made since the limits set out in Article 2430 of the Italian Civil Code were reached.

Milan, 11 March 2022

On behalf of the Board of Directors

The Chairperson

Luitgard Spögler

The CEO

Gianluca Garbi

SEPARATE FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

	Assets	31.12.2021	31.12.2020	
10.	Cash and cash equivalents	168,901,542	66,253,066	(**)
20.	Financial assets measured at fair value through profit or loss	8,368,222	2,353,445	
	c) other financial assets mandatorily measured at fair value through profit or loss	*8,368,222*	*2,353,445*	
30.	Financial assets measured at fair value through other comprehensive income	451,261,178	430,965,635	
40.	Financial assets measured at amortised cost	2,917,199,997	*3,007,534,891*	
	a) loans and receivables with banks	*33,141,128*	*24,289,099*	*(**)*
	b) loans and receivables with customers	*2,884,058,869*	2,983,245,792	
70.	Equity investments	45,250,000	45,250,000	
80.	Property and equipment	4,498,696	5,426,963	
90.	Intangible assets	3,979,831	3,931,911	
	of which:			
	goodwill	*3,919,700*	*3,919,700*	
100.	Tax assets	10,972,044	8,835,232	
	a) current	*746,523*		
	b) deferred	*10,225,521*	*8,835,232*	
120.	Other assets	39,741,452	18,189,979	
	Total Assets	**3,650,172,962**	**3,588,741,122**	

(*) For more information reference should be made to the "Information on the main items of the financial statements" section in the Accounting Policies.

	Liabilities and equity	31.12.2021	31.12.2020	
10.	Financial liabilities measured at amortised cost	3,219,805,217	3,202,631,042	
	a) due to banks	*580,991,155*	*819,000,552*	
	b) due to customers	*2,638,814,062*	*2,253,540,906*	
	c) securities issued		*130,089,584*	*(*)*
60.	Tax liabilities	14,172,528	16,644,951	
	a) current		*1,995,302*	
	b) deferred	*14,172,528*	*14,649,649*	
80.	Other liabilities	127,425,600	136,006,687	
90.	Post-employment benefits	3,359,656	3,373,701	
100.	Provisions for risks and charges:	28,340,226	22,636,456	
	a) commitments and guarantees issued	*39,068*	*25,923*	
	c) other provisions for risks and charges	*28,301,158*	*22,610,533*	
110.	Valuation reserves	(2,985,650)	1,386,179	
130.	Equity instruments	45,500,000	8,000,000	(*)
140.	Reserves	142,661,850	123,423,909	(*)
150.	Share premium	39,100,168	39,100,168	
160.	Share capital	9,650,526	9,650,526	
170.	Treasury shares (-)		(233,632)	
180.	Profit for the year	23,142,841	26,121,135	(*)
	Total liabilities and equity	**3,650,172,962**	**3,588,741,122**	

(*) For more information reference should be made to the "Information on the main items of the financial statements" section in the Accounting Policies.

INCOME STATEMENT

(Amounts in Euros)

		2021	2020	
10.	Interest and similar income	90,422,722	95,247,332	
	of which: interest income calculated with the effective interest method	89,980,541	93,444,182	
20.	Interest and similar expense	(16,035,269)	(23,126,859)	(*)
30.	**Net interest income**	**74,387,453**	**72,120,473**	
40.	Fee and commission income	19,092,499	21,618,986	
50.	Fee and commission expense	(9,876,131)	(6,871,488)	
60.	**Net fee and commission income**	**9,216,368**	**14,747,498**	
70.	Dividends and similar income	226,667	226,667	
80.	Net trading income	20,590	55,509	
100.	Gain from sales or repurchases of:	10,088,881	9,530,798	
	a) financial assets measured at amortised cost	*5,999,250*	*4,213,550*	
	b) financial assets measured at fair value through other comprehensive income	*4,089,631*	*5,301,079*	
	c) financial liabilities		*16,169*	
110.	Net gain (loss) on other financial assets and liabilities measured at fair value through profit or loss	1,855,893		
	b) other financial assets mandatorily measured at fair value through profit or loss	*1,855,893*		
120.	**Total income**	**95,795,852**	**96,680,945**	
130.	Net impairment losses on:	(10,715,169)	(12,480,750)	
	a) financial assets measured at amortised cost	*(10,743,126)*	*(12,428,581)*	
	b) financial assets measured at fair value through other comprehensive income	*27,957*	*(52,169)*	
140.	Gains/losses from contract amendments without derecognition	(3,709)	-	
150.	**Net financial income**	**85,076,974**	**84,200,195**	
160.	Administrative expenses	(48,295,107)	(43,312,698)	
	a) personnel expense	*(23,100,390)*	*(21,742,327)*	
	b) other administrative expenses	*(25,194,717)*	*(21,570,371)*	
170.	Net accruals to provisions for risks and charges	(1,705,300)	(2,520,150)	
	a) commitments and guarantees issued	*(13,145)*	*17,667*	
	b) other net accruals	*(1,692,155)*	*(2,537,817)*	
180.	Net impairment losses on property and equipment	(1,575,219)	(1,616,526)	
190.	Net impairment losses on intangible assets	(7,797)	(809)	
200.	Other operating income	407,129	232,514	
210.	**Operating costs**	**(51,176,294)**	**(47,217,669)**	
250.	Gains (losses) on sales of investments		1,090,000	
260.	**Pre-tax profit from continuing operations**	**33,900,680**	**38,072,526**	
270.	Income taxes	(10,757,839)	(11,951,391)	(*)
280.	**Post-tax profit from continuing operations**	**23,142,841**	**26,121,135**	
300.	**Profit for the year**	**23,142,841**	**26,121,135**	**(*)**

(*) For more information reference should be made to the "Information on the main items of the financial statements" section in the Accounting Policies.

STATEMENT OF COMPREHENSIVE INCOME

(Amounts in Euros)

		2021	2020	
10.	**Profit for the year**	**23,142,841**	**26,121,135**	**(*)**
	Items, net of tax, that will not be reclassified subsequently to profit or loss			
70.	Defined benefit plans	(29,697)	(36,799)	
	Items, net of tax, that will be reclassified subsequently to profit or loss			
140.	Financial assets (other than equity instruments) measured at fair value through other comprehensive income	(4,342,132)	1,144,011	
170.	**Total other comprehensive income (expense), net of income tax**	**(4,371,829)**	**1,107,212**	
180.	**Comprehensive income (Items 10+170)**	**18,771,012**	**27,228,347**	**(*)**

(*) For more information reference should be made to the “Information on the main items of the financial statements” section in the Accounting Policies.

STATEMENT OF CHANGES IN EQUITY AS AT 31.12.2021

(Amounts in Euros)

	Balance at 31.12.2020		Change in opening balances	Balance at 1.1.2021	Allocation of prior year profit: Reserves	Allocation of prior year profit: Dividends and other allocations	Changes during the year: Changes in reserves	Transactions on equity: Issue of new shares	Transactions on equity: Repurchase of treasury shares	Transactions on equity: Extraordinary dividend distribution	Transactions on equity: Change in equity instruments	Transactions on equity: Derivatives on treasury shares	Transactions on equity: Stock Options	Comprehensive income for 2021	**Equity at 31.12.2021**
Share capital:															
a) ordinary shares	9,650,526			9,650,526											**9,650,526**
b) other shares															
Share premium	39,100,168			39,100,168											**39,100,168**
Reserves	123,423,909			123,423,909	19,687,451		(449,510)								**142,661,850**
a) income-related	123,773,764	(*)		123,773,764	19,687,451		(1,658,632)								**141,802,583**
b) other	(349,855)			(349,855)			1,209,122								**859,267**
Valuation reserves	1,386,179			1,386,179										(4,371,829)	**(2,985,650)**
Equity instruments	8,000,000	(*)		8,000,000							37,500,000				**45,500,000**
Treasury shares	(233,632)			(233,632)			233,632								
Profit for the year	26,121,135	(*)		26,121,135	19,687,451	(6,433,684)								23,142,841	**23,142,841**
Equity	**207,448,285**			**207,448,285**		**(6,433,684)**	**(215,878)**				**37,500,000**			**18,771,012**	**257,069,735**

(*) For more information reference should be made to the "Information on the main items of the financial statements" section in the Accounting Policies.

STATEMENT OF CHANGES IN EQUITY AS AT 31.12.2020

(Amounts in Euros)

	Balance at 31.12.2019		Change in opening balances	Balance at 1.1.2020	Allocation of prior year profit		Changes during the year							Comprehensive income for 2020	**Equity at 31.12.2020**	
								Transactions on equity								
					Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Repurchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	Stock Options			
Share capital:																
a) ordinary shares	9,650,526			9,650,526											**9,650,526**	
b) other shares																
Share premium	39,100,168			39,100,168											**39,100,168**	
Reserves	100,497,797			100,497,797	22,851,504		74,608								**123,423,909**	
a) income-related	101,306,880	(*)		101,306,880	22,851,504		(384,620)								**123,773,764**	(*)
b) other	(809,083)			(809,083)			459,228								**(349,855)**	
Valuation reserves	278,968			278,968										1,107,211	**1,386,179**	
Equity instruments	8,000,000	(*)		8,000,000											**8,000,000**	(*)
Treasury shares	(233,632)			(233,632)											**(233,632)**	
Profit for the year	30,330,662	(*)		30,330,662	22,851,504	(7,479,158)								26,121,135	**26,121,135**	(*)
Equity	**187,624,489**			**187,624,489**		**(7,479,158)**	**74,608**							**27,228,346**	**207,448,285**	

(*) For more information reference should be made to the "Information on the main items of the financial statements" section in the Accounting Policies.

STATEMENT OF CASH FLOWS (indirect method)

(Amounts in Euros)

	2021	2020	
A. OPERATING ACTIVITIES			
1. Operations	**43,340,137**	**53,081,736**	
▪ Profit for the year (+/-)	23,142,841	26,121,135	(*)
▪ Gains/losses on financial assets held for trading and other financial assets/liabilities measured at fair value through profit or loss (-/+)			
▪ Gains/losses on hedging activities (-/+)			
▪ Net impairment losses due to credit risk (+/-)	10,743,126	12,428,581	
▪ Net impairment losses on property and equipment and intangible assets (+/-)	1,583,016	1,617,335	
▪ Net accruals to provisions for risks and charges and other costs/income (+/-)	1,705,300	2,520,150	
▪ Taxes, duties and tax assets not yet paid (+)	(1,656,174)	(261,165)	
▪ Other adjustments (+/-)	7,822,028	10,655,700	
2. Cash flows generated by financial assets	**44,863,897**	**184,774,818**	
▪ Financial assets held for trading			
▪ Financial assets designated at fair value through profit or loss			
▪ Other assets mandatorily measured at fair value through profit or loss	(6,014,777)	(2,353,445)	
▪ Financial assets measured at fair value through other comprehensive income	(24,667,372)	126,524,842	
▪ Financial assets measured at amortised cost	93,735,111	59,083,732	
▪ Other assets	(18,189,065)	1,519,689	
3. Cash flows used for financial liabilities	**(8,845,409)**	**(200,931,036)**	
▪ Financial liabilities measured at amortised cost	2,119,396	(221,973,490)	
▪ Financial liabilities held for trading			
▪ Financial liabilities designated at fair value through profit or loss			
▪ Other liabilities	(10,964,805)	21,042,454	(*)
Net cash flows generated by operating activities	**79,358,625**	**36,925,518**	
B. INVESTING ACTIVITIES			
1. Cash flows generated by		**1,884,430**	
▪ Sales of equity investments		1,250,000	
▪ Dividends from equity investments			
▪ Sales of property and equipment		634,430	
▪ Sales of intangible assets			
▪ Sales of business units			
2. Cash flows used in	**(297,307)**	**(28,128,438)**	
▪ Purchases of equity investments		(26,500,000)	
▪ Purchases of property and equipment	(61,565)	(1,616,526)	
▪ Purchases of intangible assets	(235,742)	(11,912)	
▪ Purchases of business units			
Net cash flows used in investing activities	**(297,307)**	**(26,244,008)**	
C. FINANCING ACTIVITIES			
▪ Issues/repurchases of treasury shares			
▪ Issues/repurchases of equity instruments	37,500,000		
▪ Dividend and other distributions	(13,912,842)		
Net cash flows generated by (used in) financing activities	**23,587,158**		
NET CASH FLOWS FOR THE YEAR	**102,648,476**	**10,681,510**	

Reconciliation

Cash and cash equivalents at the beginning of the year	66,253,066	55,571,556	
Total net cash flows for the year	102,648,476	10,681,510	
Cash and cash equivalents: effect of change in exchange rates			
Cash and cash equivalents at the end of the year	168,901,542	66,253,066	**(**)**

(*)(**) For more information reference should be made to the "Information on the main items of the financial statements" section in the Accounting Policies.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

A.1 - GENERAL PART

SECTION 1 - Statement of compliance with International Financial Reporting Standards

The separate financial statements of Banca Sistema S.p.A. at 31 December 2021 were drawn up in accordance with International Financial Reporting Standards - called IFRS - issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and endorsed by the European Commission, as established by EU Regulation no. 1606 of 19 July 2002, adopted in Italy by art. 1 of Legislative Decree no. 38 of 28 February 2005 and considering the Bank of Italy Circular no. 262 of 22 December 2005 as subsequently updated, regarding the forms and rules for drafting the Financial Statements of banks.

The International Financial Reporting Standards are applied by referring to the “Framework for the Preparation and Presentation of Financial Statements” (Framework).

If there is no standard or interpretation that applies specifically to a transaction, other event or circumstance, the Board of Directors uses its judgement to develop and apply an accounting standard in order to provide disclosure that:

- is relevant to the economic decision-making needs of users;
- is reliable, in that the financial statements:
  - represent faithfully the financial position, financial performance and cash flows of the Bank;
  - reflect the economic substance of transactions, other events and conditions, and not merely the legal form;
  - are neutral, i.e. free from bias;
  - are prudent;
  - are complete in all material respects.

When exercising the aforementioned judgement, the Board of Directors of the Bank has made reference to and considered the applicability of the following sources, described in descending order of importance:

- the provisions and application guidelines contained in the Standards and Interpretations governing similar or related cases;
- the definitions, recognition criteria and measuring concepts for accounting for the assets, liabilities, revenue, and costs contained in the “Framework”.

When expressing an opinion, the Board of Directors may also consider the most recent provisions issued by other bodies that rule on accounting standards that use a similar "Framework" in concept for developing accounting standards, other accounting literature and consolidated practices in the sector.

In accordance with art. 5 of Legislative Decree no. 38 of 28 February 2005, if, in exceptional cases, the application of a provision imposed by the IFRS were incompatible with the true and fair representation of the financial position or results of operations, the provision would not apply. The justifications for any exceptions and their influence on the presentation of the financial position and results of operations would be explained in the Notes to the financial statements.

Any profits resulting from the exception would be recognised in a non-distributable reserve if they did not correspond to the recovered amount in the financial statements. However, no exceptions to the IFRS were applied.

The financial statements were audited by BDO Italia S.p.A.

SECTION 2 - General basis of preparation

The financial statements are drawn up with clarity and give a true and fair view of the financial position, profit or loss, cash flows, and changes in equity and comprise the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes to the financial statements.

The financial statements are accompanied by the Directors' Report on the Bank’s performance.

If the information required by the IFRS and provisions contained in Circular no. 262 of 22 December 2005 and/or the subsequent updates issued by the Bank of Italy are not sufficient to give a true and fair view that is relevant, reliable, comparable and understandable, the notes to the financial statements provide the additional information required. For the sake of completeness, please note that this financial report also considers the interpretation and supporting documents regarding the application of accounting standards, including those issued in connection with the Covid-19 pandemic, as well as those issued by European regulatory and supervisory bodies and standard setters.

The general principles that underlie the drafting of the financial statements are set out below:

- the measurements are made considering that the bank will continue as a going concern, where it is stated that the Directors have not identified any uncertainties that could cast doubt in this respect;
- costs and income are accounted for on an accruals basis;
- to ensure the comparability of the data and information in the financial statements and the notes to the financial statements, the methods of presentation and classification are kept constant over time unless they are changed to present the data more appropriately;
- each material class of similar items is presented separately in the statement of financial position and income statement; items of a dissimilar nature or function are presented separately unless they are considered immaterial;
- items that have nil balances at year end or for the financial year or for the previous year are not indicated in the statement of financial position or the income statement;
- if an asset or liability comes under several items in the statement of financial position, the notes to the financial statements make reference to the other items under which it is recognised if it is necessary for a better understanding of the financial statements;
- the items are not offset against one another unless it is expressly requested or allowed by an IFRS or an interpretation or the provisions of the aforementioned Circular no. 262 of 22 December 2005 as amended by the Bank of Italy;
- the financial statements are drafted by favouring substance over form and in accordance with the principle of materiality and significance of the information;
- comparative data for the previous financial year are presented for each statement of financial position and income statement item; if the items are not comparable to those of the previous year, they are adapted and the non-comparability and adjustment/or impossibility thereof are indicated and commented on in the notes to the financial statements;
- the layout recommended by the Bank of Italy was used with reference to the information reported in the notes to the financial statements; the tables included in this layout were not presented if they were not applicable to the Group's business.

Within the scope of drawing up the financial statements in accordance with the IFRS, bank management must make assessments, estimates and assumptions that influence the amounts of the assets, liabilities, costs and income recognised during the year.

The use of estimates is essential to preparing the financial statements. In particular, the most significant use of estimates and assumptions in the financial statements can be attributed to:

- the valuation of loans and receivables with customers: the acquisition of performing receivables from companies that supply goods and services represents the Bank’s main activity. Estimating the value of these receivables is a complex activity with a high degree of uncertainty and subjectivity. Their value is estimated by using models that include numerous quantitative and qualitative elements. These include the historical data for collections, expected cash flows and the related expected recovery times, the existence of indicators of possible impairment, the valuation of any guarantees, and the impact of risks associated with the sectors in which the Bank’s customers operate;
- the valuation of default interest pursuant to Legislative Decree no. 231 of 9 October 2002 on performing receivables acquired without recourse: estimating the expected recovery percentages of default interest is complex, with a high degree of uncertainty and subjectivity. Internally developed valuation models are used to determine these percentages, which take numerous qualitative and quantitative elements into consideration;
- the estimate related to the possible impairment losses on goodwill and equity investments recognised in the

financial statements;

- the quantification and estimate made for recognising liabilities in the provision for risks and charges, the amount or timing of which are uncertain;
- the recoverability of deferred tax assets.

It should be noted that an estimate may be adjusted following a change in the circumstances upon which it was formed, or if there is new information or more experience. Any changes in estimates are applied prospectively and therefore will have an impact on the income statement for the year in which the change takes place.

Pursuant to the provisions of art. 5 of Legislative Decree no. 38 of 28 February 2005, the financial statements use the Euro as the currency for accounting purposes. The financial statements are expressed in Euro. Unless otherwise stated, the notes to the financial statements are expressed in thousands of Euro. Any discrepancies between the figures shown in the Directors' Report and in the Separate Financial Statements and between the tables in the Notes to the Separate Financial Statements are due exclusively to rounding.

It should nonetheless be noted that in applying IAS 8 (paras. 41-49), in order to provide a true and fair view of the financial statements, it was necessary to reclassify the AT1 instruments previously classified under item 10 "Financial liabilities measured at amortised cost, c) securities issued", to item 140 "Equity instruments" resulting in the reclassification of the income component previously recognised in the income statement from "Profit for the year" to "Reserves". The impact on the items of the comparative statements for the 2020 financial year is shown below:

Statement of Financial Position In thousands of Euro	31.12.2020 before restatement	Reclassification	31.12.2020 after restatement
10. c) securities issued	138,090	(8,000)	130,090
130. Equity instruments	-	8,000	8,000
140. Reserves	123,800	(376)	123,424
180. Profit for the year	25,745	376	26,121

Income statement In thousands of Euro	2020 before restatement	Reclassification	2020 after restatement
20. Interest and similar expense	(23,688)	561	(23,127)
270. Income taxes	(11,766)	(187)	(11,951)
300. Profit for the year	25,746	376	26,121

Regarding the regulatory developments in the IAS/IFRS, below are the new documents issued by the IASB to be mandatorily adopted for financial statements covering periods beginning on or after 1 January 2021:

REGULATION (EU)	STOCK PERFORMANCE
2021/25 of 14 January 2021	Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16).
2021/1421 of 31 August 2021	Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)
2020/2097 of 16 December 2020	Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)

The introduction of the Regulations listed above had no significant impact.

The table below sets out the new EU-endorsed international financial reporting standards applicable to financial statements covering periods beginning after 1 January 2021.

REGULATION (EU)	STOCK PERFORMANCE
2021/1080 of 2 July 2021	Annual Improvements to IFRS Standards (2018-2020 Cycle) [Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41]
2021/1080 of 2 July 2021	Property, Plant and Equipment - Proceeds before Intended Use (Amendments to IAS 16)
2021/1080 of 2 July 2021	Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37)
2021/1080 of 2 July 2021	Reference to the Conceptual Framework (Amendments to IFRS 3)
2021/2036 of 23 November 2021	IFRS 17 - Insurance Contracts (including amendments issued in June 2020)

SECTION 3 - Subsequent events

With regard to IAS 10, it should be noted that no events occurred between the end of the financial year and the date of preparation of the financial statements that would require an adjustment to the figures presented therein.

SECTION 4 - Other aspects

With reference to the risks, uncertainties and effects of the COVID-19 pandemic, given the type of activities carried out by the Group, for the moment no significant impacts have been identified, particularly with regard to the valuations and items subject to estimates, where consideration has been given, insofar as can currently be estimated, to the impact of the pandemic on future forward-looking scenarios. However, the situation is being continuously monitored and any impacts not yet evident will be reflected, if necessary, in the estimated recoverable value of the financial assets.

Finally, it should be noted that, following the issuance of the 7th update of Bank of Italy Circular no. 262/2005, the figures for items 10 and 40 a) of the asset side of the statement of financial position for the 2020 financial year were reclassified to take into account the recognition in item 10 of all "demand" receivables in the form of current and deposit accounts with banks and central banks starting from the financial statements as at 31 December 2021, in accordance with the provisions of IAS 1.40.

There are no other significant aspects to note.

A.2 - INFORMATION ON THE MAIN ITEMS OF THE SEPARATE FINANCIAL STATEMENTS

Financial assets measured at fair value through profit or loss

Classification criteria

Financial assets other than those classified as Financial assets measured at fair value through other comprehensive income and Financial assets measured at amortised cost are classified in this category. In particular, this item includes:

- financial assets held for trading;
- equity instruments, except for the possibility of their being classified in the new category Financial assets measured at fair value through other comprehensive income, excluding the possibility of subsequent reclassification to profit or loss;
- financial assets mandatorily measured at fair value, and which have not met the requirements to be measured at amortised cost;
- financial assets that are not held under a Held to Collect (or "HTC") business model or as part of a mixed business model, whose aim is achieved by collecting the contractual cash flows of financial assets held in the Bank's portfolio or also through their sale, when this is an integral part of the strategy ("Held to Collect and Sell" business model);
- financial assets designated at fair value, i.e. financial assets that are defined as such upon initial recognition and when the conditions apply. For this type of financial assets, upon recognition an entity may irrevocably recognise a financial asset as measured at fair value through profit or loss only if this eliminates or significantly reduces a measurement inconsistency;
- derivative instruments, which shall be recognised as financial assets held for trading if their fair value is positive and as liabilities if their fair value is negative. Positive and negative values may be offset only for transactions executed with the same counterparty if the holder currently holds the right to offset the amounts recognised in the books and it is decided to settle the offset positions on a net basis. Derivatives also include those embedded in complex financial contracts – where the host contract is a financial liability which has been recognised separately.

Except for the equity instruments which cannot be reclassified, financial assets may be reclassified to other categories of financial assets only if the entity changes its own business model for management of the financial assets. In such cases, which are expected to be absolutely infrequent, the financial assets may be reclassified from those measured at fair value through profit or loss to one of the other two categories established by IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at fair value through other comprehensive income). The transfer value is the fair value at the time of the reclassification and the effects of the reclassification apply prospectively from the reclassification date. In this case, the effective interest rate of the reclassified financial asset is determined based on its fair value at the reclassification date and that date is considered as the initial recognition date for the credit risk stage assignment for impairment purposes.

Recognition criteria

Initial recognition of financial assets occurs at the settlement date for debt instruments and equity instruments, at the disbursement date for loans and at the subscription date for derivative contracts.

On initial recognition, financial assets measured at fair value through profit or loss are recognised at fair value, without considering transaction costs or income directly attributable to the instrument.

Measurement and recognition criteria for income components

After initial recognition, the financial assets measured at fair value through profit or loss are recognised at fair value. The effects of the application of this measurement criterion are recognised in the income statement. For the determination of the fair value of financial instruments quoted on active markets, market quotations are used. If the market for a financial instrument is not active, standard practice estimation methods and measurement techniques are used which consider all the risk factors correlated to the instruments and that are based on market elements such as: measurement of quoted instruments with the same characteristics, calculation of discounted cash flows, option pricing models, recent comparable transactions, etc.. For equity and derivative instruments that have equity instruments as underlying assets, which are not quoted on an active market, the cost approach is used as the estimate of fair value only on a residual basis and in a small number of circumstances, i.e., when all the measurement methods referred to above cannot be applied, or when there are a wide range of possible measurements of fair value, in which cost represents the most significant estimate.

In particular, this item includes:

- debt instruments held for trading;
- equity instruments held for trading.

For more details on the methods of calculating the fair value please refer to the paragraph below "Criteria for determining the fair value of financial instruments".

Derecognition criteria

Financial assets are derecognised when the contractual rights on the cash flows deriving from the assets expire, or in the case of a transfer, when the same entails the substantial transfer of all risks and rewards related to the financial assets.

Financial assets measured at fair value through other comprehensive income (FVOCI)

Classification criteria

This category includes the financial assets that meet both the following conditions:

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

This item also includes equity instruments, not held for trading, for which the option was exercised upon initial recognition of their designation at fair value through other comprehensive income.

In particular, this item includes:

- debt instruments that can be attributed to a Held to Collect and Sell business model and that have passed the SPPI test;
- equity interests, that do not qualify as investments in subsidiaries, associates or joint ventures and are not held for trading, for which the option has been exercised of their designation at fair value through other comprehensive income.

Except for the equity instruments which cannot be reclassified, financial assets may be reclassified to other categories of financial assets only if the entity changes its own business model for management of the financial assets.

In such cases, which are expected to be absolutely infrequent, the financial assets may be reclassified from those measured at fair value through other comprehensive income to one of the other two categories established by IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at fair value through profit or loss). The transfer value is the fair value at the time of the reclassification and the effects of the reclassification apply prospectively from the reclassification date. In the event of reclassification from this category to the amortised cost category, the cumulative gain (loss) recognised in the valuation reserve is allocated as an adjustment to the fair value of the financial asset at the reclassification date. In the event of reclassification to the fair value through profit or loss category, the cumulative gain (loss) previously recognised in the valuation reserve is reclassified from equity to profit (loss).

Recognition criteria

Initial recognition of the financial assets is at the date of disbursement, based on their fair value including the transaction costs/income directly attributable to the acquisition of the financial instrument. Costs/income

having the previously mentioned characteristics that will be repaid by the debtor or that can be considered as standard internal administrative costs are excluded.
The initial fair value of a financial instrument is usually the cost incurred for its acquisition.

Measurement and recognition criteria for income components

Following initial recognition, financial assets are measured at their fair value with any gains or losses resulting from a change in the fair value compared to the amortised cost recognised in a specific equity reserve recognised in the statement of comprehensive income up until said financial asset is derecognised or an impairment loss is recognised.
For more details on the methods of calculating the fair value please refer to paragraph 17.3 below "Criteria for determining the fair value of financial instruments".
Equity instruments, for which the choice has been made to classify them in this category, are measured at fair value and the amounts recognised in other comprehensive income cannot be subsequently transferred to profit or loss, not even if they are sold (the so-called OCI exemption). The only component related to these equity instruments that is recognised through profit or loss is their dividends. Fair value is determined on the basis of the criteria already described for Financial assets measured at fair value through profit or loss.
For the equity instruments included in this category, which are not quoted on an active market, the cost approach is used as the estimate of fair value only on a residual basis and in a small number of circumstances, i.e., when all the measurement methods referred to above cannot be applied, or when there are a wide range of possible measurements of fair value, in which cost represents the most significant estimate.
Financial assets measured at fair value through other comprehensive income are subject to the verification of the significant increase in credit risk (impairment) required by IFRS 9, with the consequent recognition through profit or loss of an impairment loss to cover the expected losses.

Derecognition criteria

Financial assets are derecognised when the contractual rights on the cash flows deriving from the assets expire, or in the case of a transfer, when the same entails the substantial transfer of all risks and rewards related to the financial assets.

Financial assets measured at amortised cost

Classification criteria

This category includes the financial assets that meet both the following conditions:

- the financial asset is held under a business model whose objective is achieved through the collection of expected contractual cash flows (Held to Collect business model);
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (“SPPI Test” passed).

In particular, this item includes:

- loans and receivables with banks;
- loans and receivables with customers;
- debt instruments.

Except for the equity instruments which cannot be reclassified, financial assets may be reclassified to other categories of financial assets only if the entity changes its own business model for management of the financial assets. In such cases, which are expected to be absolutely infrequent, the financial assets may be reclassified from the amortised cost category to one of the other two categories established by IFRS 9 (Financial assets measured at fair value through other comprehensive income or Financial assets measured at fair value through profit or loss). The transfer value is the fair value at the time of the reclassification and the effects of the reclassification apply prospectively from the reclassification date. Gains and losses resulting from the difference between the amortised cost of a financial asset and its fair value are recognised through profit or loss in the event of reclassification to Financial assets measured at fair value through profit or loss and under equity, in the specific valuation reserve, in the event of reclassification to Financial assets measured at fair value through other comprehensive income.

Recognition criteria

Initial recognition of a receivable is at the date of disbursement based on its fair value including the costs/income of the transaction directly attributable to the acquisition of the receivable.

Costs/income having the previously mentioned characteristics that will be repaid by the debtor or that can be considered as standard internal administrative costs are excluded.

The initial fair value of a financial instrument is usually equivalent to the amount granted or the cost incurred by the acquisition.

Measurement and recognition criteria for income components

Following initial recognition, loans and receivables with customers are stated at amortised cost, equal to the initial recognition amount reduced/increased by principal repayments, by impairment losses/gains and the amortisation - calculated on the basis of the effective interest rate - of the difference between the amount provided and that repayable at maturity, usually the cost/income directly attributed to the individual loan.

The effective interest rate is the rate that discounts future payments estimated for the expected duration of the loan, in order to obtain the exact carrying amount at the time of initial recognition, which includes both the directly attributable transaction costs/income and all of the fees paid or received between the parties. This accounting method, based on financial logic, enables the economic effect of costs/income to be spread over the expected residual life of the receivable.

The measurement criteria are strictly connected with the stage to which the receivable is assigned, where stage 1 contains performing loans, stage 2 consists of under-performing loans, i.e. loans that have undergone a significant increase in credit risk ("significant deterioration") since the initial recognition of the instrument, and stage 3 consists of non-performing loans, i.e. the loans that show objective evidence of impairment.

The impairment losses recognised through profit or loss for the performing loans classified in stage 1 are calculated by considering an expected loss at one year, while for the performing loans in stage 2 they are calculated by considering the expected losses over the entire residual contractual lifetime of the asset (Lifetime Expected Loss). The performing financial assets are measured according to probability of default (PD), loss given default (LGD) and exposure at default (EAD) parameters, derived from internal historical series. For impaired assets, the amount of the loss, to be recognised through profit or loss, is established based on individual measurement or determined according to uniform categories and, then, individually allocated to each position, and takes account of forward-looking information and possible alternative recovery scenarios. Impaired assets include financial instruments classified as bad exposures, unlikely-to-pay or past due/overdrawn by over ninety days according to the rules issued by the Bank of Italy, in line with the IFRS and EU Supervisory Regulations. The expected cash flows take into account the expected recovery times and the estimated realisable value of any guarantees. The original effective rate of each asset remains unchanged over time even if the relationship has been restructured with a variation of the contractual interest rate and even if the relationship, in practice, no longer bears contractual interest. If the reasons for impairment are no longer applicable following an event subsequent to the recognition of impairment, impairment gains are recognised in the income statement. The impairment gains may not in any case exceed the amortised cost that the financial instrument would have had in the absence of previous impairment losses. Impairment gains with time value effects are recognised in net interest income.

Derecognition criteria

Loans and receivables are derecognised from the financial statements when they are deemed totally unrecoverable or if transferred, when this entails the substantial transfer of all loan-related risks and rewards.

Hedging transactions

At the reporting date, the Bank had not made any *"Hedging transactions"*.

Equity investments

Classification criteria

This category includes equity investments in subsidiaries, associates, and joint ventures by Banca Sistema.

Recognition criteria

Equity investments are recognised in the financial statements at purchase cost plus any related charges.

Measurement criteria

If there is evidence that an equity investment may be impaired, the recoverable value of said equity investment is estimated by considering the present value of future cash flows that the investment could generate, including the final disposal value of the investment and/ or other measurement elements. The amount of any impairment, calculated based on the difference between the carrying amount of the investment and its recoverable value is recognised in the income statement under "Gains (losses) on equity investments". If the reasons for impairment are removed following an event occurring after recognition of the impairment, impairment gains are recognised in the income statement under the same item as above to the extent of the previous impairment loss.

Derecognition criteria

Equity investments are derecognised from the financial statements when the contractual rights to cash flows deriving from the investment are lost or when the investment is transferred, with the substantial transfer of all related risks and rewards. Gains and losses on the sale of equity investments are charged to the income statement under the item "220 Gains (losses) on equity investments"; gains and losses on the sale of investments other than those measured at equity are charged to the income statement under the item "250 Gains (losses) on sales of investments".

Property and equipment

Classification criteria

This item includes assets for permanent use, held to generate income, to be leased, or for administrative purposes, such as land, operating property, investment property, technical installations, furniture and fittings and equipment of any nature and works of art.

They also include leasehold improvements to third party assets if they can be separated from the assets in question. If the above costs do not display functional or usefulness-related autonomy, but future economic benefits are expected from them, they are recognised under "other assets" and are depreciated over the shorter period between that of expected usefulness of the improvements in question and the residual duration of the lease. Depreciation is recognised under "Other operating income (expense)".

Property and equipment also include payments on account for the purchase and renovation of assets not yet part of the production process and therefore not yet subject to depreciation.

"Operating" property and equipment are represented by assets held for the provision of services or for administrative purposes, while property and equipment held for "investment purposes" are those held to collect lease instalments and/or held for capital appreciation.

The item also includes rights of use associated with leased assets and fees for use.

Recognition criteria

Property and equipment are initially recognised at cost, including all costs directly attributable to installation of the asset.

Extraordinary maintenance costs and costs for improvements leading to actual improvement of the asset, or an increase in the future benefits generated by the asset, are attributed to the reference assets, and are depreciated based on their residual useful life.

Under IFRS 16, leases are accounted for in accordance with the right-of-use model, whereby, at the commencement date, the lessee incurs an obligation to make payments to the lessor for the right to use the underlying asset for the term of the lease. When the asset is made available for use by the lessee, the lessee recognises both the liability and the right-of-use asset.

Measurement criteria

Following initial recognition, "operating" property and equipment are recognised at cost, less accumulated depreciation, and any impairment losses, in line with the "cost model" illustrated in paragraph 30 of IAS 16. More specifically, property and equipment are systematically depreciated each year based on their estimated useful life, using the straight-line basis method apart from:

- land, regardless of whether this was purchased separately or was incorporated into the value of the building, which, insofar as it has an indefinite useful life, is not depreciated;
- works of art, which are not depreciated as their useful life cannot be estimated and their value typically appreciates over time;
- investment property which is recognised at fair value in accordance with IAS 40.

For assets acquired during the financial year, depreciation is calculated on a daily basis from the date of entry into use of the asset. For assets transferred and/or disposed of during the financial year, depreciation is calculated on a daily basis until the date of transfer and/or disposal.

At the end of each year, if there is any evidence that property or equipment that is not held for investment purposes may have suffered an impairment loss, a comparison is made between its carrying amount and its recoverable value, equal to the higher between the fair value, net of any costs to sell, and the related value in use of the asset, intended as the present value of future cash flows expected from the asset. Any impairment losses are recognised in the income statement under "net impairment losses on property and equipment".

If the reasons that led to recognition of the impairment loss cease to apply, an impairment gain is recognised that may not exceed the value that the asset would have had, net of depreciation calculated in the absence of previous impairment losses.

For investment property, which comes within the scope of application of IAS 40, the measurement is made at the market value determined using independent surveys and the changes in fair value are recognised in the income statement under the item "fair value gains (losses) on property, equipment and intangible assets".

The right-of-use asset, recognised in accordance with IFRS 16, is measured using the cost model under IAS 16 Property, plant and equipment. In this case, the asset is subsequently depreciated and tested for impairment if impairment indicators are present.

Derecognition criteria

Property and equipment is derecognised from the statement of financial position upon disposal thereof or when the asset is permanently withdrawn from use and no future economic benefit is expected from its disposal.

Intangible assets

Classification criteria

This item includes non-monetary assets without physical substance that satisfy the following requirements:

- they can be identified;
- they can be monitored;
- they generate future economic benefits.

In the absence of one of the above characteristics, the expense of acquiring or generating the asset internally is recognised as a cost in the year in which it was incurred.

Intangible assets include software to be used over several years and other identifiable assets generated by legal or contractual rights.

Goodwill is also included under this item, representing the positive difference between the acquisition cost and fair value of the assets and liabilities acquired as part of a business combination. Specifically, an intangible asset is recognised as goodwill when the positive difference between the fair value of the assets and liabilities acquired and the acquisition cost represents the future capacity of the equity investment to generate profit (goodwill). If this difference proves negative (badwill), or if the goodwill offers no justification of the capacity to generate future profit from the assets and liabilities acquired, it is recognised directly in the income statement.

Measurement criteria

Intangible assets are systematically amortised from the time of their input into the production process.
With reference to goodwill, on an annual basis (or when impairment is detected), an assessment test is carried out on the adequacy of its carrying amount. For this purpose, the cash-generating unit to which the goodwill is attributed, is identified. The amount of any impairment is determined by the difference between the goodwill carrying amount and its recoverable value, if lower. This recoverable value is equal to the higher amount between the fair value of the cash-generating unit, net of any costs to sell, and its value in use. As stated above, any consequent impairment losses are recognised in the income statement.

Derecognition criteria

An intangible asset is derecognised from the statement of financial position at the time of its disposal and if there are no expected future economic benefits.

Non-current assets held for sale and disposal groups

Non-current assets or groups of assets for which a disposal process has been initiated and whose sale is considered highly probable are classified under *"Non-current assets held for sale and disposal groups"*. These assets are measured at the lower of their carrying amount and their fair value, net of disposal costs, with the exception of certain types of assets (e.g. financial assets falling within the scope of IFRS 9) for which IFRS 5 specifically requires that the measurement criteria of the relevant accounting standard be applied. Income and expenses (net of the tax effect) relating to groups of assets being disposed of or recognised as such during the year, are shown in the income statement as a separate item.

Financial liabilities measured at amortised cost

Classification criteria

This item includes Due to banks, Due to customers and Securities issued.

Recognition criteria

These financial liabilities are initially recognised when the deposits are received or when the debt instruments are issued. Initial recognition is based on the fair value of the liabilities, increased by the costs/income of the transaction directly attributable to the acquisition of the financial instrument.
Costs/income having the previously mentioned characteristics that will be repaid by the creditor or that can be considered as standard internal administrative costs are excluded.
The initial fair value of a financial liability is usually equivalent to the amount collected.

Measurement and recognition criteria for income components

After the initial recognition, the previously mentioned financial liabilities are measured at amortised cost with the effective interest rate method.

Derecognition criteria

The above financial liabilities are derecognised from the statement of financial position when they expire or when they are extinguished. They are derecognised also in the event of repurchase, even temporary, of the previously-issued securities. Any difference between the carrying amount of the extinguished liability and the amount paid is recognised in the income statement, under "Gain (loss) from sales or repurchases of: financial liabilities". If the Group, subsequent to the repurchase, re-places its own securities on the market, said transaction is considered a new issue and the liability is recognised at the new placement price.

Financial liabilities held for trading

Classification and recognition criteria

In particular, this category of liabilities includes the liabilities originating from technical exposures deriving from security trading activities.

Financial instruments are recognised at the date of their subscription or issue at a value equal to their fair value, without including any transaction costs or income directly attributable to the instruments themselves.

Measurement and recognition criteria for income components

The financial instruments are measured at fair value with recognition of the measurement results in the income statement.

Derecognition criteria

Financial liabilities held for trading are derecognised when the contractual rights on the related cash flows expire or when the financial liability is sold with a substantial transfer of all risks and rewards related to the liabilities.

Financial liabilities designated at fair value through profit or loss

At the reporting date, the Bank did not hold any *"Financial liabilities designated at fair value through profit or loss"*.

Current and deferred taxes

Income taxes, calculated in compliance with prevailing tax regulations, are recognised in the income statement on an accruals basis, in accordance with the recognition in the financial statements of the costs and income that generated them, apart from those referring to the items recognised directly in equity, where the recognition of the tax is made to equity in order to be consistent.

Income taxes are provided for on the basis of a prudential estimate of the current and deferred taxes. More specifically, deferred taxes are determined on the basis of the temporary differences between the carrying amount of assets and liabilities and their tax bases. Deferred tax assets are recognised in the financial statements to the extent that it is probable that they will be recovered based on the Group's ability to continue to generate positive taxable income.

Deferred tax assets and liabilities are accounted for in the statement of financial position with open balances and without offsetting entries, recognising the former under *"Tax assets"* and the latter under *"Tax liabilities"*.

With respect to current taxes, at the level of individual taxes, advances paid are offset against the relevant tax charge, indicating the net balance under *"current tax assets"* or *"current tax liabilities"* depending on whether it is positive or negative.

Provisions for risks and charges

In line with the requirements of IAS 37, provisions for risks and charges cover liabilities, the amount or timing of which is uncertain, related to current obligations (legal or implicit), owing to a past event for which it is likely that financial resources will be used to fulfil the obligation, on condition that an estimate of the amount required to fulfil said obligation can be made at the reporting date. Where the temporary deferral in sustaining the charge is significant, and therefore the extent of the discounting will be significant, provisions are discounted at current market rates.

The provisions are reviewed at the reporting date of the annual financial statements and the interim financial statements and adjusted to reflect the current best estimate. These are recognised under their own items in the income statement in accordance with a cost classification approach based on the *"nature"* of the cost. Provisions related to future charges for employed personnel relating to the bonus system appear under *"personnel expense"*. The provisions that refer to risks and charges of a tax nature are reported as *"income taxes"*, whereas the provisions connected to the risk of potential losses not directly chargeable to specific items in the income statement are recognised as *"net accruals to provisions for risks and charges"*.

Other information

Post-employment benefits

According to the IFRIC, the post-employment benefits can be equated with a post-employment benefit of the "defined-benefit plan" type which, based on IAS 19, is to be calculated via actuarial methods. Consequentially, the end of the year measurement of the item in question is made based on the accrued benefits method using the Projected Unit Credit Method.

This method calls for the projection of the future payments based on historical, statistical, and probabilistic analysis, as well as in virtue of the adoption of appropriate demographic fundamentals. It allows the post-employment benefits vested at a certain date to be calculated actuarially, distributing the expense for all the years of estimated remaining employment of the existing workers, and no longer as an expense to be paid if the company ceases its activity on the reporting date.

The actuarial gains and losses, defined as the difference between the carrying amount of the liability and the present value of the obligation at year end, are recognised in equity.

An independent actuary assesses the post-employment benefits in compliance with the method indicated above.

Repurchase agreements

"Repurchase agreements" that oblige the party selling the relevant assets (for example securities) to repurchase them in the future and the "securities lending" transactions where the guarantee is represented by cash, are considered equivalent to swap transactions and, therefore, the amounts received and disbursed appear in the financial statements as payables and receivables. In particular, the previously mentioned "repurchase agreements" and "securities lending" transactions are recognised in the financial statements as payables for the spot price received, while those for investments are recognised as receivables for the spot price paid. Such transactions do not result in changes in the securities portfolio. Consistently, the cost of funds and the income from the investments, consisting of accrued dividends on the securities and of the difference between the spot price and the forward price thereof, are recognised for the accrual period under interest in the income statement.

Criteria for determining the fair value of financial instruments

Fair value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants", at a specific measurement date, excluding forced transactions. Underlying the definition of fair value is a presumption that a company is a going concern without any intention or need to liquidate, to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

In the case of financial instruments quoted in active markets, the fair value is determined based on the deal pricing (official price or other equivalent price on the last stock market trading day of the financial year of reference) of the most advantageous market to which the Group has access. For this purpose, a financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

In the absence of an active market, the fair value is determined using measurement techniques generally accepted in financial practice, aimed at establishing what price the financial instrument would have had, on the valuation date, in a free exchange between knowledgeable and willing parties. Such measurement techniques require, in the hierarchical order in which they are presented, the use:

1. of the most recent NAV (Net Asset Value) published by the management investment company for the harmonised funds (UCITS - Undertakings for Collective Investment in Transferable Securities), the Hedge Funds and the SICAVs;
2. of the recent transaction prices observable in the markets;
3. of the price indications deducible from infoproviders (e.g., Bloomberg, Reuters);
4. of the fair value obtained from measurement models (for example, Discounting Cash Flow Analysis,

Option Pricing Models) that estimate all the possible factors that influence the fair value of a financial instrument (cost of money, credit exposure, liquidity risk, volatility, foreign exchange rates, prepayment rates, etc.) based on data observable in the market, also with regards to similar instruments on the measurement date. If market data cannot be referenced for one or more risk factors, metrics internally determined on a historical-statistical basis are used. The measurement models are subject to periodic review to guarantee complete and constant reliability;

5. of the price indications provided by the counterparty issuer adjusted if necessary to take into account the counterparty and/or liquidity risk (for example, the price resolved on by the Board of Directors and/or the Shareholders for the shares of unlisted cooperative banks, the unit value communicated by the management investment company for the closed-end funds reserved to institutional investors or for other types of OEICs other than those cited in paragraph 1, the redemption value calculated in compliance with the issue regulation for the insurance contracts);
6. for the equity-linked instruments, where the measurement techniques pursuant to the previous paragraphs are not applicable: i) the value resulting from independent surveys if available; ii) the value corresponding to the portion of equity held resulting from the company's most recently approved financial statements; iii) the cost, adjusted if necessary to take into account significant reductions in value, where the fair value cannot be reliably determined.

Based on the foregoing considerations and in compliance with the IFRS, the Group classifies the measurements at fair value based on a hierarchy of levels that reflects the significance of the inputs used in the measurements. The following levels are noted:

- **Level 1** - prices (without adjustments) reported on an active market: the measurements of the financial instruments quoted on an active market based on quotations that can be understood from the market;
- **Level 2 -** the measurement is not based on prices of the same financial instrument subject to measurement, but on prices or credit spreads obtained from the official prices of essentially similar instruments in terms of risk factors, by using a given calculation method (pricing model).
  The use of this approach translates to the search for transactions present on active markets, relating to instruments that, in terms of risk factors, are comparable with the instrument subject to measurement.
  The calculation methods (pricing models) used in the comparable approach make it possible to reproduce the prices of financial instruments quoted on active markets (model calibration) without including discretionary parameters - i.e. parameters whose value cannot be obtained from the prices of financial instruments present on active markets or cannot be fixed at levels as such to replicate prices present on active markets - which may influence the final valuation price in a decisive manner.
- **Level 3** - inputs that are not based on observable market data: the measurements of financial instruments not quoted on an active market, based on measurement techniques that use significant inputs that are not observable on the market, involving the adoption of estimates and assumptions by management (prices supplied by the issuing counterparty, taken from independent surveys, prices corresponding to the fraction of the equity held in the company or obtained using measurement models that do not use market data to estimate significant factors that condition the fair value of the financial instrument). This level includes measurements of financial instruments at cost price.

Business combinations

A business combination is the bringing together of separate entities or businesses into one reporting entity. A business combination may give rise to an investment relationship between the parent (acquirer) and the subsidiary (acquiree). A business combination may also involve the purchase of the net assets, including any goodwill, of another entity rather than the purchase of the equity of the other entity (mergers and contributions). Based on the provisions of IFRS

3, business combinations must be accounted for by applying the purchase method, which comprises the following phases:

- identification of the acquirer;
- measurement of the cost of the business combination;
- allocation, at the acquisition date, of the cost of the business combination to the assets acquired and liabilities and contingent liabilities assumed.

More specifically, the cost of a business combination must be determined as the total fair value, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, in exchange for control of the acquiree, and all costs directly attributable to the business combination.

The acquisition date is the date on which control of the acquiree is effectively obtained. When this is achieved through a single exchange transaction, the date of exchange coincides with the acquisition date.

If the business combination is carried out through several exchange transactions:

- the cost of the combination is the aggregate cost of the individual transactions
- the date of exchange is the date of each exchange transaction (i.e. the date that each individual investment is recognised in the financial statements of the acquirer), whereas the acquisition date is the date on which control of the acquiree is obtained.

The cost of a business combination is allocated by recognising the acquiree's identifiable assets, liabilities and contingent liabilities at their fair values at the acquisition date.

The acquiree's identifiable assets, liabilities and contingent liabilities are recognised separately at the acquisition date only if they satisfy the following criteria at that date:

- in the case of an asset other than an intangible asset, it is probable that any associated future economic benefits will flow to the acquirer, and its fair value can be measured reliably;
- in the case of a liability other than a contingent liability, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and its fair value can be measured reliably;
- in the case of an intangible asset or a contingent liability, its fair value can be measured reliably.

The positive difference between the cost of the business combination and the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities must be accounted for as goodwill.

After the initial recognition, the goodwill acquired in a business combination is measured at the relevant cost and is submitted to an impairment test at least once a year.

If the difference is negative, a new measurement is made. This negative difference, if confirmed, is recognised immediately as income in the income statement.

A.3 - DISCLOSURE ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

A.3.1 Reclassified financial assets: change in business model, carrying amount and interest income

No financial instruments were transferred between portfolios.

A.3.2 Reclassified financial assets: change in business model, fair value and effects on comprehensive income

No financial assets were reclassified.

A.3.3 Reclassified financial assets: change in business model and effective interest rate

No financial assets held for trading were transferred.

A.4 - FAIR VALUE DISCLOSURE

QUALITATIVE DISCLOSURE

A.4.1 Fair value levels 2 and 3: valuation techniques and inputs used

Please refer to the accounting policies.

A.4.2 Processes and sensitivity of measurements

The carrying amount of financial assets and liabilities due within one year has been assumed to be a reasonable approximation of fair value, while for those due beyond one year, the fair value is calculated taking into account both interest rate risk and credit risk.

A.4.3 Fair value hierarchy

The following fair value hierarchy was used in order to prepare the financial statements:

- Level 1- Effective market quotes

  The valuation is the market price of said financial instrument subject to valuation, obtained on the basis of quotes expressed by an active market.
- Level 2 - Comparable Approach
- Level 3 - Mark-to-Model Approach

A.4.4 Other Information

The item is not applicable for the Bank.

QUANTITATIVE DISCLOSURE

A.4.5 Fair value hierarchy

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

Financial assets/liabilities measured at fair value	31.12.2021			31.12.2020		
	L1	L2	L3	L1	L2	L3
1. Financial assets measured at fair value through profit or loss	-	-	8,368	-	-	2,353
a) financial assets held for trading	-	-	-	-	-	-
b) financial assets designated at fair value through profit or loss	-	-	-	-	-	-
c) other financial assets mandatorily measured at fair value through profit or loss	-	-	8,368	-	-	2,353
2. Financial assets measured at fair value through other comprehensive income	446,261	-	5,000	425,966	-	5,000
3. Hedging derivatives	-	-	-	-	-	-
4. Property and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	**446,261**	**-**	**13,368**	**425,966**	**-**	**7,353**
1. Financial liabilities held for trading	-	-	-	-	-	-
2. Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	-	-	-	-	-	-

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

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

breakdown by fair value level

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis	31.12.2021				31.12.2020			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets measured at amortised cost	2,917,200	185,666	-	2,777,129	3,007,535	452,969	72,001	2,598,818
2. Investment property	-	-	-	-	-	-	-	-
3. Non-current assets held for sale and disposal groups	-	-	-	-	-	-	-	-
Total	**2,917,200**	**185,666**	**-**	**2,777,129**	**3,007,535**	**452,969**	**72,001**	**2,598,818**
1. Financial liabilities measured at amortised cost	3,219,805	-	-	3,219,805	3,202,631	-	-	3,202,631
2. Liabilities associated with disposal groups	-	-	-	-	-	-	-	-
Total	**3,219,805**	**-**	**-**	**3,219,805**	**3,202,631**	**-**	**-**	**3,202,631**

Key:
CA = carrying amount
L1 = Level 1
L2 = Level 2
L3 = Level 3

A.5 DISCLOSURE CONCERNING "DAY ONE PROFIT/LOSS"

Nothing to report.

ASSETS

SECTION 1 - CASH AND CASH EQUIVALENTS - ITEM 10

1.1 Cash and cash equivalents: breakdown

	31.12.2021	31.12.2020
a. Cash	134	108
b. Demand deposits with Central Banks	108,966	25,057
c. Current and deposit accounts with banks	59,802	41,088
Total	**168,902**	**66,253**

Effective 31 December 2021, all "demand" receivables in the form of current and deposit accounts with banks, which were previously classified under item 40, are to be classified under item 10. Therefore, the figures as at 31 December 2020 have been reclassified.

SECTION 2 - FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS - ITEM 20

2.5 Other financial assets mandatorily measured at fair value through profit or loss: breakdown by product

	31.12.2021			31.12.2020		
	L1	L2	L3	L1	L2	L3
1. Debt instruments	**-**	**-**	**8,368**	**-**	**-**	**2,353**
1.1 Structured instruments	-	-	-	-	-	-
1.2 Other debt instruments	-	-	8,368	-	-	2,353
2. Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**
3. OEIC units	-	-	**-**	-	-	**-**
4. Financing	-	-	**-**	-	-	**-**
4.1 Reverse repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total	**-**	**-**	**8,368**	**-**	**-**	**2,353**

This item consists of the junior security of the BS IVA securitisation, a transaction consolidated on a line-by-line basis in the Group’s financial statements.

2.6 Other financial assets mandatorily measured at fair value through profit or loss: breakdown by debtor/issuer

	31.12.2021	31.12.2020
1. Equity instruments	**-**	-
of which: banks	-	-
of which: other financial companies	-	-
of which: non-financial companies	-	-
2. Debt instruments	**8,368**	**2,353**
a. Central Banks	-	-
b. Public administrations	-	-
c. Banks	-	-
d. Other financial companies	8,368	2,353
of which: insurance companies	-	-
e. Non-financial companies	-	-
3. OEIC units	**-**	-
4. Financing	**-**	-
a. Central Banks	-	-
b. Public administrations	-	-
c. Banks	-	-
d. Other financial companies	-	-
of which: insurance companies	-	-
e. Non-financial companies	-	-
f. Households	-	-
Total	**8,368**	**2,353**

SECTION 3 - FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - ITEM 30

3.1 Financial assets measured at fair value through other comprehensive income: breakdown by product

	31.12.2021			31.12.2020		
	L1	L2	L3	L1	L2	L3
1. Debt instruments	**445,804**	**-**	**-**	**425,348**	**-**	**-**
1.1 Structured instruments	-	-	-	-	-	-
1.2 Other debt instruments	445,804	-	-	425,348	-	-
2. Equity instruments	**457**	**-**	**5,000**	**618**	**-**	**5,000**
3. Financing	**-**	-	**-**	**-**	**-**	**-**
Total	**446,261**	-	**5,000**	**425,966**	**-**	**5,000**

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

3.2 Financial assets measured at fair value through other comprehensive income: breakdown by debtor/issuer

	31.12.2021	31.12.2020
1. Debt instruments	**445,804**	**425,348**
a. Central Banks	-	-
b. Public administrations	445,804	425,348
c. Banks	-	-
d. Other financial companies	-	-
of which: insurance companies	-	-
e. Non-financial companies	-	-
2. Equity instruments	**5,457**	**5,618**
a. Banks	5,000	5,000
b. Other issuers:	457	618
- other financial companies	457	618
of which: insurance companies	-	-
- non-financial companies	-	-
- other	-	-
4. Financing	**-**	**-**
a. Central Banks	-	-
b. Public administrations	-	-
c. Banks	-	-
d. Other financial companies	-	-
of which: insurance companies	-	-
e. Non-financial companies	-	-
f. Households	-	-
Total	**451,261**	**430,966**

3.3 Financial assets measured at fair value through other comprehensive income: gross amount and total impairment losses

	Gross amount				Total impairment losses			Overall partial write-offs
	First stage	of which instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	
Debt instruments	445,982	445,982	-	-	178	-	-	-
Financing	-	-	-	-	-	-	-	-
Total at 31.12.2021	**445,982**	**445,982**	-	-	**178**	-	-	-
Total at 31.12.2020	**425,554**	**425,554**	-	-	**206**	-	-	-
of which: purchased or originated credit-impaired financial assets	X	X	-	-	X	-	-	-

SECTION 4 - FINANCIAL ASSETS MEASURED AT AMORTISED COST - ITEM 40

4.1 Financial assets measured at amortised cost: breakdown by product of the loans and receivables with banks

	31.12.2021						31.12.2020					
	Carrying amount			Fair Value			Carrying amount			Fair Value		
	First and second stage	Third stage	Purchased or originated credit-impaired	L1	L2	L3	First and second stage	Third stage	Purchased or originated credit-impaired	L1	L2	L3
A. Loans and receivables with Central Banks	**18,318**	**-**	**-**	**-**	**-**	**18,318**	**15,212**	**-**	**-**	**-**	**-**	**15,212**
1. Term deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Minimum reserve	18,318	-	-	X	X	X	15,212	-	-	X	X	X
3. Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	0	-	-	X	X	X	-	-	-	X	X	X
B. Loans and receivables with banks	**14,823**	**-**	**-**	**-**	**-**	**14,823**	**9,077**	**-**	**-**	**-**	**-**	**9,077**
1. Financing	14,823	-	-	-	-	14,823	9,077	-	-	-	-	9,077
1.1 Current accounts and demand deposits	-	-	-	X	X	X	-	-	-	X	X	X
1.2. Term deposits	-	-	-	X	X	X	3,129	-	-	X	X	X
1.3. Other financing:	14,823	-	-	X	X	X	5,948	-	-	X	X	X
- Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
- Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
- Other	14,823	-	-	X	X	X	5,948	-	-	X	X	X
2. Debt instruments	**-**	**-**	**-**	**X**	**X**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Structured instruments	-	-	-	X	X	-	-	-	-	-	-	-
2.2 Other debt instruments	-	-	-	X	X	-	-	-	-	-	-	-
Total	**33,141**	**-**	**-**	**-**	**-**	**33,141**	**24,289**	**-**	**-**	**-**	**-**	**24,289**

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

4.2 Financial assets measured at amortised cost: breakdown by product of the loans and receivables with customers

	31.12.2021						31.12.2020					
	Carrying amount			Fair Value			Carrying amount			Fair Value		
	First and second stage	Third stage	Purchased or originated credit-impaired	L1	L2	L3	First and second stage	Third stage	Purchased or originated credit-impaired	L1	L2	L3
1. Financing	**2,442,047**	**255,190**	**-**	-	-	**2,741,207**	**2,329,159**	**173,312**	**31,699**	**-**	-	**2,568,889**
1.1 Current accounts	156,981	47	-	X	X	X	62,468	239	-	X	X	X
1.2 Reverse repurchase agreements	-	-	-	X	X	X	5,546	-	-	X	X	X
1.3 Loans	160,363	425	-	X	X	X	70,553	1,290	-	X	X	X
1.4 Credit cards, personal loans and salary- and pension-backed loans	909,921	11,068	-	X	X	X	913,312	7,880	-	X	X	X
1.5. Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
1.6 Factoring	995,912	230,177	-	X	X	X	911,782	147,746	31,699	X	X	X
1.7 Other financing	218,870	13,473	-	X	X	X	365,498	16,157	-	X	X	X
2. Debt instruments	**186,822**	**-**	**-**	**185,666**	**X**	**2,781**	**449,077**	**-**	**-**	**452,969**	**72,001**	-
1.1. Structured instruments	-	-	-	-	X	-	-	-	-	-	-	-
1.2. Other debt instruments	186,822	-	-	185,666	X	2,781	449,077	-	-	452,969	72,001	-
Total	**2,628,869**	**255,190**	**-**	**185,666**	**72,001**	**2,743,988**	**2,778,236**	**173,312**	**31,699**	**452,969**	**72,001**	**2,568,889**

Financing includes € 1.5 million in loans and receivables of companies that supply goods and services mainly to the Public Administration (ASL – local health authorities – and Territorial Entities) and receivables related to the pension and salary-backed loans segment. These receivables include € 50.1 million attributable to the current default interest accounting model.

For classification purposes analyses are performed, some of which are complex, aimed at identifying positions which, subsequent to disbursement/acquisition, show evidence of possible impairment based on both internal information, associated with the performance of credit positions, and external information, associated with the specific sector in question.

Measuring loans and receivables with customers is an activity with a high degree of uncertainty and subjectivity involving the use of measurement models that take into account numerous quantitative and qualitative elements. These include the historical data for collections, expected cash flows and the related expected recovery times, the existence of indicators of possible impairment, the valuation of any guarantees, and the impact of risks associated with the sectors in which the Bank's customers operate.

Subsequent to their recognition, factoring receivables are measured at amortised cost, based on the present value of the estimated cash flows of the principal, or for all receivables whose recovery strategy involves legal action, based on the present value of the cash flows, in addition to the principal, of the default interest component that will accrue up to the expected date of collection on amounts considered recoverable.

As a matter of prudence, given the limited amount of historical data available, the recovery percentages used for territorial entities and the public sector (statistical series starting from 2008) are based on a confidence interval of the twentieth percentile, while for ASL - local health authorities (statistical series starting from 2005) a confidence interval of the fifth percentile is used. The estimated recovery percentages and expected collection dates are updated based on annual analyses in light of the progressive consolidation of the historical data series, which provide increasingly solid and robust estimates. In the third quarter of 2021, the expected rates of recovery of default interest on factoring, in light of the statistical evidence that benefits from the progressive consolidation of the historical data series, have increased, as have the related collection times used. The update of these estimates led to a decrease in interest income of € 0.3 million (€ 1.0 million at 31 December 2020). The decrease in the effect resulting from the updated recovery estimates is a consequence of the fact that the historical series over the last few years have settled nearer to the average collection percentages and have stabilised in terms of the number of positions. As a result, the expected recovery percentage calculated by the statistical model is now quite stable and does not fluctuate significantly. The amount of the stock of default interest from legal actions accrued at 31 December 2021, relevant for the allocation model, was € 99 million (€ 98 million at the end of 2020), which becomes € 169 million when including default interest related to positions with troubled local authorities, a component for which default interest is not allocated in the financial statements. Therefore, the amount of default interest accrued but not recognised in the income statement is € 117 million.

Securities are mainly composed of Italian government securities with an average duration of 30.9 months for an amount of € 184 million. The mark-to-market valuation of the securities at 31 December 2021 shows a pre-tax unrealised gain of € 1.6 million.

4.3 Financial assets measured at amortised cost: breakdown by debtor/issuer of the loans and receivables with customers

	31.12.2021			31.12.2020		
	First and second stage	Third stage	Purchased or originated credit-impaired	First and second stage	Third stage	Purchased or originated credit-impaired
1. Debt instruments	**186,822**	**-**	**-**	**449,077**	**-**	**-**
a) Public administrations	184,041	-	-	447,864	-	-
b) Other financial companies	2,781	-	-	1,213	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	-	-	-	-	-	-
2. Financing to:	**2,442,047**	**255,190**	**-**	**2,329,159**	**173,312**	**31,699**
a) Public administrations	834,290	208,864	-	993,321	104,943	31,699
b) Other financial companies	155,257	1	-	86,641	7	-
of which: insurance companies	9	-	-	9	5	-
c) Non-financial companies	497,779	32,825	-	298,562	52,334	-
d) Households	954,721	13,500	-	950,635	16,028	-
Total	**2,628,869**	**255,190**	**-**	**2,778,236**	**173,312**	**31,699**

4.4 Financial assets measured at amortised cost: gross amount and total impairment losses

	Gross amount					Total impairment losses				
	First stage									
		of which instruments with low credit risk	Second stage	Third stage	Purchased or originated credit-impaired	First stage	Second stage	Third stage	Purchased or originated credit-impaired	Overall partial write-offs (*)
Debt instruments	186,894	184,114	-	-	-	72	-	-	-	-
Financing	2,379,130	837,219	102,858	314,390	1	6,240	560	59,201	-	-
Total at 31.12.2021	**2,566,024**	**1,021,333**	**102,858**	**314,390**	**1**	**6,312**	**560**	**59,201**	**-**	**-**
Total at 31.12.2020	**2,677,388**	**1,362,951**	**113,865**	**238,053**	**32,403**	**8,241**	**610**	**44,619**	**704**	**-**

4.4a Loans measured at amortised cost subject to Covid-19 support measures: gross amount and total impairment losses

	Gross amount					Total impairment losses				
	First stage									
		of which instruments with low credit risk	Second stage	Third stage	Purchased or originated credit-impaired	First stage	Second stage	Third stage	Purchased or originated credit-impaired	Overall partial write-offs (*)
1. Forborne loans in compliance with the EBA Guidelines	1,039	-	2,507	5,761	-	33	12	1,325	-	-
2. Loans subject to existing moratoria no longer in compliance with the EBA Guidelines and not considered forbornee	-	-	-	-	-	-	-	-	-	-
3. Loans subject to other forbearance measures	-	-	-	-	-	-	-	-	-	-
4. New loans	156,627	-	-	-	-	380	-	-	-	-
Total at 31.12.2021	**157,666**	**-**	**2,507**	**5,761**	**-**	**413**	**12**	**1,325**	**-**	**-**
Total at 31.12.2020	**69,289**	**-**	**2,507**	**5,896**	**-**	**315**	**9**	**851**	**-**	**-**

SECTION 7 - EQUITY INVESTMENTS - ITEM 70

7.1 Equity investments: information on investment relationships

	Registered office	Interest %	% of votes available
A. Fully-controlled companies			
1. S.F. Trust Holdings Ltd	**London**	100%	100%
2. Largo Augusto Servizi e Sviluppo S.r.l.	**Milan**	100%	100%
3. ProntoPegno S.p.A.	**Milan**	75%	75%
B. Joint ventures			
1. EBNSISTEMA FINANCE S.L.	**Madrid**	50%	50%

7.3 Significant equity investments: accounting information

	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total income	Net interest income (expense)	Net impairment gains and losses on property and equipment/intangible assets	Pre-tax profit (loss) from continuing operations	Post-tax profit (loss) from continuing operations	Post-tax profit (loss) from discontinued operations	Profit (loss) for the year	Other comprehensive income (expense), net of income tax	Comprehensive income (expense)
A. Fully-controlled companies														
1. S.F. Trust Holdings Ltd	-	-	-	-	18	-	(33)	-	(33)	1,460	1,493	1,460	-	1,460
2. Largo Augusto Servizi e Sviluppo S.r.l.	-	-	37,287	21,855	506	1,234	(209)	(727)	(920)	(682)	-	(682)	-	(682)
3. Pronto Pegno S.p.A.	9,765	90,247	34,259	90,773	5,836	13,066	5,407	(1,024)	1,483	1,087	-	1,087	-	1,000

7.4 Non-significant equity investments: accounting information

	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total income	Net interest income	Net impairment gains and losses on property and equipment/intangible assets	Pre-tax profit from continuing operations	Post-tax profit from continuing operations	Post-tax profit (loss) from discontinued operations	Profit for the year	Other comprehensive income (expense), net of income tax	Comprehensive income
B. Joint ventures														
1. EBN SISTEMA FINANCE S.L.	2,563	235	-	-	792	-	375	-	4	3	-	3	-	3

7.5 Equity investments: changes

	31.12.2021	31.12.2020
A. Opening balance	**45,250**	**20,000**
B. Increases	**-**	**26,500**
B.1 Purchases	-	1,000
B.2 Impairment gains	-	-
B.3 Revaluations	-	-
B.4 Other increases	-	25,500
C. Decreases	**-**	**1,250**
C.1 Sales	-	1,250
C.2 Impairment losses	-	-
C.3 Write-offs	-	-
C.4 Other decreases	-	-
D. Closing balance	**45,250**	**45,250**
E. Total revaluations	**-**	**-**
F. Total impairment losses	**-**	**-**

On 17 December 2021, the Board of Directors of the subsidiary SFT Holding initiated the process of liquidating the company. Therefore, the company had a carrying amount of zero and is no longer included among equity investments.

SECTION 8 - PROPERTY AND EQUIPMENT - ITEM 80

8.1 Operating property and equipment: breakdown of property and equipment

	31.12.2021	31.12.2020
1. Owned	**323**	**357**
a) land	-	-
b) buildings	-	-
c) furniture	141	142
d) electronic equipment	182	215
e) other	-	-
2. Under finance lease	**4,176**	**5,070**
a) land	-	-
b) buildings	3,465	4,358
c) furniture	-	-
d) electronic equipment	-	-
e) other	711	712
Total	**4,499**	**5,427**
of which: obtained from the enforcement of guarantees received	-	-

Property and equipment are recognised in the financial statements in accordance with the general acquisition cost criteria, including the related charges and any other expenses incurred to place the assets in conditions useful for the Bank, in addition to indirect costs for the portion reasonably attributable to assets that refer to the costs incurred, as at the end of the year.

Depreciation rates:

- Office furniture: 12%
- Furnishings: 15%
- Electronic machinery and miscellaneous equipment: 20%
- Assets less than Euro 516: 100%

The item “Under finance lease” includes the right of use relating to rents, of which the most significant amount refers to the property owned by the subsidiary Largo Augusto Servizi e Sviluppo S.r.l. (LASS) located in Milan, and the item “Other” includes the right of use relating to leased company cars.

8.6 Operating assets: changes

	Land	Buildings	Furniture	Electronic equipment	Other	Total
A. Gross opening balances	**-**	**6,812**	**1,253**	**2,228**	**1,552**	**11,845**
A.1 Total net impairment losses	-	2,454	1,111	2,013	840	6,418
A.2 Net opening balances	**-**	**4,358**	**142**	**215**	**712**	**5,427**
B. Increases	**-**	**462**	**19**	**49**	**349**	**879**
B.1 Purchases	-	-	12	49	349	410
B.2 Capitalised improvement costs	-	-	-	-	-	-
B.3 Impairment gains	-	-	-	-	-	-
B.4 Fair value gains recognised in:	-	-	-	-	-	-
a. equity	-	-	-	-	-	-
b. profit or loss	-	-	-	-	-	-
B.5 Exchange rate gains	-	-	-	-	-	-
B.6 Transfers from investment property	-	-	-	-	-	-
B.7 Other increases	-	462	7	-	-	469
B.8 Business combination transactions	-	-	-	-	-	-
B.9 First-time adoption of IFRS 16	-	-	-	-	-	-
C. Decreases	**-**	**1,355**	**20**	**82**	**350**	**1,807**
C.1 Sales	-	-	-	-	-	-
C.2 Depreciation	-	1,149	20	71	336	1,576
C.3 Impairment losses recognised in	-	-	-	-	-	-
a. equity	-	-	-	-	-	-
b. profit or loss	-	-	-	-	-	-
C.4 Fair value losses recognised in	-	-	-	-	-	-
a. equity	-	-	-	-	-	-
b. profit or loss	-	-	-	-	-	-
C.5 Exchange rate losses	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a. investment property	-	-	-	-	-	-
b. non-current assets held for sale and disposal groups	-	-	-	-	-	-
C.7 Other decreases	-	206	-	11	14	231
B.8 Business combination transactions	-	-	-	-	-	-
D. Net closing balance	**-**	**3,465**	**141**	**182**	**711**	**4,499**
D.1 Total net impairment losses	-	3,809	1,131	2,095	1,190	8,225
D.2 Gross closing balance	-	7,274	1,272	2,277	1,901	12,724
E. Measurement at cost	**-**	**3,465**	**141**	**182**	**711**	**4,499**

SECTION 9 - INTANGIBLE ASSETS - ITEM 90

9.1 Intangible assets: breakdown by type of asset

	31.12.2021		31.12.2020	
	Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life
A.1 Goodwill	-	**3,920**	-	**3,920**
A.2 Other intangible assets	**60**	-	**12**	-
A.2.1 Assets measured at cost:	60	-	12	-
a. Internally developed assets	-	-	-	-
b. Other	60	-	12	-
A.2.2 Assets measured at fair value:	-	-	-	-
a. Internally developed assets	-	-	-	-
b. Other	-	-	-	-
Total	**60**	**3,920**	**12**	**3,920**

The other intangible assets are recognised at purchase cost including related costs, and are systematically amortised over a period of 5 years. The item mainly refers to software.

With respect to information related to goodwill, reference should be made to Part B - Information on the statement of financial position, Section 10 – Intangible assets – Item 100 of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

9.2 Intangible assets: changes

	Goodwill	Other intangible assets: internally developed		Other intangible assets: Other		Total
		FIN	INDEF	FIN	INDEF	
A. Opening balance	**3,920**	-	-	**3,116**	-	**7,036**
A.1 Total net impairment losses	-	-	-	3,104	-	3,104
A.2 Net opening balances	**3,920**	-	-	**12**	-	**3,932**
B. Increases	**-**	-	-	**56**	-	**56**
B.1 Purchases	-	-	-	56	-	56
B.2 Increases in internally developed assets	-	-	-	-	-	-
B.3 Impairment gains	-	-	-	-	-	-
B.4 Fair value gains recognised in:	-	-	-	-	-	-
- equity	-	-	-	-	-	-
- profit or loss	-	-	-	-	-	-
B.5 Exchange rate gains	-	-	-	-	-	-
B.6 Other increases	-	-	-	-	-	-
B.7 Business combination transactions	-	-	-	-	-	-
C. Decreases	**-**	-	-	**-**	-	**-**
C.1 Sales	-	-	-	-	-	-
C.2 Impairment losses	**-**	**-**	**-**	**8**	**-**	**8**
- Amortisation	-	-	-	**8**	-	**8**
- Impairment losses:	-	-	-	-	-	-
- equity	-	-	-	-	-	-
- profit or loss	-	-	-	-	-	-
C.3 Fair value losses recognised in:	-	-	-	-	-	-
- equity	-	-	-	-	-	-
- profit or loss	-	-	-	-	-	-
C.4 Transfers to disposal groups	-	-	-	-	-	-
C.5 Exchange rate losses	-	-	-	-	-	-
C.6 Other decreases	-	-	-	-	-	-
D. Net closing balance	**3,920**	-	-	**60**	-	**3,980**
D.1 Total net impairment losses	-	-	-	3,112	-	3,112
E. Gross closing balance	**3,920**	-	-	**3,172**	-	**7,092**
F. Measurement at cost	3,920	-	-	60	-	3,980

Key **-** Fin: finite useful life | Indef: indefinite useful life

SECTION 10 - TAX ASSETS AND TAX LIABILITIES - ITEM 100 OF ASSETS AND ITEM 60 OF LIABILITIES

Below is the breakdown of the current tax assets and current tax liabilities

	31.12.2021	31.12.2020
Current tax assets	**12,487**	**12,062**
IRES prepayments	9,829	8,863
IRAP prepayments	2,585	3,136
Other	73	63
Current tax liabilities	**(11,740)**	**(14,057)**
Provision for IRES	(8,693)	(10,827)
Provision for IRAP	(2,575)	(2,970)
Provision for substitute tax	(472)	(260)
Total	**747**	**(1,995)**

10.1 Deferred tax assets: breakdown

	31.12.2021	31.12.2020
Deferred tax assets through profit or loss:	**8,487**	**8,334**
Impairment losses on loans	1,996	2,376
Non-recurring transactions	381	414
Other	6,110	5,544
Deferred tax assets through equity:	**1,739**	**501**
Non-recurring transactions	219	239
HTCS securities	1,432	176
Other	88	86
Total	**10,226**	**8,835**

10.2 Deferred tax assets: breakdown

	31.12.2021	31.12.2020
Deferred tax liabilities through profit or loss:	**14,173**	**13,775**
Uncollected default interest income	14,173	13,775
Other	-	-
Deferred tax liabilities through equity:	**-**	**875**
HTCS securities	-	875
Total	**14,173**	**14,650**

10.3 Changes in deferred tax assets (through profit or loss)

	31.12.2021	31.12.2020
1. Opening balance	**8,334**	**7,771**
2. Increases	**2,606**	**3,498**
2.1 Deferred tax assets recognised in the year	2,606	3,498
a. related to previous years	-	-
b. due to changes in accounting policies	-	-
c. impairment gains	-	-
d. other	2,606	3,498
e. business combination transactions	-	-
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**2,453**	**2,935**
3.1 Deferred tax assets derecognised in the year	2,453	2,935
a. reversals	-	-
b. impairment due to non-recoverability	-	-
c. changes in accounting policies	-	-
d. other	2,453	2,935
3.2 Tax rate reductions	-	-
3.3 Other decreases	-	-
a. conversion into tax assets pursuant to Law 214/2011	-	-
b. other	-	-
4. Closing balance	**8,487**	**8,334**

11.4. Change in deferred tax assets pursuant to Law 214/2011

	31.12.2021	31.12.2020
1. Opening balance	**3,029**	**3,429**
2. Increases	**-**	**-**
3. Decreases	**433**	**400**
3.1 Reversals	-	-
3.2 Conversions into tax assets	-	-
a. arising on loss for the year	-	-
b. arising on tax losses	-	-
3.3 Other decreases	433	400
4. Closing balance	**2,596**	**3,029**

10.5 Changes in deferred tax liabilities (through profit or loss)

	31.12.2021	31.12.2020
1. Opening balance	**13,775**	**14,060**
2. Increases	**398**	**41**
2.1 Deferred tax liabilities recognised in the year	398	41
a. related to previous years	-	-
b. due to changes in accounting policies	-	-
c. other	398	41
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**-**	**326**
3.1 Deferred tax liabilities derecognised in the year	-	54
a. reversals	-	-
b. due to changes in accounting policies	-	-
c. other	-	54
3.2 Tax rate reductions	-	-
3.3 Other decreases	-	272
4. Closing balance	**14,173**	**13,775**

10.6 Change in deferred tax assets (through equity)

	31.12.2021	31.12.2020
1. Opening balance	**501**	**328**
2. Increases	**1,442**	**189**
2.1 Deferred tax assets recognised in the year	1,442	189
a. related to previous years	-	-
b. due to changes in accounting policies	-	-
c. other	1,442	189
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**204**	**16**
3.1 Deferred tax assets derecognised in the year	29	16
a. reversals	-	-
b. impairment due to non-recoverability	-	-
c. due to changes in accounting policies	-	-
d. other	29	16
3.2 Tax rate reductions	-	-
3.3 Other decreases	175	-
4. Closing balance	**1,739**	**501**

10.7 Change in deferred tax liabilities (through equity)

	31.12.2021	31.12.2020
1. Opening balance	**875**	**160**
2. Increases	**-**	**875**
2.1 Deferred tax liabilities recognised in the year	-	875
a. related to previous years	-	-
b. due to changes in accounting policies	-	-
c. other	-	875
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**875**	**160**
3.1 Deferred tax liabilities derecognised in the year	875	160
a. reversals	-	-
b. due to changes in accounting policies	-	-
c. other	875	160
3.2 Tax rate reductions	-	-
3.3 Other decreases	-	-
4. Closing balance	**-**	**875**

SECTION 12 - OTHER ASSETS - ITEM 120

12.1 Other assets: breakdown

	31.12.2021	31.12.2020
Other	20,758	2,793
Tax advances	7,945	9,359
Work in progress	5,431	1,933
Prepayments not related to a specific item	3,773	2,227
Trade receivables	1,486	1,677
Leasehold improvements	196	44
Security deposits	152	157
Total	**39,741**	**18,190**

At 31 December 2021, the item included tax credits from the "Eco-Sisma bonus 110%" product associated to the tax credit generated against specific energy efficiency and anti-seismic safety works which can be deducted at a rate of 110% over five years for an amount of € 16.5 million. This product was introduced by the Bank, within the context of the implementation of the Relaunch Decree issued in May 2020, in a very prudent manner and with modest turnover targets, to be included in the range of products offered by the Factoring Division.

The sub-item “Tax advances” is mainly composed of tax advances relative to virtual stamp duties and withholding taxes on interest expense.

LIABILITIES

SECTION 1 - FINANCIAL LIABILITIES MEASURED AT AMORTISED COST - ITEM 10

1.1 Financial liabilities measured at amortised cost: breakdown by product of due to banks

	31.12.2021				31.12.2020			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Due to Central banks	**540,095**	**X**	**X**	**X**	**689,686**	**X**	**X**	**X**
2. Due to banks	**40,896**	**X**	**X**	**X**	**129,315**	**X**	**X**	**X**
2.1 Current accounts and demand deposits	40,896	X	X	X	-	X	X	X
2.2 Term deposits	-	X	X	X	125,178	X	X	X
2.3 Financing	-	X	X	X	1,863	X	X	X
2.3.1 Repurchase agreements	**-**	**X**	**X**	**X**	-	**X**	**X**	**X**
2.3.2 Other	-	X	X	X	1,863	X	X	X
2.4 Commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Lease liabilities	-	X	X	X	-	X	X	X
2.6 Other payables	-	X	X	X	2,274	X	X	X
Total	**580,991**			**580,991**	**819,001**			**819,001**

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

1.2 Financial liabilities measured at amortised cost: breakdown by product of due to customers

	31.12.2021				31.12.2020			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	**805,689**	X	X	X	**639,459**	X	X	X
2. Term deposits	**1,387,255**	X	X	X	**1,216,417**	X	X	X
3. Financing	**305,268**	X	X	X	**306,884**	X	X	X
3.1 Repurchase agreements	249,256	X	X	X	235,230	X	X	X
3.2 Other	56,012	X	X	X	71,654	X	X	X
4. Commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Lease liabilities	-	X	X	X	-	X	X	X
6. Other payables	**140,602**	X	X	X	**90,781**	X	X	X
Total	**2,638,814**	**-**	**-**	**2,638,814**	**2,253,541**	**-**	**-**	**2,253,541**

1.3 Financial liabilities measured at amortised cost: breakdown by product of the securities issued

	31.12.2021				31.12.2020			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. bonds	**-**	**-**	**-**	**-**	**130,090**	**-**	**-**	**129,949**
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	-	-	-	-	130,090	-	-	129,949
2. other securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**130,090**	**-**	**-**	**129,949**

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

No amount is reported for this item as the Senior bond (private placement) of € 92.5 and the Tier II subordinated securities have been fully repaid.

SECTION 6 - TAX LIABILITIES - ITEM 60

The breakdown as well as the change in the deferred tax liabilities were illustrated in Part B Section 10 of assets in these notes to the financial statements.

SECTION 8 - OTHER LIABILITIES - ITEM 80

8.1 Other liabilities: breakdown

	31.12.2021	31.12.2020
Payments received in the reconciliation phase	84,177	73,367
Accrued expenses	15,774	10,858
Work in progress	9,014	26,868
Dividends due to shareholders	-	7,479
Trade payables	6,538	5,788
Tax liabilities with the Tax Authority and other tax authorities	5,508	4,956
Finance lease liabilities	4,246	5,126
Due to employees	890	719
Pension repayments	768	707
Other	367	25
Due to group companies	144	114
Total	**127,426**	**136,007**

SECTION 9 - POST-EMPLOYMENT BENEFITS - ITEM 90

9.1 Post-employment benefits: changes

	31.12.2021	31.12.2020
A. Opening balance	**3,374**	**2,955**
B. Increases	**125**	**646**
B.1 Accruals	24	577
B.2 Other increases	101	69
B.3 Business combination transactions	-	-
C. Decreases	**139**	**227**
C.1 Payments	101	175
C.2 Other decreases	38	52
D. Closing balance	**3,360**	**3,374**
Total	**3,360**	**3,374**

9.2 Other Information

The actuarial amount of post-employment benefits was calculated by an external actuary, who issued an appraisal.

The other decreases refer to the actuarial gain accounted for during the year. The payments made refer to post-employment benefits paid during the year.

The technical valuations were conducted on the basis of the assumptions described in the following table:

Annual discount rate	0.98%
Annual inflation rate	1.75%
Annual post-employment benefits increase rate	2.813%
Annual salary increase rate	1.00%

The discount rate used for determining the present value of the obligation was calculated, pursuant to IAS 19.83, from the Iboxx Corporate AA index with 10+ duration during the valuation month. To this end, a choice was made to select the yield with a duration comparable to the duration of the set of workers subject to valuation.

SECTION 10 - PROVISIONS FOR RISKS AND CHARGES - ITEM 100

10.1 Provisions for risks and charges: breakdown

	31.12.2021	31.12.2020
1. Provisions for credit risk related to commitments and financial guarantees issued	**39**	**26**
2. Provisions for other commitments and other guarantees issued	-	-
3. Internal pension funds	-	-
4. Other provisions for risks and charges	**28,301**	**22,610**
4.1 legal and tax disputes	3,699	4,264
4.2 personnel expense	7,402	7,932
4.3 other	17,200	10,414
Total	**28,340**	**22,636**

10.2 Provisions for risks and charges: changes

	Provisions for other commitments and other guarantees issued	Pension funds	Other provisions for risks and charges	**Total**
A. Opening balance	**26**	**-**	**22,610**	**22,636**
B. Increases	**13**	**-**	**12,284**	**12,297**
B.1 Accruals	-	-	10,342	10,342
B.2 Discounting	-	-	-	-
B.3 Changes due to discount rate changes	-	-	-	-
B.4 Other increases	13	-	1,942	1,955
B.5 Business combination transactions	-		-	-
C. Decreases	**-**	**-**	**6,593**	**6,593**
C.1 Utilisations	-	-	5,005	5,005
C.2 Changes due to discount rate changes	-	-	-	-
C.3 Other decreases	-	-	1,588	1,588
D. Closing balance	**39**	**-**	**28,301**	**28,340**

The accruals for the year are mainly due to deferred amounts due to personnel and agents amounting to € 4.2 million, estimates of charges related to possible lawsuits against the Bank's customers and to the tax authorities which arose during the year amounting to € 3.7 million, and risks related to accruals concerning pre-payment and Lexitor risk, which is the risk of having to reimburse customers for up-front charges in the event of early repayment. Such amounts are set aside for CQS loans that have been assigned or for which the bank has become the assignee, depending on the terms and conditions of the agreements, for a total of € 3.9 million. The utilisations for the year refer to the release of a provision relating to a previous acquisition as a result of expected losses not being incurred and the payment of deferred bonuses.

10.3 Provisions for credit risk related to commitments and financial guarantees issued

	Provisions for credit risk related to financial guarantees issued			
	Provisions for other commitments and other guarantees issued	Pension funds	Other provisions for risks and charges	**Total**
1. Commitments to disburse funds	-	-	-	-
2. Financial guarantees issued	39	-	-	39
Total	**39**	**-**	**-**	**39**

10.5 Internal defined benefit pension funds

Nothing to report.

10.6 Provisions for risks and charges - other provisions

	31.12.2021	31.12.2020
Legal and tax disputes	3,699	4,264
Personnel expense	7,402	7,932
Other	17,200	10,414
Total	**28,301**	**22,610**

Legal and tax disputes include a provision for possible liabilities arising from past acquisitions and therefore recognised in accordance with IFRS 3 and, for the remainder, provisions for lawsuits where the risk of losing the case is considered probable.

"Personnel expense" includes:

- the provisions made for variable remuneration to be paid to employees in subsequent years, for which the due date and/or amount are uncertain;
- an estimate of labour-related disputes;
- the amount resulting from the actuarial valuation of the non-compete agreement under IAS 19, as described below.

The calculation method can be summarised in the following steps:

- projection for each employee in service at the valuation date of the NCA that has already been accrued, and the future obligations up to an uncertain payment date;
- determination for each employee of the NCA payments that the Group will have to make in the event of employment termination due to dismissal and retirement in case of fulfilment of the NCA commitments;
- discounting, at the valuation date, of each probable payment.

In particular, the annual discount rate used for determining the present value of the obligation was calculated, pursuant to IAS 19.83, from the Iboxx Corporate AA index with 10+ duration during the valuation month. To this end, a choice was made to select the yield with a duration comparable to the duration of the set of workers subject to valuation.

The item "Other" includes an estimate of charges related to possible liabilities to assignors that have yet to be settled of € 6.7 million and other estimated charges for ongoing lawsuits and legal disputes amounting to € 2.6 million. Also included is the provision for claims and the provision to cover the estimated adverse effect of possible early repayments (also known as pre-payments) on CQS portfolios purchased from third-party intermediaries and on the assigned portfolios, for an amount of € 7.0 million.

SECTION 12 - BANK EQUITY - ITEMS 110, 130, 140, 150, 160, 170 AND 180

12.1 "Share capital" and "Treasury shares": breakdown

The share capital of Banca Sistema is composed of 80,421,052 ordinary shares, for a total paid-in share capital of € 9,650,526.24. All outstanding shares have regular dividend entitlement from 1 January.
Based on evidence from the Shareholders' Register and more recent information available, the shareholders with stakes of more than 5%, the threshold above which Italian law (art. 120 of the Consolidated Law on Finance) requires disclosure to the investee and Consob, were as follows:

SHAREHOLDERS	% HELD
SGBS S.r.l.	23.10%
Garbifin S.r.l.	0.54%
Fondazione Cassa di Risparmio di Alessandria	7.91%
Chandler SARL	7.48%
Fondazione Sicilia	7.40%
Moneta Micro Entreprises	5.12%
Fondazione Cassa di Risparmio di Cuneo	5.01%
Market	43.44%

Treasury shares

As at 31 December 2021, the Bank did not hold any treasury shares.

As at 31 December 2021, the Bank did not hold any treasury shares.

The breakdown of the bank's equity is shown below:

	31.12.2021	31.12.2020
1. Share capital	9,651	9,651
2. Share premium	39,100	39,100
3. Reserves	142,662	123,424
4. (Treasury shares)	-	(234)
5. Valuation reserves	(2,986)	1,386
6. Equity instruments	45,500	8,000
7. Profit for the year	23,143	26,121
Total	**257,070**	**207,448**

For changes in reserves, please refer to the statement of changes in equity.

12.2 Share capital - Number of shares: changes

	Ordinary	Other
A. Opening balance	**80,421,052**	**-**
- fully paid-in	80,421,052	-
- not fully paid-in	-	-
A.1 Treasury shares (-)	(168,669)	-
A.2 Outstanding shares: opening balancei	**80,252,383**	**-**
B. Increases	**168,669**	**-**
B.1 New issues	-	-
against consideration:		
- business combination transactions	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	-	-
bond issues:		
- to employees	-	-
- to directors	-	-
- other	-	-
B.2 Sale of treasury shares	-	-
B.3 Other increases	168,669	-
C. Decreases	**-**	**-**
C.1 Cancellation	-	-
C.2 Repurchase of treasury shares	-	-
C.3 Disposal of equity investments	-	-
C.4 Other decreases	-	-
D. Outstanding shares: closing balance	**80,421,052**	**-**
D.1 Treasury shares (+)	-	-
D.2 Closing balance	80,421,052	-
- fully paid-in	-	-
- not fully paid-in	-	-

12.4 Income-related reserves: other information

In compliance with art. 2427(7 bis) of the Italian Civil Code, below is the detail of the equity items revealing the origin and possibility of use and distributability.

	Amount as at 31.12.2021	Possible use	Available portion
A. Share capital	9,651	-	-
B. Equity-related reserves:	-	-	-
Share premium reserve	39,100	A,B,C	-
Reserve to provide for losses	-	-	-
C. Income-related reserves:	-	-	-
Legal reserve	1,930	B	-
Valuation reserve	(2,986)	-	-
Negative goodwill	1,774	A,B,C	-
Retained earnings	137,899	A,B,C	-
Reserve for treasury shares	200	-	-
Reserve for future capital increase	-	-	-
D. Other reserves	859	-	-
E. Equity instruments	45,500	-	-
F. Treasury shares	-	-	-
Total	**233,927**	-	-
Profit for the year	23,143	-	-
Total equity	**257,070**	-	-
Undistributable portion	**-**	-	-
Distributable portion	-	-	-

Key:
A: for share capital increase
B: to cover losses
C: for distribution to shareholders

13.5 Equity instruments: breakdown and changes

	Issuer	Type of issue	Coupon	Maturity date	Nominal amount	IFRS amount
Tier 1 Capital	Banca Sistema S.p.A.	Tier 1 subordinated loans with mixed rate: ISIN IT0004881444	Until 17 June 2023, fixed rate at 7%	Perpetual	8,000	8,018
			From 18 June 2023, 6-month Euribor +5% variable rate			
Tier 1 Capital	Banca Sistema S.p.A.	Subordinated ordinary loans (Tier 1): ISIN IT0005450876	Fixed rate at 9%	Perpetual	37,500	37,558
Total					**45,500**	**45,575**

In June 2021, the Tier 2 subordinated loans were repaid before maturity upon simultaneous issuance of an Additional Tier 1 (AT1) subordinated bond for the same amount.

Therefore, the breakdown of bonds issued at 31 December 2021, which given their predominant characteristics are classified under equity instruments in item 140 of equity, is as follows:

- Tier 1 subordinated loan of € 8 million, with no maturity (perpetual basis) and a fixed coupon until 18 June 2023 at 7% issued on 18 December 2012 and 18 December 2013 (reopening date). This loan was previously classified among financial liabilities measured at amortised cost;
- Tier 1 subordinated loan of € 37.5 million, with no maturity (perpetual basis) and a fixed coupon until 25 June 2031 at 9% issued on 25 June 2021.

1. Commitments and financial guarantees issued

	Nominal amount of commitments and financial guarantees issued				
	First stage	Second stage	Third stage	**31.12.2021**	**31.12.2020**
Commitments to disburse funds	**334,974**	**-**	**3,096**	**338,070**	**456,313**
a) Central Banks	-	-	-	**-**	-
b) Public administrations	-	-	-	-	223,860
c) Banks	-	-	-	-	-
d) Other financial companies	189,967	-	-	189,967	109,919
e) Non-financial companies	143,148	-	3,096	146,244	120,017
f) Households	1,859	-	-	1,859	2,517
Financial guarantees issued	**11,084**	**-**	**-**	**11,084**	**6,724**
a) Central Banks	-	-	-	-	-
b) Public administrations	20	-	-	20	20
c) Banks	2,446	-	-	2,446	2,446
d) Other financial companies	67	-	-	67	-
e) Non-financial companies	8,463	-	-	8,463	4,161
f) Households	88	-	-	88	97

The item “financial guarantees issued - banks” includes the commitments taken on with the interbank guarantee systems; the item “Irrevocable commitments to disburse funds” is related to the equivalent value of the securities to receive for transactions to be settled.

3. Assets pledged as collateral for liabilities and commitments

	31.12.2021	31.12.2020
1. Financial assets measured at fair value through profit or loss	-	-
2. Financial assets measured at fair value through other comprehensive income	94,958	71,350
3. Financial assets measured at amortised cost	363,122	285,987
4. Property and equipment	-	-
of which: Property and equipment included among inventories	-	-

6. Management and trading on behalf of third parties

	Amount
1. Execution of orders on behalf of customers	**-**
a) purchases	-
1. settled	-
2. unsettled	-
b) sales	-
1. settled	-
2. unsettled	-
2. Individual asset management	**-**
3. Securities custody and administration	**903,230**
a) third-party securities held as part of depositary bank services (excluding asset management)	-
1. securities issued by the reporting entity	-
2. other securities	-
b) third-party securities on deposit (excluding asset management): other	30,181
1. securities issued by the reporting entity	3,696
2. other securities	26,485
c) third-party securities deposited with third parties	30,181
d) securities owned by the bank deposited with third parties	873,049
4. Other transactions	**-**

SECTION 1 - INTEREST - ITEMS 10 AND 20

1.3. Interest and similar income: breakdown

	Debt instruments	Financing	Other transactions	**2021**	**2020**
1. Financial assets measured at fair value through profit or loss:	-	-	-	-	-
1.1 Financial assets held for trading	-	-	-	-	-
1.2 Financial assets designated at fair value through profit or loss	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value through profit or loss	-	-	-	-	-
2. Financial assets measured at fair value through other comprehensive income	-	-	X	-	-
3. Financial assets measured at amortised cost:	1,775	85,126	-	86,901	91,025
3.1 Loans and receivables with banks	-	113	X	113	167
3.2 Loans and receivables with customers	1,775	85,013	X	86,788	90,858
4. Hedging derivatives	X	X	-	-	-
5. Other assets	X	X	-	-	-
6. Financial liabilities	X	X	X	3,522	4,222
Total	**1,775**	**85,126**	**-**	**90,423**	**95,247**
of which: interest income on impaired assets	-	-	-	-	-
of which: interest income on finance leases	-	-	-	-	-

The total contribution of the Factoring Division (which includes Government-backed loans to SMEs) to interest income was € 62.2 million, equal to 74% of the entire loans and receivables portfolio (like at 31 December 2020), to which the commission component associated with the factoring business and the revenue generated by the assignment of private-sector receivables from the factoring portfolio need to be added.

The component linked to default interest from legal action at 31 December 2021, as described in the same section of the consolidated financial statements, was € 21.5 million (€ 21.6 million at 31 December 2020):

- of which € -0.3 million resulting from the updated recovery estimates and expected collection times (€ 1.0 million in 2020);
- of which € 11.7 million resulting from the current recovery estimates (€ 9 million in 2020);
- of which € 10.1 million (€ 11.6 million in 2020) coming from net collections during the year, i.e. the difference between the amount collected during the year, equal to € 17.5 million (€ 21.5 million in 2020) and that recognised on an accruals basis in previous years. In 2020, this item included gross collections of € 5.2 million from transfers to third parties, whereas in 2021, gross collections were € 0.7 million.

The contribution of interest on the salary- and pension-backed portfolios is down slightly on the previous year at € 21.4 million as a result of the early redemption of several positions.

Compared to 2020, the interest component from government-backed loans granted by the Bank to factoring customers, a support measure in response to the Covid-19 pandemic, has had a positive impact.

The item “financial liabilities” mainly includes income arising from the financing activity of the securities portfolio in repurchase agreements and ECB loans at negative rates, which account for € 3.5 million.

1.3 Interest and similar expense: breakdown

	Liabilities	Securities	Other transactions	**2021**	**2020**
1. Financial liabilities measured at amortised cost	13,121	1,872	-	14,993	22,939
1.1 Due to Central banks	-	X	-	-	-
1.2 Due to banks	460	X	-	460	412
1.3 Due to customers	12,661	X	-	12,661	15,716
1.4 Securities issued	X	1,872	-	1,872	6,811
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities designated at fair value through profit or loss	-	-	-	-	-
4. Other liabilities and provisions	X	X	-	-	-
5. Hedging derivatives	X	X	-	-	-
6. Financial assets	X	X	X	1,042	188
Total	**13,121**	**1,872**	**-**	**16,035**	**23,127**
of which: interest expense related to lease liabilities	54	X	X	54	66

SECTION 2 - NET FEE AND COMMISSION INCOME - ITEMS 40 AND 50

2.1 Fee and commission income: breakdown

	2021	2020
a. Financial instruments	-	-
1. Placement of securities	95	100
1.1 Underwritten and/or on a firm commitment basis	95	100
1.2 Without a firm commitment basis	-	-
2. Order collection and transmission, and execution of orders on behalf of customers	59	41
2.1. Order collection and transmission for one or more financial instruments	59	41
2.2. Execution of orders on behalf of customers	-	-
3. Other fees associated with activities related to financial instruments	12	10
of which: dealing on own account	-	-
of which: individual asset management	12	10
b. Corporate Finance	-	-
1. Mergers and acquisitions advisory services	-	-
2. Treasury services	-	-
3. Other fees related to corporate finance services	-	-
c. Investment advisory activities	-	-
d. Clearing and settlement	-	-
e. Custody and administration	1	1
1. Depositary services	-	-
2. Other fees related to custody and administration activities	1	1
f. Central administrative services for collective asset management	-	-
g. Fiduciary activities	-	-
h. Payment services	131	150
1. Current accounts	70	96
2. Credit cards	0	-
3. Debit and other payment cards	18	-
4. Bank transfers and other payment orders	-	-
5. Other fees related to payment services	43	54
i. Distribution of third party services	-	-
1. Collective asset management	-	-
2. Insurance products	-	-
3. Other products	-	-
of which: individual asset management	-	-
j. Structured finance	-	-
k. Servicing of securitisations	-	-
l. Commitments to disburse funds	-	-
m. Financial guarantees issued	46	36
of which: credit derivatives	-	-
n. Financing transactions	12,970	17,715
of which: factoring transactions	12,970	17,715
o. Foreign currency transactions	-	-
p. Commodities	-	-
q. Other fee and commission income	5,778	3,566
of which: management of multilateral trading facilities	-	-
of which: management of organised trading facilities	-	-
Total	**19,092**	**21,619**

The item j) Other services is detailed in the following table and consists of origination fees on salary- and pension-backed loan (CQ) products, as well as fees and commissions from servicing of third-party factoring transactions.

	2021	2020
Fees and commissions from servicing of third-party factoring transactions	1,235	1,148
CQ origination fees and commissions	4,456	2,353
Other fees and commissions (residual)	87	65
Total	**5,778**	**3,566**

2.2 Fee and commission income: distribution channels of products and services

	2021	2020
A) at its branches:	**107**	**110**
1. asset management	12	10
2. placement of securities	95	100
3. third-party services and products	-	-
B) off-premises:	**-**	**-**
1. asset management	-	-
2. placement of securities	-	-
3. third-party services and products	-	-
C) other distribution channels:	**-**	**-**
1. asset management	-	-
2. placement of securities	-	-
3. third-party services and products	-	-

2.3 Fee and commission expense: breakdown

	2021	2020
a. Financial instruments	53	52
of which: trading in financial instruments	53	52
of which: placement of financial instruments	-	-
of which: individual asset management	-	-
- Proprietary	-	-
- Delegated to third parties	-	-
b. Clearing and settlement	-	-
c. Custody and administration	-	-
d. Collection and payment services	218	199
of which: credit cards, debit cards and other payment cards	218	199
e. Servicing of securitisations	-	-
f. Commitments to receive funds	-	-
g. Financial guarantees received	385	41
of which: credit derivatives	-	-
h. Off-premises distribution of securities, products and services	9,147	6,070
i. Foreign currency transactions	-	-
j. Other fee and commission expense	73	509
Total	**9,876**	**6,871**

SECTION 3 - DIVIDENDS AND SIMILAR INCOME - ITEM 70

3.1 Dividends and similar income: breakdown

		2021		2020	
		dividends	similar income	dividends	similar income
A.	Financial assets held for trading	-	-	-	-
B.	Other financial assets mandatorily measured at fair value through profit or loss	-	-	-	-
C.	Financial assets measured at fair value through other comprehensive income	227	-	227	-
D.	Equity investments	-	-	-	-
	Total	**227**	**-**	**227**	**-**

SECTION 4 - NET TRADING INCOME - ITEM 80

4.1 Net trading income: breakdown

	Gains (A)	Trading income (B)	Losses (C)	Trading losses (D)	Net trading income [(A+B) - (C+D)]
1. Financial assets held for trading	**-**	**21**	**-**	**-**	**21**
1.1 Debt instruments	-	20	-	-	20
1.2 Equity instruments	-	-	-	-	-
1.3 OEIC units	-	-	-	-	-
1.4 Financing	-	-	-	-	-
1.5 Other	-	1	-	-	1
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt instruments	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-		-
3. Other financial assets and liabilities: exchange rate gains (losses)	**X**	**X**	**X**	**X**	**-**
4. Derivatives	**-**	**-**	**-**	**-**	**-**
4.1 Financial derivatives:	-	-	-	-	-
On debt instruments and interest rates	-	-	-	-	-
On equity instruments and equity indexes	-	-	-	-	-
On currencies and gold	X	X	X	X	-
Other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges connected to the fair value option	X	X	X	X	-
Total	**-**	**21**	**-**	**-**	**21**

SECTION 6 - GAIN FROM SALES OR REPURCHASES - ITEM 100

6.1 Gain from sales or repurchases: breakdown

	2021			2020		
	Gain	Loss	Net gain	Gain	Loss	Net gain
A. Financial assets	**-**	**-**	**-**	**-**	**-**	**-**
1. Financial assets measured at amortised cost:	6,196	(197)	5,999	5,351	(1,137)	4,214
1.1 Loans and receivables with banks	-	0	-		-	-
1.2 Loans and receivables with customers	6,196	(197)	5,999	5,351	(1,137)	4,214
2. Financial assets measured at fair value through other comprehensive income	4,607	(517)	4,090	5,327	(26)	5,301
2.1 Debt instruments	4,607	(517)	4,090	5,327	(26)	5,301
2.4 Financing	-	-	-	-	-	-
Total assets	**10,803**	**(714)**	**10,089**	**10,678**	**(1,163)**	**9,515**
B. Financial liabilities measured at amortised cost	**-**	**-**	**-**	**-**	**-**	**-**
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	-	-	-	16	-	16
Total liabilities	**-**	**-**	**-**	**16**	**-**	**16**

SECTION 7 - NET GAIN ON OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS - ITEM 110

	Gains (A)	Gains on sales (B)	Losses (C)	Losses on sales (D)	Net gain [(A+B) - (C+D)]
1. Financial assets	**1,856**	**-**	**-**	**-**	**1,856**
1.1 Debt instruments	1,856	-	-	-	1,856
1.2 Equity instruments	-	-	-	-	-
1.3 OEIC units	-	-	-	-	-
1.4 Financing	-	-	-	-	-
2. Foreign currency financial assets: exchange rate gains (losses)	**X**	**X**	**X**	**X**	**-**
Total	**1,856**	**-**	**-**	**-**	**1,856**

The item “Gain (loss) on other financial assets/liabilities measured at fair value” includes the fair value measurement of the Junior security of the BS IVA securitisation.

SECTION 8 - NET IMPAIRMENT LOSSES/GAINS DUE TO CREDIT RISK - ITEM 130

8.1 Net impairment losses due to credit risk related to financial assets measured at amortised cost: breakdown

	Impairment losses (1)						Impairment gains (2)				2021	2020
	First stage	Second stage	Third stage		Purchased or originated credit-impaired		First stage	Second stage	Third stage	Purchased or originated credit-impaired		
			write-offs	Other	write-offs	Other						
A. Loans and receivables with banks	**33**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**33**	**(6)**
- financing	33	-	-	-	-	-	-	-	-	-	33	(6)
- debt instruments	-	-	-	-	-	-	-	-	-	-	-	-
B. Loans and receivables with customers:	**113**	**-**	**-**	**11,144**	**-**	**-**	**(526)**	**-**	**(21)**	**-**	**10,710**	**12,435**
- financing	113	-	-	11,144	-	-	(380)	-	(21)	-	10,856	12,338
- debt instruments	-	-	-	-	-	-	(146)	-	-	-	(146)	97
C. Total	**146**	**-**	**-**	**11,144**	**-**	**-**	**(526)**	**-**	**(21)**	**-**	**10,743**	**12,429**

8.1a Net impairment losses due to credit risk related to loans measured at amortised cost subject to Covid-19 support measures: breakdown

	Net impairment losses						2021	2020
	First stage	Second stage	Third stage		Purchased or originated credit-impaired			
			write-offs	Other	write-offs	Other		
1. Forborne loans in compliance with the EBA Guidelines	(66)	3	-	474	-	-	411	456
2. Loans subject to existing moratoria no longer in compliance with the EBA Guidelines and not considered forborne	-	-	-	-	-	-	-	-
3. Loans subject to other forbearance measures	-	-	-	-	-	-	-	-
4. New loans	165	-	-	-	-	-	165	216
Total	**99**	**3**	**-**	**474**	**-**	**-**	**576**	**672**

8.2 Net impairment losses due to credit risk related to financial assets measured at fair value through other comprehensive income: breakdown

	Impairment losses (1)						Impairment gains (2)				2021	2020
	First stage	Second stage	Third stage		Purchased or originated credit-impaired		First stage	Second stage	Third stage	Purchased or originated credit-impaired		
			write-offs	Other	write-offs	Other						
A. Debt instruments	**-**	**-**	**-**	**-**	**-**	**-**	**(28)**	**-**	**-**	**-**	**(28)**	**52**
B. Financing	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- To customers	-	-	-	-	-	-	-	-	-	-	-	-
- To banks	-	-	-	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**(28)**	**-**	**-**	**-**	**(28)**	**52**

SECTION 9 - GAINS (LOSSES) FROM CONTRACT AMENDMENTS: BREAKDOWN - ITEM 140

9.1 Gains (losses) from contract amendments: breakdown

	2021	2020
9.1 Gains (losses) from contract amendments: breakdown	(4)	-

Losses arising from the renegotiation of loan agreements with corporate counterparties are included in this item.

SECTION 10 - ADMINISTRATIVE EXPENSES - ITEM 160

10.1 Personnel expense: breakdown

	2021	2020
1) Employees	21,381	20,077
a) wages and salaries	12,406	11,530
b) social security charges	3,288	3,081
c) post-employment benefits	-	
d) pension costs	-	
e) accrual for post-employment benefits	819	807
f) accrual for pension and similar provisions:	-	
- defined contribution plans	-	
- defined benefit plans	-	
g) payments to external supplementary pension funds:	203	379
- defined contribution plans	203	379
- defined benefit plans	-	
h) costs of share-based payment plans	-	
i) other employee benefits	4,665	4,280
2) Other personnel	445	428
3) Directors and statutory auditors	1,236	1,107
4) Retired personnel	-	
5) Recovery of costs for employees of the Bank seconded to other entities	-	
6) Reimbursement of costs for employees of other entities seconded to the Bank	38	130
Total	**23,100**	**21,742**

10.2 Average number of employees by category

Employees

a) Senior managers	24
b) Middle managers (Q4 - Q3)	46
c) Remaining employees	132

10.5 Other administrative expenses: breakdown

	2021	2020
Consultancy	(5,059)	(4,290)
IT expenses	(5,311)	(5,035)
Servicing and collection activities	(3,070)	(2,951)
Indirect taxes and duties	(2,518)	(1,802)
Insurance	(464)	(468)
Other	(638)	(378)
Expenses related to management of the SPVs	(468)	(537)
Outsourcing and consultancy expenses	(391)	(364)
Car hire and related fees	(716)	(546)
Advertising and communications	(1,225)	(400)
Expenses related to property management and logistics	(1,022)	(1,016)
Personnel-related expenses	(121)	(60)
Expense reimbursement and entertainment	(355)	(302)
Infoprovider expenses	(701)	(514)
Membership fees	(337)	(288)
Audit fees	(235)	(240)
Telephone and postage expenses	(258)	(193)
Stationery and printing	(22)	(41)
Total operating expenses	**(22,911)**	**(19,425)**
Resolution Fund	(2,284)	(2,007)
Merger-related costs	-	(138)
Total	**(25,195)**	**(21,570)**

Administrative expenses increased mainly due to costs directly related to the businesses in which the Group operates. Specifically, in 2021, higher legal expenses were incurred for managing the legal recovery proceedings for receivables and default interest from Italian and Spanish public administration debtors and there was an increase in the origination cost of the CQ product. In 2021, investments in advertising for events and sponsorships also increased.

IT expenses consist of costs for services rendered by the IT outsourcer providing the legacy services and costs related to the IT infrastructure, which have increased compared to 2020, also due to the costs deriving from the ProntoPegno branches acquired along with the business unit and additional hardware and software to support remote work arrangements.

The increase in Expenses related to property management and logistics is tied to the purchase of the building to be used for operations in Rome.

Compared to the previous year, the Resolution Fund required a € 0.3 million higher contribution, for a total of € 2.3 million.

SECTION 11 - NET ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES - ITEM 170

11.2 Net accruals for other commitments and other guarantees issued: breakdown

	2021	2020
Net accruals for other commitments and other guarantees	(13)	18
Total	**(13)**	**18**

11.3 Net accruals to other provisions for risks and charges: breakdown

	2021	2020
Provisions for risks and charges - other provisions and risks	(1,692)	(2,538)
Release of provisions for risks and charges	-	-
Total	**(1,692)**	**(2,538)**

SECTION 12 - NET IMPAIRMENT LOSSES ON PROPERTY AND EQUIPMENT - ITEM 180

12.1 Net impairment losses on property and equipment: breakdown

	Depreciation (a)	Impairment losses (b)	Impairment gains (c)	**Carrying amount (a + b - c)**
A. Property and equipment				
1. Operating assets	**1,575**	-	-	**1,575**
- Owned	91	-	-	91
- Right-of-use assets acquired under a lease	1,484	-	-	1,484
2. Investment property	**-**	-	-	**-**
- Owned	-	-	-	-
- Right-of-use assets acquired under a lease	-	-	-	-
3. Inventories	**-**	-	-	**-**
Total	**1,575**	**-**	**-**	**1,575**

SECTION 13 - NET IMPAIRMENT LOSSES ON INTANGIBLE ASSETS - ITEM 190

13.1 Net impairment losses on intangible assets: breakdown

	Amortisation (a)	Impairment losses (b)	Impairment gains (c)	**Carrying amount (a + b - c)**
A. Intangible assets				
A.1 Owned	8	-	-	8
▪ Developed internally	-	-	-	-
▪ Other	8	-	-	8
A.2 Right-of-use assets acquired under a lease	-	-	-	-
Total	**8**	-	-	**8**

SECTION 14 - OTHER OPERATING INCOME AND EXPENSE - ITEM 200

14.1 Other operating expense: breakdown

	2021	2020
Amortisation of leasehold improvements	28	27
Other operating expense	2,603	1,409
Total	**2,631**	**1,436**

14.2 Other operating income: breakdown

	2021	2020
Recoveries of expenses on current accounts and deposits for sundry taxes	633	518
Recoveries of sundry expenses	280	157
Other income	2,125	994
Total	**3,038**	**1,669**

"Recoveries of expenses on current accounts and deposits for sundry taxes" include the amounts recovered from customers for the substitute tax on medium and long-term loans and for the stamp duty on current account and security statements of account. Other income includes the release of estimated accrued costs of € 0.9 million for accruals made in the previous year that were not incurred in 2021.

SECTION 18 - GAINS AND LOSSES ON SALES OF INVESTMENTS - ITEM 250

	2021	2020
A. Property	**-**	**-**
- Gains on sale	-	-
- Losses on sale	-	-
B. Other assets	**-**	**1,090**
- Gains on sale	-	1,090
- Losses on sale	-	-
Net gain	**-**	**1,090**

SECTION 19 - INCOME TAXES - ITEM 270

19.1 Income taxes: breakdown

		2021	2020
1.	Current taxes (-)	(10,536)	(12,924)
2.	Changes in current taxes of previous years (+/-)	25	125
3.	Decrease in current taxes for the year (+)	-	-
3.bis	Decrease in current taxes for the year due to tax assets pursuant to Law no. 214/2011 (+)	-	-
4.	Changes in deferred tax assets (+/-)	151	563
5.	Changes in deferred tax liabilities (+/-)	(398)	285
6.	Tax expense for the year (-) (-1+/-2+3+/-4+/-5)	(10,758)	(11,951)

19.2 Reconciliation between theoretical and effective tax expense

IRES (CORPORATE INCOME TAX)	Taxable income	IRES (CORPORATE INCOME TAX)	%
Theoretical IRES expense	**33,901**	**(9,323)**	**27.50%**
Permanent increases	1,401	(385)	1.14%
Temporary increases	8,139	(2,238)	6.60%
Permanent decreases	(11,674)	3,210	-9.47%
Temporary decreases	(1,447)	398	-1.17%
Effective IRES expense	**30,320**	**(8,338)**	**24.60%**
IRAP (REGIONAL BUSINESS TAX)	Taxable income	IRAP (CORPORATE INCOME TAX)	%
Theoretical IRAP expense	**33,901**	**(1,888)**	**5.57%**
Permanent increases	63,999	(3,565)	10.52%
Temporary increases	4,221	(235)	0.69%
Permanent decreases	(62,493)	3,481	-10.27%
Temporary decreases	(161)	9	-0.03%
Effective IRAP expense	**39,467**	**(2,198)**	**6.48%**
▪ Other tax expense	-	-	-
Total effective IRES and IRAP expense	**69,787**	**(10,536)**	**31.08%**

SECTION 21 - OTHER INFORMATION

Nothing to report.

SECTION 22 - EARNINGS PER SHARE

Earnings per share (EPS)	2021
Profit for the year (thousands of Euro)	23,143
Average number of outstanding shares	80,391,577
Basic earnings per share (in Euro)	0.288
Diluted earnings per share (in Euro)	0.288

EPS is calculated by dividing the profit attributable to holders of ordinary shares of Banca Sistema (numerator) by the weighted average number of ordinary shares (denominator) outstanding during the year.

PART D - OTHER COMPREHENSIVE INCOME

Breakdown of the parent's comprehensive income

		2021	2020
10.	**Profit for the year**	**23,143**	**26,121**
	Items, net of tax, that will not be reclassified subsequently to profit or loss	-	-
20.	Equity instruments designated at fair value through other comprehensive income:	-	-
	a) fair value gains (losses)	-	-
	b) transfers to other equity items	-	-
30.	Financial liabilities designated at fair value through profit or loss (changes in own credit rating):	-	-
	a) fair value gains (losses)	-	-
	b) transfers to other equity items	-	-
40.	Hedging of equity instruments designated at fair value through other comprehensive income:	-	-
	a) fair value gains (losses) - hedged item	-	-
	b) fair value gains (losses) - hedging instrument	-	-
50.	Property and equipment	-	-
60.	Intangible assets	-	-
70.	Defined benefit plans	(30)	(37)
80.	Non-current assets held for sale	-	-
90.	Share of valuation reserves of equity-accounted investments	-	-
100.	Income taxes on items that will not be reclassified subsequently to profit or loss	-	-
	Items, net of tax, that will be reclassified subsequently to profit or loss	-	-
110.	Hedges of foreign investments:	-	-
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
120.	Exchange rate gains (losses):	-	-
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
130.	Cash flow hedges:	-	-
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
	of which: net position gains (losses)	-	-
140.	Hedging instruments (non-designated elements):	-	-
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-

		2021	2020
150.	Financial assets (other than equity instruments) measured at fair value through other comprehensive income:	(4,342)	1,144
	a) fair value gains (losses)	(2,543)	1,092
	b) reclassification to profit or loss	-	-
	- impairment losses due to credit risk	(28)	52
	- gains/losses on sales	(1,771)	-
	c) other changes	-	-
160.	Non-current assets held for sale and disposal groups:	-	-
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
170.	Share of valuation reserves of equity-accounted investments:	-	-
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	- impairment losses	-	-
	- gains/losses on sales	-	-
	c) other changes	-	-
180.	Income taxes on items that will be reclassified subsequently to profit or loss	-	-
190.	**Total other comprehensive income (expense)**	**(4,372)**	**1,107**
200.	**Comprehensive income (10+190)**	**18,771**	**27,228**

PART E - INFORMATION CONCERNING RISKS AND RELATED HEDGING POLICIES

SECTION 1 - CREDIT RISK

QUALITATIVE DISCLOSURE

1. General aspects

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

2. Credit Risk Management Policies

2.1 Organisational aspects

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

2.2 Management, measurement and control systems

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

2.3 Methods of measuring expected losses

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

2.4 Credit Risk mitigation techniques

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

3. Non-performing exposures

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

3.1 Management strategies and policies

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

3.2 Write-offs

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

3.3 Purchased or originated credit-impaired financial assets

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

4. Financial assets subject to commercial renegotiation and forborne exposures

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

A. CREDIT QUALITY

A.1 Impaired and unimpaired loans: carrying amounts, impairment losses, performance and business breakdown

A.1.1 Breakdown of financial assets by portfolio and by credit quality (carrying amounts)

	Bad exposures	Unlikely to pay	Non-performing past due exposures	Performing past due exposures	Other performing exposures	Total
1. Financial assets measured at amortised cost	121,545	25,638	108,010	320,265	2,341,742	2,917,200
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	445,804	445,804
3. Financial assets designated at fair value through profit or loss	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value through profit or loss	-	-	-	-	8,368	8,368
5. Financial assets held for sale	-	-	-	-	-	-
Total at 31.12.2021	**121,545**	**25,638**	**108,010**	**320,265**	**2,795,915**	**3,371,372**
Total at 31.12.2020	**27,113**	**127,955**	**49,942**	**546,227**	**2,683,999**	**3,435,236**

The financial assets measured at fair value through other comprehensive income do not include the shares of the Bank of Italy and Axactor.

A.1.2 Breakdown of financial assets by portfolio and by credit quality (gross amount and carrying amount)

	Gross amount	Total impairment losses	Carrying amount	overall partial write-offs (*)	Gross amount	Total impairment losses	Carrying amount	Total (carrying amount)
1. Financial assets measured at amortised cost	314,394	59,201	255,193		2,668,879	6,872	2,662,007	2,917,200
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	445,982	178	445,804	445,804
3. Financial assets designated at fair value through profit or loss	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily measured at fair value through profit or loss	-	-	-	-	X	X	8,368	8,368
5. Financial assets held for sale	-	-	-	-			-	-
Total at 31.12.2021	**314,394**	**59,201**	**255,193**	**-**	**3,114,861**	**7,050**	**3,116,179**	**3,371,372**
Total at 31.12.2020	**250,162**	**45,152**	**205,010**	**-**	**3,237,101**	**6,875**	**3,230,226**	**3,435,236**

A.1.3 Breakdown of financial assets by past due range (carrying amounts)

	First stage			Second stage			Third stage			Purchased or originated credit-impaired		
	From 1 day to 30 days	From more than 30 days to 90 days	More than 90 days	Up to 30 days	From more than 30 days to 90 days	More than 90 days	Up to 30 days	From more than 30 days to 90 days	More than 90 days	Up to 30 days	From more than 30 days to 90 days	More than 90 days
1. Financial assets measured at amortised cost	29,827	12,845	276,169	38	888	500	1,296	3,504	187,195	-	-	-
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL AT 31.12.2021	**29,827**	**12,845**	**276,169**	**38**	**888**	**500**	**1,296**	**3,504**	**187,195**	**-**	**-**	**-**
TOTAL AT 31.12.2021	**13,514**	**18,292**	**504,135**	**948**	**1,063**	**8,676**	**405**	**1,137**	**175,108**	**-**	**-**	**-**

A.1.4 Financial assets, commitments to disburse funds and financial guarantees issued: changes in impaired positions and accruals to provisions

	Total impairment losses																							Overall accruals to provisions on commitments to disburse funds and financial guarantees issued				Total
	Assets included in the first stage						Assets included in the second stage						Assets included in the third stage						Purchased or originated credit-impaired financial assets									
	Demand loans and receivables with banks and Central Banks Financial assets measured at amortised cost	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual impairment losses	of which: collective impairment losses	Demand loans and receivables with banks and Central Banks Financial assets measured at amortised cost	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual impairment losses	of which: collective impairment losses	Demand loans and receivables with banks and Central Banks Financial assets measured at amortised cost	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual impairment losses	of which: collective impairment losses	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual impairment losses	of which: collective impairment losses	First stage	Second stage	Third stage	Purchased or originated credit-impaired commitments to disburse funds and financial guarantees issued	
Opening total impairment losses	**2**	**8,243**	**206**	**-**	**-**	**8,451**	**-**	**781**	**-**	**-**	**-**	**781**	**-**	**45,152**	**-**	**-**	**45,152**	**-**	**-**	**-**	**-**	**-**	**-**	**2**	**-**	**-**	**-**	**54,410**
Increases in purchased or originated financial assets	6	3,210	0	-	-	3,216	-	90	-	-	-	90	-	12,427	-	-	12,427	-	-	-	-	-	-	6	-	-	-	15,753
Derecognition other than write-offs	-	715	28	-	-	743	-	93	-	-	-	93	-	71	-	-	71	-	-	-	-	-	-	2	-	-	-	908
Net impairment losses/gains due to credit risk (+/-)	-	(4,426)	0	-	-	(4,426)	-	(218)	-	-	-	(218)	-	1,694	-	-	1,694	-	-	-	-	-	-	(7)	-	-	-	(2,958)
Contract amendments without derecognition	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in estimation method	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs not recognised directly through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Closing total impairment losses	**7**	**6,312**	**178**	**-**	**-**	**6,497**	**-**	**560**	**-**	**-**	**-**	**560**	**-**	**59,201**	**-**	**-**	**59,201**	**-**	**-**	**-**	**-**	**-**	**-**	**39**	**-**	**-**	**-**	**66,299**
Recoveries from collection on financial assets that have been written off	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs recognised directly through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.1.5 Financial assets, commitments to disburse funds and financial guarantees issued: transfers between different credit risk stages (gross amount and nominal amount)

	Gross amount / Nominal amount					
	Transfers between the first and second stage		Transfers between the second and third stage		Transfers between the first and third stage	
	From the first to the second stage	From the second to the first stage	From the second to the third stage	From the third to the second stage	From the first to the third stage	From the third to the first stage
1. Financial assets measured at amortised cost	52,774	48,291	6,543	211	53,597	53,096
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-
4. Commitments to disburse funds and financial guarantees issued	-	22,277	-	-	1,260	3,002
TOTAL AT 31.12.2021	**52,774**	**70,568**	**6,543**	**211**	**54,857**	**56,098**
TOTAL AT 31.12.2020	**52,774**	**35,496**	**4,371**	**15,456**	**43,349**	**49,307**

A.1.5a Loans subject to Covid-19 support measures: transfers between different credit risk stages (gross amount and nominal amount)

	Gross amount / Nominal amount					
	Transfers between the first and second stage		Transfers between the second and third stage		Transfers between the first and third stage	
	From the first to the second stage	From the second to the first stage	From the second to the third stage	From the third to the second stage	From the first to the third stage	From the third to the first stage
A. Loans measured at amortised cost	-	-	-	-	-	**50**
A.1 forborne in compliance with the EBA Guidelines	-	-	-	-	-	50
A.2 subject to existing moratoria no longer in compliance with the EBA Guidelines and not considered forborne	-	-	-	-	-	-
A.3 subject to other forbearance measures	-	-	-	-	-	-
A.4 new loans	-	-	-	-	-	-
B. Loans measured at fair value through other comprehensive income	-	-	-	-	-	-
B.1 forborne in compliance with the EBA Guidelines	-	-	-	-	-	-
B.2 subject to existing moratoria no longer in compliance with the EBA Guidelines and not considered forborne	-	-	-	-	-	-
B.3 subject to other forbearance measures	-	-	-	-	-	-
B.4 new loans	-	-	-	-	-	-
TOTAL AT 31.12.2021	-	-	-	-	-	**50**
TOTAL AT 31.12.2020	-	-	-	**2,507**	**135**	**-**

A.1.6 On- and off-statement of financial position loans and receivables with banks: gross amounts and carrying amounts

	Gross amount					Total impairment and allowances					Carrying amount	Overall partial write-offs *
		First stage	Second stage	Third stage	Purchased or originated credit-impaired		First stage	Second stage	Third stage	Purchased or originated credit-impaired		
A. ON-STATEMENT OF FINANCIAL POSITION												
LOANS AND RECEIVABLES												
A.1 ON DEMAND												
a) Non-performing	-	X	-	-	-	-	-	-	-	-	-	-
b) Performing	168,775	168,775	-	-	-	7	7	-	-	-	168,767	-
A.2 OTHER	**-**		**-**	**-**	**-**	-	-	**-**	**-**	**-**	-	**-**
a) Bad exposures	-	X	-	-	-	-	-	-	-	-	-	-
- of which: forborne exposures	-	X	-	-	-	-	-	-	-	-	-	-
b) Unlikely to pay	-	X	-	-	-	-	-	-	-	-	-	-
- of which: forborne exposures	-	X	-	-	-	-	-	-	-	-	-	-
c) Non-performing past due exposures	3	X	3	-	-	-	-	-	-	-	3	-
- of which: forborne exposures	-	X	-	-	-	-	-	-	-	-	-	-
d) Performing past due exposures	6	6	-	X	-	-	-	-	-	-	6	-
- of which: forborne exposures	-	-	-	X	-	-	-	-	X	-	-	-
e) Other performing exposures	33,177	33,177	-	X	-	45	45	-	-	-	33,132	-
- of which: forborne exposures	-	-	-	X	-	-	-	-	X	-	-	-
TOTAL A	**201,961**	**201,958**	**3**	**-**	**-**	**52**	**52**	**-**	**-**	**-**	**201,908**	**-**
B. OFF-STATEMENT OF FINANCIAL POSITION												
LOANS AND RECEIVABLES		**-**		**-**		**-**	**-**		**-**		**-**	
a) Non-performing	-	X	-	-	-	-	-	-	-	-	-	-
b) Performing	2,446	2,446	-	X	-	-	-	-	X	-	2,446	-
TOTAL B	**2,446**	**2,446**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,446**	**-**
TOTAL (A+B)	**204,407**	**204,404**	**3**	**-**	**-**	**53**	**53**	**-**	**-**	**-**	**204,354**	**-**

A.1.7 On- and off-statement of financial position loans and receivables with customers: gross amounts and carrying amounts

	Gross amount					Total impairment and allowances					Carrying amount	Overall partial write-offs *
		First stage	Second stage	Third stage	Purchased or originated credit-impaired		First stage	Second stage	Third stage	Purchased or originated credit-impaired		
A. ON-STATEMENT OF FINANCIAL POSITION LOANS AND RECEIVABLES												
a) Bad exposures	169,100	X	-	169,100	-	47,555	X	-	47,555	-	121,545	-
- of which: forborne exposures	1,144	X	-	1,144	-	499	X	-	499	-	645	-
b) Unlikely to pay	36,693	X	-	36,692	1	11,055	X	-	11,055	-	25,638	-
- of which: forborne exposures	357	X	-	357	-	140	X	-	140	-	217	-
c) Non-performing past due exposures	108,598	X	-	108,598	-	591	X	-	591	-	108,007	-
- of which: forborne exposures	322	X	-	322	-	1	X	-	1	-	321	-
d) Performing past due exposures	322,059	320,627	1,433	X	-	1,801	1,794	6	X	-	320,259	-
- of which: forborne exposures	7	7	-	X	-	-	-	-	X	-	7	-
e) Other performing exposures	2,767,987	2,660,017	101,425	X	-	5,204	4,651	553	X	-	2,762,783	-
- of which: forborne exposures	1,055	1,055	-	X	-	-	-	-	X	-	1,054	-
TOTAL A	**3,404,437**	**2,980,644**	**102,858**	**314,390**	**1**	**66,206**	**6,445**	**559**	**59,201**	**-**	**3,338,232**	**-**
B. OFF-STATEMENT OF FINANCIAL POSITION LOANS AND RECEIVABLES												
a) Non-performing	3,096	X	-	3,096	-	-	X	-	-	-	3,096	-
b) Performing	343,611	343,611	-	X	-	39	-	-	X	-	343,572	-
TOTAL B	**346,707**	**343,611**	**-**	**3,096**	**-**	**39**	**-**	**-**	**-**	**-**	**346,668**	**-**
TOTAL (A+B)	**3,751,144**	**3,324,255**	**102,858**	**317,486**	**1**	**66,245**	**6,445**	**559**	**59,201**	**-**	**3,684,900**	**-**

A.1.7a Loans subject to Covid-19 support measures: gross amount and carrying amount

	Gross amount					Total impairment and allowances					Carrying amount	Overall partial write-offs *
		First stage	Second stage	Third stage	Purchased or originated credit-impaired		First stage	Second stage	Third stage	Purchased or originated credit-impaired		
A. BAD LOANS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Forborne in compliance with the EBA Guidelines	-	-	-	-	-	-	-	-	-	-	-	-
b) Subject to moratoria no longer in compliance with the EBA Guidelines and not considered forborne	-	-	-	-	-	-	-	-	-	-	-	-
c) Subject to other forbearance measures	-	-	-	-	-	-	-	-	-	-	-	-
d) New loans	-	-	-	-	-	-	-	-	-	-	-	-
B. UNLIKELY-TO-PAY LOANS	**5,761**	**-**	**-**	**5,761**	**-**	**1,325**	**-**	**-**	**1,325**	**-**	**4,436**	**-**
a) Forborne in compliance with the EBA Guidelines	5,761	-	-	5,761	-	1,325	-	-	1,325	-	4,436	-
b) Subject to moratoria no longer in compliance with the EBA Guidelines and not considered forborne	-	-	-	-	-	-	-	-	-	-	-	-
c) Subject to other forbearance measures	-	-	-	-	-	-	-	-	-	-	-	-
d) New loans	-	-	-	-	-	-	-	-	-	-	-	-
C. IMPAIRED PAST DUE LOANS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Forborne in compliance with the EBA Guidelines	-	-	-	-	-	-	-	-	-	-	-	-
b) Subject to moratoria no longer in compliance with the EBA Guidelines and not considered forborne	-	-	-	-	-	-	-	-	-	-	-	-
c) Subject to other forbearance measures	-	-	-	-	-	-	-	-	-	-	-	-
d) New loans	-	-	-	-	-	-	-	-	-	-	-	-
D. PERFORMING LOANS	**17,516**	**17,516**	**-**	**-**	**-**	**44**	**44**	**-**	**-**	**-**	**17,472**	**-**
a) Forborne in compliance with the EBA Guidelines	66	66	-	-	-	2	2	-	-	-	64	-
b) Subject to moratoria no longer in compliance with the EBA Guidelines and not considered forborne	-	-	-	-	-	-	-	-	-	-	-	-
c) Subject to other forbearance measures	-	-	-	-	-	-	-	-	-	-	-	-
d) New loans	17,450	17,450	-	-	-	42	42	-	-	-	17,408	-
E. OTHER PERFORMING LOANS	**142,657**	**140,150**	**2,507**	**-**	**-**	**381**	**369**	**12**	**-**	**-**	**142,276**	**-**
a) Forborne in compliance with the EBA Guidelines	3,480	973	2,507	-	-	43	31	12	-	-	3,437	-
b) Subject to moratoria no longer in compliance with the EBA Guidelines and not considered forborne	-	-	-	-	-	-	-	-	-	-	-	-
c) Subject to other forbearance measures	-	-	-	-	-	-	-	-	-	-	-	-
d) New loans	139,177	139,177	-	-	-	338	338	-	-	-	138,839	-
TOTAL (A+B+C+D+E)	**165,934**	**157,666**	**2,507**	**5,761**	**-**	**1,750**	**413**	**12**	**1,325**	**-**	**164,184**	**-**

A.1.8 On-statement of financial position loans and receivables with banks: gross non-performing exposures

	Bad exposures	Unlikely to pay	Non-performing past due exposures
A. Opening gross balance	**-**	**-**	**-**
- of which: positions transferred but not derecognised	-	-	-
B. Increases	**-**	**-**	**20**
B.1 transfers from performing loans	-	-	-
B.2 transfers from purchased or originated credit-impaired financial assets	-	-	-
B.3 transfers from other categories of non-performing exposures	-	-	-
B.4 contract amendments without derecognition	-	-	-
B.5 other increases	-	-	20
C. Decreases	**-**	**-**	**17**
C.1 transfers to performing loans	-	-	-
C.2 write-offs	-	-	-
C.3 collections	-	-	17
C.4 gains on sales	-	-	-
C.5 losses on sales	-	-	-
C.6 transfers to other categories of non-performing exposures	-	-	-
C.7 contract amendments without derecognition	-	-	-
C.8 other decreases	-	-	-
D. Closing gross balance	**-**	**-**	**3**
- of which: positions transferred but not derecognised	-	-	1

A.1.9 On-statement of financial position loans and receivables with customers: gross non-performing exposures

	Bad exposures	Unlikely to pay	Non-performing past due exposures
A. Opening gross balance	**52,354**	**147,431**	**50,377**
- of which: positions transferred but not derecognised	8	718	3,875
B. Increases	**158,503**	**24,669**	**241,877**
B.1 transfers from performing loans	1,515	4,880	145,511
B.2 transfers from purchased or originated credit-impaired financial assets	7,337	994	6,353
B.3 transfers from other categories of non-performing exposures	40,385	107	2,588
B.4 contract amendments without derecognition	-	-	-
B.5 other increases	109,266	18,688	87,425
C. Decreases	**41,757**	**135,407**	**183,656**
C.1 transfers to performing loans	376	2,423	81,057
C.2 write-offs	245	-	-
C.3 collections	40,133	92,766	100,742
C.4 gains on sales	-	-	-
C.5 losses on sales	-	-	-
C.6 transfers to other categories of non-performing exposures	1,004	40,217	1,857
C.7 contract amendments without derecognition	-	-	-
C.8 other decreases	-	-	-
D. Closing gross balance	**169,100**	**36,693**	**108,597**
- of which: positions transferred but not derecognised	25	1,546	5,375

A.1.9bis On-statement of financial position loans and receivables with customers: breakdown of gross forborne exposures by credit quality

	Non-performing exposures with forbearance measures	Other forborne exposures
A. Opening gross balance	**664**	**1,062**
- of which: positions transferred but not derecognised	-	-
B. Increases	**1,824**	**-**
B.1 transfers from performing exposures without forbearance measures	-	-
B.2 transfers from forborne performing exposures	-	X
B.3 transfers from non-performing exposures with forbearance measures	X	-
B.4 transfers from non-performing exposures without forbearance measures	1,423	-
B.5 other increases	401	-
C. Decreases	**666**	**-**
C.1 transfers to performing exposures without forbearance measures	-	-
C.2 transfers to forborne performing exposures	-	X
C.3 transfers to non-performing exposures with forbearance measures	X	-
C.4 write-offs	-	-
C.5 collections	1	-
C.6 gains on sales	-	-
C.7 losses on sales	-	-
C.8 other decreases	665	-
D. Closing gross balance	**1,822**	**1,062**
- of which: positions transferred but not derecognised	-	-

A.1.11 On-statement of financial position non-performing loans and receivables with customers: changes in impaired positions

	BAD EXPOSURES		UNLIKELY TO PAY		NON-PERFORMING PAST DUE EXPOSURES	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Opening total impairment losses	**25,241**	**369**	**19,476**	**118**	**435**	**-**
- of which: positions transferred but not derecognised	-	-	66	-	27	-
B. Increases	**26,873**	**130**	**2,371**	**21**	**496**	**1**
B.1 impairment losses on purchased or originated credit-impaired financial assets	-	X	-	X	-	X
B.2 other impairment losses	22,139	130	2,322	21	359	1
B.3 losses on sales		-	-	-	-	-
B.4 transfers from other categories of non-performing exposures	4,726	-	26	-	8	-
B.5 contract amendments without derecognition	-	-	-	-	-	-
B.6 other increases	8	-	23	-	129	-
C. Decreases	**4,559**	-	**10,792**	**-**	**340**	**-**
C.1 impairment gains	4,554	-	5,924	-	174	-
C.2 impairment gains due to collections	-	-	63	-	10	-
C.3 gains on sales	-	-	-	-	-	-
C.4 write-offs	-	-	-	-	-	-
C.5 transfers to other categories of non-performing exposures	-	-	4,730	-	30	-
C.6 contract amendments without derecognition	-	-	-	-	-	-
C.7 other decreases	5	-	75	-	126	-
D. Closing total impairment losses	**47,555**	**499**	**11,055**	**139**	**591**	**1**
- of which: positions transferred but not derecognised	-	-	202	-	6	-

A.2 CLASSIFICATION OF FINANCIAL ASSETS, COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES ISSUED BASED ON EXTERNAL AND INTERNAL RATING

A.2.1 Breakdown of financial assets, commitments to disburse funds and financial guarantees issued by external rating class (gross amounts)

The risk categories for the external rating indicated in this table refer to the creditworthiness classes of the debtors/ guarantors pursuant to prudential requirements (cf. Circular no. 285 of 2013 "Supervisory Provisions for Banks" and subsequent updates).

The Bank uses the standardised approach in accordance with the risk mapping of the rating agencies:

- "DBRS Ratings Limited", for exposures to: central authorities and central banks; supervised brokers; public sector institutions; territorial entities;
- "Fitch Ratings", for exposures to companies and other parties.

	External rating class							
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	Without rating	**Total**
A. Financial assets measured at amortised cost	**-**	**-**	**186,895**	**-**	**-**	**-**	**2,796,378**	**2,983,273**
- First stage	-	-	186,895	-	-	-	2,379,129	2,566,024
- Second stage	-	-	-	-	-	-	102,858	102,858
- Third stage	-	-	-	-	-	-	314,390	314,390
- Purchased or originated credit-impaired	-	-	-	-	-	-	1	1
B. Financial assets measured at fair value through other comprehensive income	**-**	**-**	**445,982**	**-**	**-**	**-**	**-**	**445,982**
- First stage	-	-	445,982	-	-	-	-	-
- Second stage	-	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	-	-
- Purchased or originated credit-impaired	-	-	-	-	-	-	-	-
C. Financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- First stage	-	-	-	-	-	-	-	-
- Second stage	-	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	-	-
- Purchased or originated credit-impaired	-	-	-	-	-	-	-	-
Total (A+B+C)	**-**	**-**	**632,877**	**-**	**-**	**-**	**2,796,378**	**3,429,256**
D. Commitments to disburse funds and financial guarantees issued	**-**	**-**	**-**	**-**	**-**	**-**	**349,154**	**349,154**
- First stage	-	-	-	-	-	-	346,058	346,058
- Second stage	-	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	3,096	3,096
- Purchased or originated credit-impaired	-	-	-	-	-	-	-	-
Total D	**-**	**-**	**-**	**-**	**-**	**-**	**349,154**	**349,154**
Total (A + B + C + D)	**-**	**-**	**632,877**	**-**	**-**	**-**	**3,145,532**	**3,778,409**

of which long-term rating

	Risk weighting factors				ECAI
Creditworthiness class	Central authorities and central banks	Supervised brokers, public sector institutions and territorial entities	Multilateral development banks	Companies and other parties	DBRS Ratings Limited
1	0%	20%	20%	20%	AAA, AA
2	20%	50%	50%	50%	A
3	50%	100%	50%	100%	BBB
4	100%	100%	100%	100%	BB
5	100%	100%	100%	150%	B
6	150%	150%	150%	150%	CCC, CC, C, D

of which short-term rating (for exposures to companies)

		ECAI
Creditworthiness class	Risk weighting factors	DBRS Ratings Limited
1	20%	R-1 H, R-1 M
2	50%	R-1
3	100%	R-2;R-3
4	150%	R-4, R-5,D
5	150%	
6	150%	

“Fitch Ratings”, for exposures to companies and other parties.

of which long-term rating

	Risk weighting factors				ECAI
Creditworthiness class	Central authorities and central banks	Supervised brokers, public sector institutions and territorial entities	Multilateral development banks	Companies and other parties	Fitch Ratings
1	0%	20%	20%	20%	AAA, AA
2	20%	50%	50%	50%	A
3	50%	100%	50%	100%	BBB
4	100%	100%	100%	100%	BB
5	100%	100%	100%	150%	B
6	150%	150%	150%	150%	CCC, CC, C, RD, D

of which short-term rating (for exposures to companies)

		ECAI
Creditworthiness class	Risk weighting factors	Fitch Ratings
1	20%	F1+
2	50%	F1
3	100%	F2, F3
from 4 to 6	150%	B, C, RD,D

A.3 Breakdown of guaranteed credit exposures by type of guarantee

A.3.2 Guaranteed on- and off-statement of financial position loans and receivables with customers

	Gross amount	Carrying amount	Collateral (1)				CLN	Personal guarantees (2)								Total (1)+(2)
								Credit derivatives				Endorsement credits				
								Other derivatives								
			Mortgaged estate	Properties under finance lease	Securities	Other collateral		Central Counterparties	Banks	Other financial companies	Other	Public administrations	Banks	Other financial companies	Other	
1. Guaranteed on-statement of financial position loans:	**1,142,481**	**1,132,475**	**2,245**	**-**	**118**	**919,623**	**-**	**-**	**-**	**-**	**-**	**140,189**	**-**	**37,108**	**19,432**	**1,118,715**
1.1 fully guaranteed	1,036,098	1,028,002	2,245	-	118	919,623	-	-	-	-	-	50,845	-	37,108	18,063	1,028,002
- of which impaired	22,547	16,276	-	-	-	11,062	-	-	-	-	-	398	-	17	4,799	16,276
1.1 partially guaranteed	106,383	104,473	-	-	-	-	-	-	-	-	-	89,344	-	-	1,369	90,713
- of which impaired	2,285	663	-	-	-	-	-	-	-	-	-	594	-	-	69	663
2. Guaranteed off-statement of financial position loans:	**23,899**	**23,878**	**-**	**-**	**857**	**4,117**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**7,784**	**4,301**	**17,059**
2.1 fully guaranteed	15,692	15,671	-	-	857	4,117	-	-	-	-	-	-	-	7,784	2,913	15,671
- of which impaired	407	407	-	-	-	-	-	-	-	-	-	-	-	-	407	407
2.2 partially guaranteed	8,207	8,207	-	-	-	-	-	-	-	-	-	-	-	-	1,388	1,388
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

B. BREAKDOWN AND CONCENTRATION OF CREDIT EXPOSURES

B.1 Breakdown by business segment of on- and off-statement of financial position loans and receivables with customers

	Public administrations		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Households	
	Carrying amount	Total impairment	Carrying amount	Total impairment	Carrying amount	Total impairment	Carrying amount	Total impairment	Carrying amount	Total impairment
A. On-statement of financial position loans and receivables	-	-	-	-		-	-	-	-	-
A1. Bad exposures	117,134	12,336	-	-	-	-	4,249	34,559	161	660
- of which: forborne exposures	645	130	-	-	-	-		369		
A.2 Unlikely to pay	248	55	-	-	-	-	22,641	9,257	2,749	1,743
- of which: forborne exposures			-	-	-	-	217	140		
A.3 Non-performing past due exposures	91,483	337	1	-	-	-	5,935	174	10,589	80
- of which: forborne exposures	321	1				-				
A.4 Performing exposures	1,464,135	3,291	166,407	59	9	-	497,779	2,010	954,721	1,645
- of which: forborne exposures	1,062	-				-				
Total (A)	**1,673,000**	**16,019**	**166,408**	**59**	**9**	**-**	**530,604**	**46,000**	**968,220**	**4,128**
B. Off-statement of financial position loans and receivables	-	-	-	-	-	-	-	-	-	-
B.1 Non-performing exposures	-	-	-	-	-	-	3,096	-	-	-
B.2 Performing exposures	20	-	190,033	-	-	-	151,572	39	1,947	-
Total (B)	**20**	**-**	**190,033**	**-**	**-**	**-**	**154,668**	**39**	**1,947**	-
Total (A+B) at 31.12.2021	**1,673,020**	**16,019**	**356,441**	**59**	**9**	**-**	**685,272**	**46,039**	**970,167**	**4,128**
Total (A+B) at 31.12.2020	**2,232,675**	**12,690**	**200,132**	**1,538**	**34**	**-**	**475,049**	**36,399**	**963,637**	**3,761**

B.2 Breakdown by geographical segment of on- and off-statement of financial position loans and receivables with customers

	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Carrying amount	Total impairment losses	Carrying amount	Total impairment losses	Carrying amount	Total impairment losses	Carrying amount	Total impairment losses	Carrying amount	Total impairment losses
A. On-statement of financial position loans and receivables	-	-	-	-	-	-	-	-	-	-
A.1 Bad exposures	121,545	47,475	-	80	-	-	-	-	-	-
A.2 Unlikely to pay	25,638	11,055	-	-	-	-	-	-	-	-
A.3 Non-performing past due exposures	108,007	591	-	-	-	-	-	-	-	-
A.4 Performing exposures	2,995,717	6,656	82,849	328	4,251	20	101	-	124	1
Total (A)	**3,250,907**	**65,777**	**82,849**	**408**	**4,251**	**20**	**101**	**-**	**124**	**1**
B. Off-statement of financial position loans and receivables	-	-	-	-	-	-	-	-	-	-
B.1 Non-performing exposures	3,096	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	322,368	27	18,700	-	-	-	2,505	12	-	-
Total (B)	**325,464**	**27**	**18,700**	**-**	**-**	**-**	**2,505**	**12**	**-**	**-**
Total (A+B) at 31.12.2021	**3,576,371**	**65,804**	**101,549**	**408**	**4,251**	**20**	**2,606**	**12**	**124**	**1**
Total (A+B) at 31.12.2020	**3,791,317**	**52,534**	**74,147**	**1,816**	**2,754**	**17**	**3,034**	**19**	**261**	**2**

B.3 Breakdown by geographical segment of on- and off-statement of financial position loans and receivables with banks

	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Carrying amount	Total impairment losses	Carrying amount	Total impairment losses	Carrying amount	Total impairment losses	Carrying amount	Total impairment losses	Carrying amount	Total impairment losses
A. On-statement of financial position loans and receivables										
A.1 Bad exposures	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Non-performing past due exposures	3	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	201,905	53	-	-	-	-	-	-	-	-
Total (A)	**201,908**	**53**	-	-	-	-	-	-	-	-
B. Off-statement of financial position loans and receivables	**-**									
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	2,446	-	-	-	-	-	-	-	-	-
Total (B)	**2,446**	-	-	-	-	-	-	-	-	-
Total (A+B) at 31.12.2021	**204,354**	**53**	-	-	-	-	-	-	-	-
Total (A+B) at 31.12.2020	**92,880**	**20**	-	-	-	-	-	-	-	-

B.4 Large exposures

As at 31 December 2021, the Bank's large exposures are as follows:

a) Carrying amount € 2,121,372 (in thousands)

b) Weighted value € 177,415 (in thousands)

c) No. of positions 16.

C. SECURITISATION TRANSACTIONS

QUALITATIVE DISCLOSURE

For the qualitative aspects, please refer to the contents of the Directors' Report herein.

QUANTITATIVE DISCLOSURE

The following table details the amounts of the junior and senior tranches issued by the special purpose vehicle and repurchased by Banca Sistema, and the loan granted to the special purpose vehicle for € 4 million.

C.2 Exposures deriving from the main "third-party" securitisation transactions broken down by type of asset securitised and by type of exposure

	ON-STATEMENT OF FINANCIAL POSITION						GUARANTEES ISSUED						CREDIT LINES					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Carrying amount	Impairment losses/gains	Carrying amount	Impairment losses/gains	Carrying amount	Impairment losses/gains	Carrying amount	Impairment losses/gains	Carrying amount	Impairment losses/gains	Carrying amount	Impairment losses/gains	Carrying amount	Impairment losses/gains	Carrying amount	Impairment losses/gains	Carrying amount	Impairment losses/gains
BS IVA SPV S.r.l. securitisation	2,781	-	-	-	8,368	-	-	-	-	-	-	-	59,149	-	-	-	-	-

D. TRANSFERS

A. Financial assets transferred and not derecognised

QUALITATIVE DISCLOSURE

The financial assets transferred and not derecognised refer to Italian government securities used for repurchase agreements. Said financial assets are classified in the financial statements among the available-for-sale financial assets, while the repurchase agreement loan is predominantly presented in due to customers. As a last resort the financial assets transferred and not derecognised comprise trade receivables used for loan transactions in the ECB (Abaco).

D.1. Prudential consolidation – Financial assets transferred and recognised in full, and associated financial liabilities: carrying amount

	Financial assets transferred and recognised in full				Associated financial liabilities		
	Carrying amount	of which: subject to securitisation transactions	of which: subject to a sales contract with repurchase agreement	of which impaired	Carrying amount	of which: subject to securitisation transactions	of which: subject to a sales contract with repurchase agreement
A. Financial assets held for trading	-	-	-	X	-	-	-
1. Debt instruments	-	-	-	X	-	-	-
2. Equity instruments	-	-	-	X	-	-	-
3. Financing	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. Other financial assets mandatorily measured at fair value through profit or loss	-	-	-		-	-	-
1. Debt instruments	-	-	-	X	-	-	-
2. Equity instruments	-	-	-		-	-	-
3. Financing	-	-	-		-	-	-
C. Financial assets designated at fair value through profit or loss	-	-	-		-	-	-
1. Debt instruments	-	-	-		-	-	-
2. Financing	-	-	-		-	-	-
D. Financial assets measured at fair value through other comprehensive income	**94,958**	-	**94,958**	X	**95,133**	-	**95,133**
1. Debt instruments	94,958	-	94,958		95,133	-	95,133
2. Equity instruments	-	-	-		-	-	-
3. Financing	-	-	-		-	-	-
E. Financial assets measured at amortised cost	**363,108**	**210,195**	**152,913**	**1,999**	**154,122**	-	**154,122**
1. Debt instruments	152,913	-	152,913		154,122	-	154,122
2. Financing	210,195	210,195	-	1,999	140,440	140,440	-
Total at 31.12.2021	**458,066**	**210,195**	**247,871**	**1,999**	**389,696**	**140,440**	**249,256**
Total at 31.12.2020	**370,145**	**129,666**	**240,479**	**556**	**328,088**	**87,218**	**240,871**

F. MODELS FOR THE MEASUREMENT OF CREDIT RISK

SECTION 2 - MARKET RISK

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

2.1- Interest rate risk and price risk - regulatory trading book

QUALITATIVE DISCLOSURE

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

2.2 Interest rate risk and price risk - Banking Book

QUALITATIVE DISCLOSURE

A. General aspects, management procedures and methods of measuring the interest rate risk and the price risk

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

QUANTITATIVE DISCLOSURE

1. Banking book: Breakdown by residual term (by repricing date) of financial assets and liabilities

Currency of denomination: Euro

	on demand	up to 3 months	from more than 3 months up to 6 months	from more than 6 months up to 1 year	from more than 1 year up to 5 years	from more than 5 years up to 10 years	more than 10 years	open term
1. Assets	**1,186,419**	**372,891**	**42,996**	**96,645**	**1,166,078**	**506,278**	**66**	**-**
1.1 Debt instruments	-	-	11,108	-	568,722	61,164	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	11,108	-	568,722	61,164	-	-
1.2 Financing to banks	14,657	18,485	-	-	-	-	-	-
1.3 Financing to customers	1,171,762	354,407	31,888	96,645	597,355	445,114	66	-
- current accounts	157,027	-	-	-	-	-	-	-
- other financing	1,014,735	354,407	31,888	96,645	597,355	445,114	66	-
- with early repayment option	110,099	180,426	31,779	96,280	483,873	325,100	66	-
- other	904,636	173,980	109	365	113,482	120,014	-	-
2. Liabilities	**1,003,713**	**417,571**	**101,963**	**278,686**	**1,379,351**	**38,329**	**102**	**-**
2.1 Due to customers	962,817	417,571	101,963	278,686	839,256	38,329	102	-
- current accounts	820,669	155,528	100,356	274,235	811,828	30,137	102	-
- other payables	142,148	262,043	1,607	4,452	27,428	8,192	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	142,148	262,043	1,607	4,452	27,428	8,192	-	-
2.2 Due to banks	40,897	-	-	-	540,095	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other payables	40,897	-	-	-	540,095	-	-	-
2.3 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**57,094**	**6,506**	**10,254**	**38,359**	**1,072**	**80**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	57,094	6,506	10,254	38,359	1,072	80	-
- Options	-	57,094	6,506	10,254	38,359	1,072	80	-
+ long positions	-	411	6,506	10,254	38,359	1,072	80	-
+ short positions	-	56,683	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other off-statement of financial position transactions	**157,850**	**153,081**	**-**	**4,769**	**-**	**-**	**-**	**-**
+ long positions	153,081	-	-	4,769	-	-	-	-
+ short positions	4,769	153,081	-	-	-	-	-	-

Currency of denomination: Other currencies

	on demand	up to 3 months	from more than 3 months up to 6 months	from more than 6 months up to 1 year	from more than 1 year up to 5 years	from more than 5 years up to 10 years	more than 10 years	open term
1. Assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Financing to banks	-	-	-	-	-	-	-	-
1.3 Financing to customers	-	-	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other financing	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2. Liabilities	**90**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Due to customers	90	-	-	-	-	-	-	-
- current accounts	90	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	-	-	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
2.3 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other off-statement of financial position transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-

The positions listed in the table refer only to the US dollar.

2.3 Currency risk

QUALITATIVE DISCLOSURE

A. General aspects, management processes and methods of measuring the currency risk

All items are in Euro, except for the security in the HTCS portfolio. The currency risk is limited due to the size of the investment.

QUANTITATIVE DISCLOSURE

1. Breakdown of assets, liabilities and derivatives by currency of denomination

	CURRENCIES					
	US DOLLARS	UK POUNDS	YEN	CANADIAN DOLLARS	SWISS FRANCS	OTHER CURRENCIES
A. Financial assets	**-**	**-**	**-**	**-**	**-**	**-**
A.1 Debt instruments	-	-	-	-	-	-
A.2 Equity instruments	-	-	-	-	-	-
A.3 Financing to banks	-	-	-	-	-	-
A.4 Financing to customers	-	-	-	-	-	-
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**106**	**1**	**1**	**1**	**11**	**7**
C. Financial liabilities	**90**	**-**	**-**	**-**	**-**	**-**
C.1 Due to banks	-	-	-	-	-	-
C.2 Due to customers	90	-	-	-	-	-
C.3 Debt instruments	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**-**	**-**	**-**	**-**	**-**	**-**
E. Financial derivatives	**-**	**-**	**-**	**-**	**-**	**-**
- Options	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-
Total assets	**106**	**1**	**1**	**1**	**11**	**7**
Total liabilities	**90**	**-**	**-**	**-**	**-**	**-**
Difference (+/-)	**16**	**1**	**1**	**1**	**11**	**7**

The amount refers to the Axactor shares held by the Bank partly in the Held to Collect and Sell (HTCS) portfolio. They are listed securities traded in Norwegian krone.

SECTION 3 - DERIVATIVES AND HEDGING POLICIES

3.1 Derivatives held for trading

C. Financial derivatives

No amount was recognised for this item at the reporting date.

D. Credit derivatives

No amount was recognised for this item at the reporting date.

3.2 Hedge Accounting

The Bank did not perform any such transactions during the year.

3.3 Other disclosure of derivatives (held for trading and hedging)

No such items existed at the reporting date.

SECTION 4 - LIQUIDITY RISK

QUALITATIVE DISCLOSURE

A. General aspects, management processes and methods of measuring the liquidity risk

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

QUANTITATIVE DISCLOSURE

1. Breakdown of financial assets and liabilities by remaining contractual term

Currency of denomination: Euro

	on demand	from more than 1 day up to 7 days	from more than 7 days up to 15 days	from more than 15 days up to 1 month	from more than 1 month up to 3 months	from more than 3 months up to 6 months	from more than 6 months up to 1 year	from more than 1 year up to 5 years	over 5 years	open term
A. Assets	**1,255,430**	**1**	**863**	**30,580**	**96,087**	**98,761**	**145,662**	**1,179,656**	**458,478**	**18,319**
A.1 Government securities	-	-	28	-	84	78	189	581,058	50,000	-
A.2 Other debt instruments	-	-	-	180	-	180	361	-	11,148	-
A.3 OEIC units	-	-	-	-	-	-	-	-	-	-
A.4 Financing	1,255,430	1	835	30,400	96,003	98,503	145,112	598,599	397,331	18,319
- banks	14,689	1	-	25	145	-	-	-	-	18,319
- customers	1,240,742	-	835	30,375	95,859	98,503	145,112	598,599	397,331	-
B. Liabilities	**997,275**	**252,080**	**9,801**	**69,879**	**85,952**	**102,235**	**279,784**	**1,379,351**	**38,431**	**-**
B.1 Deposits and current accounts	855,127	40,474	9,799	19,603	85,794	100,628	275,332	811,828	30,239	-
- banks	40,897	-	-	-	-	-	-	-	-	-
- customers	814,231	40,474	9,799	19,603	85,794	100,628	275,332	811,828	30,239	-
B.2 Debt instruments	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	142,148	211,607	2	50,276	158	1,607	4,452	567,522	8,192	-
C. Off-statement of financial position transactions	**387,243**	**153,081**	**-**	**478**	**1,078**	**4,119**	**5,244**	**2,527**	**-**	**-**
C.1 Financial derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and financing to be received	153,081	153,081	-	-	-	-	-	-	-	
- long positions	153,081	-	-	-	-	-	-	-	-	-
- short positions	-	153,081	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	231,716	-	-	76	-	119	4,769	-	-	-
- long positions	113,376	-	-	76	-	119	4,769	-	-	-
- short positions	118,340	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	2,446	-	-	402	1,078	4,000	475	2,527	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

Currency of denomination: Other currencies

The positions listed in the table refer only to the US dollar.

	on demand	from more than 1 day up to 7 days	from more than 7 days up to 15 days	from more than 15 days up to 1 month	from more than 1 month up to 3 months	from more than 3 months up to 6 months	from more than 6 months up to 1 year	from more than 1 year up to 5 years	over 5 years	open term
A. Assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt instruments	-	-	-	-	-	-	-	-	-	-
A.3 OEIC units	-	-	-	-	-	-	-	-	-	-
A.4 Financing	-	-	-	-	-	-	-	-	-	-
- banks	-	-	-	-	-	-	-	-	-	-
- customers	-	-	-	-	-	-	-	-	-	-
B. Liabilities	**90**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	90	-	-	-	-	-	-	-	-	-
- banks	-	-	-	-	-	-	-	-	-	-
- customers	90	-	-	-	-	-	-	-	-	-
B.2 Debt instruments	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
C. Off-statement of financial position transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
C.1 Financial derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and financing to be received										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

SECTION 5 - OPERATIONAL RISKS

QUALITATIVE DISCLOSURE

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

A. General aspects, management processes and methods of measuring operational risk

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

PART F - INFORMATION ON EQUITY

SECTION 1 - BANK EQUITY

A. QUALITATIVE DISCLOSURE

The objectives pursued in the Bank's equity management are inspired by the prudential supervisory provisions and are oriented towards maintaining adequate levels of capitalisation to take on risks typical to credit positions.

The income allocation policy aims to strengthen the Bank's capital with special emphasis on common equity, to the prudent distribution of the operating results, and to guaranteeing a correct balance of the financial position.

B. QUANTITATIVE DISCLOSURE

B.1 Bank equity: breakdown

		31.12.2021	31.12.2020
1	Share capital	9,651	9,651
2	Share premium	39,100	39,100
3	Reserves	142,662	123,800
	- income-related	141,803	123,328
	a) legal	1,930	1,930
	b) established under the Articles of Association	-	-
	c) treasury shares	200	200
	d) other	139,672	121,198
	- other	859	471
3.bis	Interim dividends (-)	45,500	-
4	Equity instruments	-	(234)
5	(Treasury shares)	-	1,386
6	Valuation reserves	(2,986)	206
	- Equity instruments designated at fair value through other comprehensive income	(463)	-
	- Hedging of equity instruments designated at fair value through other comprehensive income	-	-
	- Financial assets (other than equity instruments) measured at fair value through other comprehensive income	(2,257)	1,416
	- Property and equipment	-	-
	- Intangible assets	-	-
	- Hedges of foreign investments	-	-
	- Cash flow hedges	-	-
	- Hedging instruments (non-designated elements)	-	-
	- Exchange rate gains (losses)	-	-
	- Non-current assets held for sale and disposal groups	-	-
	- Financial liabilities designated at fair value through profit or loss (changes in own credit rating)	-	-
	- Net actuarial losses on defined benefit pension plans	(265)	(235)
	- Shares of valuation reserves of equity-accounted investees	-	-
	- Special revaluation laws	-	-
7	Profit for the year	23,143	26,121
	Total	**257,070**	**207,488**

B.2 Valuation reserves for financial assets measured at fair value through other comprehensive income: breakdown

	TOTAL AT 31.12.2021		TOTAL AT 31.12.2020	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt instruments	-	2,257	1,771	-
2. Equity instruments	-	463	-	(355)
3. Financing	-	-	-	-
Total	**-**	**2,720**	**1,771**	**(355)**

B.3 Valuation reserves for financial assets measured at fair value through other comprehensive income: changes

	Debt instruments	Equity instruments	Financing
1. Opening balance	**1,977**	**(355)**	-
2. Increases	**2,079**	**229**	-
2.1 Fair value gains	-	-	-
2.2 Impairment losses due to credit risk	-	X	-
2.3 Reclassifications of negative reserves to profit or loss on sale	-	X	-
2.4 Transfers to other equity items (equity instruments)	-	-	-
2.5 Other increases	2,079	229	-
3. Decreases	**6,313**	**337**	-
3.1 Fair value losses	-	161	-
3.2 Impairment gains due to credit risk	28	-	-
3.3 Reclassifications of positive reserves to profit or loss: on sale	2,646	X	
3.4 Transfers to other equity items (equity instruments)	-	-	-
3.5 Other decreases	3,639	176	-
4. Closing balance	**(2,257)**	**(463)**	-

B.4 Valuation reserves related to defined benefit plans: changes

	POST-EMPLOYMENT BENEFITS
A. Opening balance	**(235)**
B. Increases	**11**
B.1 Actuarial gains	-
B.2 Other increases	11
C. Decreases	**41**
C.1 Actuarial losses	-
C.2 Other decreases	41
D. Closing balance	**(265)**
Total	**(265)**

SECTION 2 - OWN FUNDS AND CAPITAL RATIOS

2.1 Own funds

A. QUALITATIVE DISCLOSURE

Own funds, risk-weighted assets and solvency ratios as at 31 December 2021 were determined based on the new regulation, harmonised for Banks, contained in Directive 2013/36/EU (CRD IV) and in Regulation (EU) 575/2013 (CRR) of 26 June 2013, that transpose in the European Union the standards defined by the Basel Committee on Banking Supervision (the so-called Basel 3 framework), and based upon Bank of Italy Circulars no. 285 and no. 286 (enacted in 2013), and the update of Circular no. 154. The Banca Sistema Group has not availed itself of the option provided for by Article 473 bis of Regulation (EU) 575/2013 (CRR), which concerns the transitional measures aimed at mitigating the impact of the introduction of IFRS 9.

Reconciliation of Bank equity and Own Funds

	31.12.2021	31.12.2020
Equity	**257,070**	**207,448**
Dividends distributed and other foreseeable expenses	(5,790)	(6,434)
Equity assuming dividends are distributed to shareholders	**251,280**	**201,014**
Regulatory adjustments	**(8,146)**	**(4,647)**
- Commitment to repurchase treasury shares	(1,745)	(283)
- Deduction of intangible assets	(3,980)	(3,931)
- Prudent valuation adjustment (1)	(458)	(433)
- Prudential filter for insufficient coverage of NPEs	(1,908)	-
- Other adjustments	(55)	-
Equity instruments not eligible for inclusion in CET1	(45,500)	(8,000)
Common Equity Tier 1 (CET1)	**197,634**	**188,367**
Equity instruments eligible for inclusion in AT1	45,500	8,000
Additional Tier 1 Capital (AT1)	**45,500**	**8,000**
Securities issued by Banca Sistema (2)	-	37,500
Tier 2 Capital	**-**	**37,500**
Total Own Funds	**243,134**	**233,867**

(1) Regulatory filter for additional valuation adjustments (AVA) to the prudential valuation under the provisions of Regulation 2016/101
(2) Included in the item "Financial liabilities at amortised cost"

A. QUANTITATIVE DISCLOSURE

	31.12.2021
A. Common Equity Tier 1 (CET1) before application of prudential filters	**210,272**
of which CET 1 instruments covered by transitional measures	-
B. CET1 prudential filters (+/-)	-
C. CET1 including items to be deducted and the effects of the transitional regime (A+/-B)	**210,272**
D. Items to be deducted from CET1	**12,638**
E. Transitional regime - Impact on CET (+/-)	**-**
F. Total Common Equity Tier 1 (CET1) (C-D+/-E)	**197,634**
G. Additional Tier 1 (AT1) including items to be deducted and the effects of the transitional regime	45,500
of which AT1 instruments covered by transitional measures	**-**
H. Items to be deducted from AT1	**-**
I. Transitional regime - Impact on AT1 (+/-)	**-**
L. Total Additional Tier 1 (AT1) (G-H+/-I)	**45,500**
M. Tier 2 (T2) including items to be deducted and the effects of the transitional regime	**-**
of which T2 instruments covered by transitional measures	-
N. Items to be deducted from T2	-
O. Transitional regime - Impact on T2 (+/-)	-
P. Total Tier 2 (T2) (M-N+/-O)	**-**
Q. Total Own Funds (F+L+P)	**243,134**

2.2 Capital adequacy

A. QUALITATIVE DISCLOSURE

The Own Funds totalled € 243 million, against risk-weighted assets of € 1,333 million, derived almost exclusively from credit risk.

As at 31 December 2021, Banca Sistema had a CET1 capital ratio equal to 13.1%, a Tier 1 capital ratio equal to 16.2% and a Total capital ratio of 16.2%.

B. QUANTITATIVE DISCLOSURE

	UNWEIGHTED AMOUNTS		WEIGHTED AMOUNTS/ REQUIREMENTS	
	31.12.2021	**31.12.2020**	**31.12.2021**	**31.12.2020**
A. EXPOSURES	-	-	-	-
A.1 Credit and counterparty risk	**4,483,757**	**4,098,042**	**1,332,507**	**1,116,262**
1. Standardised approach	4,483,757	4,098,042	1,332,507	1,116,262
2. Internal ratings based approach	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	-	-	-	-
B. CAPITAL REQUIREMENTS			-	-
B.1 Credit and counterparty risk			**106,601**	**89,301**
B.2 Credit valuation adjustment risk			-	**-**
B.3 Settlement risk			-	-
B.4 Market risk			-	-
1. Standard approach			-	-
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operational risk			**13,745**	**13,825**
1. Basic indicator approach			13,745	13,825
2. Standardised approach			-	-
3. Advanced measurement approach			-	-
B.6 Other calculation elements			-	-
B.7 Total prudential requirements			**120,346**	**103,126**
C. EXPOSURES AND CAPITAL RATIOS			**1,504,323**	**1,289,079**
C.1 Risk-weighted assets			1,504,323	1,289,079
C.2 CET1 capital/risk-weighted assets (CET1 Capital Ratio)			13.1%	14.6%
C.3 Tier 1 capital/risk-weighted assets (Tier 1 Capital Ratio)			16.2%	15.2%
C.4 Total Own Funds/risk-weighted assets (Total Capital Ratio)			16.2%	18.1%

PART G - BUSINESS COMBINATIONS

Section 1 - Transactions performed in the year

No transactions to report.

Section 2 - Transactions performed after the end of the year

No transactions to report.

Section 3 - Retrospective adjustments

No transactions to report.

PART H - RELATED PARTY TRANSACTIONS

Related party transactions including the relevant authorisation and disclosure procedures, are governed by the "Procedure governing related party transactions" approved by the Board of Directors and published on the internet site of Banca Sistema S.p.A.

Transactions between Group companies and related parties were carried out in the interests of the Bank, including within the scope of ordinary operations; these transactions were carried out in accordance with market conditions and, in any event, on the basis of mutual financial advantage and in compliance with all procedures.

With respect to transactions with parties who exercise management and control functions in accordance with article 136 of the Consolidated Law on Banking, it should be noted that they, where applicable, have been included in the Board of Directors' resolutions and received approval from the Board of Statutory Auditors, subject to compliance with the obligations provided under the Italian Civil Code with respect to matters relating to the conflict of interest of directors.

Pursuant to IAS 24, the related parties of Banca Sistema include:

- shareholders with significant influence;
- companies belonging to the banking Group;
- companies subject to significant influence;
- key management personnel;
- the close relatives of key management personnel and the companies controlled by (or connected with) such personnel or their close relatives.

DISCLOSURE ON THE REMUNERATION OF KEY MANAGEMENT PERSONNEL

The following data show the remuneration of key management personnel, as per IAS 24 and Bank of Italy Circular no. 262 of 22 December 2005 as subsequently updated, which requires the inclusion of the members of the Board of Statutory Auditors.

In thousands of Euro	BOARD OF DIRECTORS	BOARD OF STATUTORY AUDITORS	OTHER MANAGERS	31.12.2021
Remuneration to Board of Directors and Board of Statutory Auditors	2,386	178	-	**2,563**
Short-term benefits for employees	-	-	2,799	**2,799**
Post-employment benefits	66	-	163	**228**
Other long-term benefits	329	-	253	**582**
Termination benefits	-	-	-	**-**
Share-based payments	301	-	51	**351**
Total	**3,082**	**178**	**3,266**	**6,526**

DISCLOSURE ON RELATED PARTY TRANSACTIONS

The following table shows the assets, liabilities, guarantees and commitments as at 31 December 2021, differentiated by type of related party with an indication of the impact on each individual caption.

In thousands of Euro	SUBSIDIARIES	DIRECTORS, BOARD OF STATUTORY AUDITORS AND KEY MANAGEMENT PERSONNEL	OTHER RELATED PARTIES	% OF CAPTION
Loans and receivables with customers	93,925	602	944	3.3%
Due to customers	-	1,845	6,356	0.3%
Other liabilities	138	-	-	0.1%

The following table indicates the costs and income for 2020, differentiated by type of related party.

In thousands of Euro	SUBSIDIARIES	DIRECTORS, BOARD OF STATUTORY AUDITORS AND KEY MANAGEMENT PERSONNEL	OTHER RELATED PARTIES	% OF CAPTION
Interest income	1,183	2	-	1.3%
Interest expense	4	18	96	0.7%
Other administrative expenses	394	-	-	1.6%

The following tables set forth the details of each related party:

	AMOUNT (Thousands of Euro)	PERCENTAGE (%)
ASSETS	**93,925**	**2.57%**
Loans and receivables with customers		
ProntoPegno S.p.A.	72,070	2.50%
Largo Augusto Servizi e Sviluppo S.r.l.	21,855	0.76%
Specialty Finance Trust Holdings Ltd	-	0.00%
LIABILITIES	**5,042**	**0.14%**
Due to customers		
Shareholders - SGBS	2,886	0.11%
Shareholders - Fondazione CR Alessandria	51	0.00%
Shareholders - Fondazione Sicilia	55	0.00%
Shareholders - Fondazione Pisa	1,912	0.07%
Other liabilities		
ProntoPegno S.p.A.	29	0.02%
Largo Augusto Servizi e Sviluppo S.r.l.	109	0.09%

	AMOUNT (Thousands of Euro)	PERCENTAGE (%)
INCOME	**1,183**	**1.20%**
Interest income		
Specialty Finance Trust Holdings Ltd	33	0.04%
ProntoPegno S.p.A.	631	0.70%
Largo Augusto Servizi e Sviluppo S.r.l.	519	0.57%
COSTS	**479**	**1.05%**
Interest expense		
Shareholders - SGBS	-	0.00%
Shareholders - Fondazione Sicilia	74	0.45%
Shareholders - Fondazione CR Alessandria	1	0.01%
Shareholders - Fondazione Pisa	6	0.04%
ProntoPegno S.p.A.	4	0.02%
Other administrative expenses		
Largo Augusto Servizi e Sviluppo S.r.l.	394	1.56%

PART I - SHARE-BASED PAYMENT PLANS

QUALITATIVE DISCLOSURE

As indicated in the 2020 Policy Document, Banca Sistema, having total assets of less than € 4 billion at both separate and consolidated levels, could be considered to be a "smaller bank". However, in virtue of its status as a listed company, and of the EBA guidelines, the Bank has opted to apply the rules relating to "medium size" banks under Circular 285, Title IV, Chapter 2.

As a medium size bank, therefore, and in accordance with the principle of proportionality, it shall apply the provisions relating to key personnel subject to percentages and to deferral and retention periods that may be reduced to less than half of those set out in the applicable legislation, but in doing so it shall weigh up a prudential alignment criterion also in relation to the provisions of the Code of Conduct, for longer deferral in the case of members of the Board of Directors and key management personnel, that are thus extended to all Key Personnel.

The Bank also indicates 25% of average total remuneration of Italian high earners, as indicated in the latest EBA report published in 2019 and relating to data processed at the end of 2017, as being a particularly high level of variable remuneration. In 2021, the variable component of remuneration for "key personnel" will be paid as follows upon approval of the financial statements:

- for amounts equal to or lower than € 30,000, variable remuneration shall be paid entirely up-front and in cash, subject to the necessary approval of the Board of Directors and of the Shareholders' Meeting provided for in these Policies;
- for amounts greater than € 30,000 and up to € 425,000, 70% of the variable remuneration shall be paid up-front (50% in cash and 50% in shares of the Bank), and the remaining 30% (50% in cash and 50% in shares of the Bank) shall be deferred and paid at the end of the three-year deferral period;
- for amounts greater than € 425,000, 60% of the variable remuneration shall be paid up-front (50% in cash and 50% in shares of the Bank) and the remaining 40% (24% in cash and 76% in shares of the Bank) shall be deferred and paid at the end of the three-year deferral period.

The aforesaid limits and parameters are established by the Bank, even though, in accordance with the principles of proportionality set out in Paragraph 7 of Circular 285, Title IV, Chapter 2 - General provisions, governing medium-sized banks, more flexible, less complex terms and proportions may be established in regard to the deferral and balancing of shares and cash. Please see Annex 3 "Bonus Payment Regulation", and insofar as it applies, the Information Document published in the 'Governance' section of the website www.bancasistema.it, regarding the calculation of the Bank shares to be assigned and the applicable provisions.

Disclosure of the fees paid to the independent auditors

Reference should be made to the corresponding section of the Directors' Report in the Banca Sistema Group's consolidated financial statements, which is deemed to be fully reported here.

Segment reporting

For the purposes of segment reporting as per IFRS 8, the income statement is broken down by segment as follows.

Breakdown by segment: income statement for 2021

Income statement (€,000)	Factoring Division	CQ Division	Corporate Centre	BANCA SISTEMA TOTAL
Net interest income	55,297	18,966	124	74,387
Net fee and commission income (expense)	10,858	-1,813	171	9,216
Dividends	140	87	-	227
Net trading income (expense)	13	8	-	21
Gain from sales or repurchases of financial assets/liabilities	4,685	5,404	-	10,089
Net gain (loss) on other financial assets and liabilities measured at fair value through profit or loss	862	994	-	1,856
Total income	**71,855**	**23,646**	**295**	**95,796**
Net impairment losses on loans and receivables	(10,071)	(279)	(365)	(10,715)
Gains/losses from contract amendments without derecognition	(4)	-	-	(4)
Net financial income (expense)	**61,780**	**23,367**	**(70)**	**85,077**

Breakdown by segment: statement of financial position data as at 31 December 2021

Statement of Financial Position (€,000)	Factoring Division	CQ Division	Corporate Centre	GROUP TOTAL
Cash and cash equivalents	104,366	64,535	-	168,902
Financial assets (HTS and HTCS)	284,010	175,619	-	459,629
Loans and receivables with banks	26,112	7,029	-	33,141
Loans and receivables with customers	1,784,288	1,066,892	32,880	2,884,059
Loans and receivables with customers - loans	*1,668,847*	*995,510*	*32,880*	*2,697,237*
Loans and receivables with customers - debt instruments	*115,439*	*71,383*	-	*186,822*
Due to banks	-	-	580,991	580,991
Due to customers	196,376	-	2,442,438	2,638,814

Segment reporting comprises the following internal divisions:

- Factoring Division, which includes the business segment related to the origination of trade and tax receivables with and without recourse and the management and recovery of default interest. In addition, the division includes the business segment related to the origination of state-guaranteed loans to SMEs disbursed to factoring customers and the management and recovery of receivables on behalf of third parties;
- CQ Division, which includes the business segment related to the purchase of salary- and pension-backed loans (CQS/CQP) portfolios and salary- and pension-backed loans disbursed through the direct channel;
- Corporate Division, which includes residual business support activities that cannot be allocated to the other divisions. In particular, the cost of funding managed in the central treasury pool, income from the management of the securities portfolio and income from liquidity management (the result of asset and liability management activities) are allocated entirely to the business divisions through a pre-defined set of drivers. The Corporate Centre also includes income from the management of SME loan run-offs.

The secondary disclosure by geographical segment has been omitted as immaterial, since the customers are mainly concentrated in the domestic market.

PART M - LEASE DISCLOSURE

SECTION 1 - LESSEE

QUALITATIVE DISCLOSURES

The Bank has contracts that fall within the scope of IFRS 16 attributable to the following categories:

- Property used for business and personal purposes;
- Cars.

At 31 December 2021, there were 44 leases, 8 of which were property leases for a total right of use value of € 3.5 million, while 36 were for cars, for a total right of use value of € 0.7 million. Property leases, which refer to lease payments for buildings used for business purposes such as offices and for personal use, have terms exceeding 12 months and typically have renewal and termination options that may be exercised by the lessor and the lessee as provided for by law.

Contracts referring to other leases are long-term leases for cars which are generally used exclusively by the employees to whom they are assigned. These contracts have a maximum term of 5 years with monthly lease payments, no renewal option, and no option to purchase the asset.

Contracts with a term of less than 12 months or those for which the replacement value of the individual leased asset is low, i.e. less than € 20 thousand, are excluded from the application of the standard.

QUANTITATIVE DISCLOSURES

The following table provides a summary of the Statement of Financial Position items relating to leases expressed in Euro; for further information, please refer to Part B of the notes to the financial statements:

Type of contract	Right of use (*)	Lease liabilities
Property lease payments	3,465,032	3,523,169
Long-term car lease	711,154	723,255
Total	**4,176,186**	**4,246,424**

(*) This is the right of use value net of accumulated depreciation

The following table provides a summary of the Income Statement items relating to leases; for further information, please refer to Part B of the notes to the financial statements:

Type of contract	Interest expense	Net impairment losses on property and equipment
Property lease payments	46,617	1,148,559
Long-term car lease	7,610	335,602
Total	**54,227**	**1,484,161**

SECTION 2 - LESSOR

QUALITATIVE DISCLOSURES

At the reporting date, the Bank does not engage in leases as a lessor.

STATEMENTS ON THE SEPARATE FINANCIAL STATEMENTS STATEMENTS ON THE SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH ARTICLE 81-TER OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999 AS AMENDED AND SUPPLEMENTED

1. The undersigned, Gianluca Garbi, CEO, and Alexander Muz, Manager in charge of financial reporting of Banca Sistema S.p.A., hereby state, having taken into account the provisions of Art. 154-bis, paragraphs 3 and 4, of Legislative Decree no. 58 of 24 February 1998:
   - the suitability as regards the characteristics of the bank and
   - the effective application of the administrative and accounting procedures for the drafting of the separate financial statements during 2021.
2. Reference model
   The suitability of the administrative and accounting procedures for the drafting of the separate financial statements at 31 December 2021 was assessed based on an internal model defined by Banca Sistema S.p.A. that was designed in a manner consistent with the framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the Control Objectives for IT and Related Technology (COBIT) framework, which represent the reference standards for the internal control system generally accepted on an international level.
3. Moreover, the undersigned hereby state that:
   3.3 the separate financial statements:
   a) were drafted in accordance with the applicable international accounting standards endorsed by the European Union, pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
   b) match the accounting books and records;
   c) are suitable for providing a true and fair view of the financial position, results of operations and cash flows of the issuer.

   3.4 The Directors' report includes a reliable analysis of business performance and results, as well as of the position of the issuer, together with a description of the main risks and uncertainties to which it is exposed.

Milan, 11 March 2022

Gianluca Garbi

Chief Executive Officer

Alexander Muz

Manager in charge of financial reporting

BOARD OF STATUTORY AUDITORS' REPORT

BANCA SISTEMA S.P.A.

* * *

BOARD OF STATUTORY AUDITORS' REPORT

TO THE SHAREHOLDERS' MEETING CALLED TO APPROVE

THE FINANCIAL STATEMENTS AT 31 DECEMBER 2021

IN ACCORDANCE WITH ARTICLE 153 OF LEGISLATIVE DECREE 58/1998 and ARTICLE 2429 OF THE ITALIAN CIVIL CODE

***

Part One: introduction

Dear Shareholders of Banca Sistema S.p.A. ("**Bank**"),

Pursuant to Article 153 of Legislative Decree 58/1998 and Article 2429 of the Italian Civil Code, we give you this report on our supervisory activities during the calendar year and on the most significant events occurring after the end of the year, and also make proposals concerning the financial statements and their approval.

This report has been approved by the whole board and by the legal deadline pursuant to law.

As required by law and the Articles of Association, we monitored compliance with the law, regulations, and Articles of Association during 2021, whose compliance we confirm. We also monitored the application of proper management methods, the adequacy and functioning of the organisational, management and accounting structure, and the other acts and aspects as envisaged by law.

We have examined the draft separate financial statements of Banca Sistema S.p.A. at 31 December 2021 (the "**Financial Statements**"), comprised of the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows and the Notes to the Financial Statements, and accompanied by the Directors' Report and complementary financial statements, showing profit for the year of € 23,142,841.44.

After approving the draft financial statements on 11 March 2022, the Board of Directors sent us the reporting package by the statutory deadline.

Between the meeting dedicated to drafting the previous report on the financial statements and today, the current Board of Statutory Auditors held 14 meetings (including the meeting concerning the preparation of this report), and participated, with at least one member, in all the meetings of the Board of Directors and the Internal Control and Risk Management Committee, as confirmed by the documents provided to you in the package prepared for this Shareholders' Meeting.

We shall provide you with detailed information in this report about all of our activities.

Part Two: monitoring legal compliance and compliance with the Articles of Association

In this part we report on the activities performed by the Board of Statutory Auditors pursuant to Article 2403 of the Italian Civil Code.

During the year, the Board of Statutory Auditors monitored compliance with the law, the memorandum of association and compliance with the principles of proper management. These activities adhere to the principles of conduct of the Board of Statutory Auditors of listed companies recommended by the National Board of Business Experts and Accountants.

In addition to the meetings referred to above, the Board of Statutory Auditors participated in all meetings held in 2021 by the corporate bodies in compliance with the Articles of Association, the law and regulatory provisions that govern their proceedings. Therefore, we can reasonably assure that the adopted resolutions complied with the law and the Articles of Association, were not manifestly imprudent, reckless or potentially in conflict of interest or counter to the resolutions approved by the Shareholders' Meeting or of a nature that could compromise the solidity of the company assets.

In the course of performing its own duties at meetings, the Board of Statutory Auditors met periodically with the heads of the principal internal departments of the Company. It examined the documents submitted to it and performed its own analyses and assessments, as summarised in its own minutes. These did not reveal anything that could cast doubt on compliance with the law, the Articles of Association, and principles of proper management. It analysed the most important operating, financial and equity transactions, verifying their compliance with the law and the memorandum of association, finding that they were not manifestly imprudent or reckless and/or in potential conflict of interest and/or in conflict with the resolutions passed by the Shareholders' Meeting and/or prejudicial to the operating, asset and liability, and financial performance of the Bank. It participated in working groups on specific matters and held special meetings on particularly significant issues. The Board of Statutory Auditors has approved all examined transactions as being consistent with the corporate interest.

The Board of Statutory Auditors acknowledges that the key information concerning the Bank's transactions with related parties has been provided during the Board of Directors meetings and in the Financial Statements. In this regard, the Board of Statutory Auditors deems it appropriate to call the shareholders' attention to the interpretation of the paragraphs in the Directors' Report and Notes to the Financial Statements where those events are described.

Among the significant events that occurred in 2021, we note:

- on 5 March 2021, the Bank of Italy subjected Banca Sistema to an audit pursuant to Articles 54 and 68 of Legislative Decree No. 385/90, the results of which were communicated on 1 September 2021 and included both management and compliance findings. The Supervisory Authority has not yet provided a response to the counter arguments presented by the Bank. Subsequently, on 28 October 2021, the Bank of Italy sent the "Company Situation Letter" which communicated other observations regarding the audit and provided guidance regarding the interpretation of the new definition of default. The Bank responded to the letter with a Remedial Plan submitted to the Supervisory Authority on 23 December 2021;

- on 10 March 2021, a major incident occurred caused by a fire in the data centre of the outsourcer OVH located in Strasbourg; the service interruption resulted in the Bank's customers not being able to access online banking services through the Bank's website for the first 24 hours, while institutional and commercial information on the website was unavailable for several days. The major incident management process was concluded on 31 March 2021 once the website was fully operational again;
- on 25 March 2021, the Banca Sistema Group's 2021-2023 Strategic Plan was approved;
- on 2 April 2021, a copy of the current Articles of Association, following the entry into force of the amendments to Article 10 thereof introduced by the Extraordinary Shareholders' Meeting of 23 April and 27 November 2020, was made available to the public at the registered office, on the Banca Sistema website and also on the authorised storage mechanism at the website www.1info.it;
- on 30 April 2021, the Ordinary Shareholders' Meeting of Banca Sistema resolved to approve the financial statements at 31 December 2020, as well as the Board's resolution on the allocation of the profit for 2020. In this regard, the Shareholders' Meeting resolved

to postpone the payment of the dividends from the profits for 2019 and 2020, amounting to a total of € 13,912,842 or € 0.173 per ordinary share, until after 30 September 2021;

- on the same date, the Ordinary Shareholders' Meeting of Banca Sistema also resolved to appoint the Board of Directors for the 2021-2022-2023 financial years. Following the renewal, the Board of Directors resolved to confirm Luitgard Spögler as Chairperson of the Board of Directors and to confirm Gianluca Garbi as CEO of the Bank, conferring on him operational powers;
- on 7 May, the Board of Directors resolved to appoint Giovanni Puglisi as Deputy Chairperson;
- on 25 June 2021, a simultaneous transaction was approved that involved the early repayment of two subordinated Tier 2 bonds and the issuance, for the same amount of € 37.5 million, of a subordinated Additional Tier 1 (AT1) bond. Specifically, partly as a result of regulatory changes, Banca Sistema was authorised by the Bank of Italy to proceed with the early repayment of the following subordinated Tier 2 bonds:
  - '2017 - 2027', with a variable rate (equal to the 6-month EURIBOR + 4.5%), for a total of € 19.5 million;
  - '2019 - 2029', with a fixed rate (equal to 7% per annum), for a total of € 18 million;

  and seamlessly issued and placed a subordinated AT1 loan for a total of € 37.5 million;

- with reference to the continuing Covid-19 emergency, the Group continues to engage in on-going communication initiatives with employees at Group level to ensure continuity in the flow of information, the level of listening, and the sharing of corporate objectives and strategies. Starting on 15 October 2021, the Bank implemented the regulatory provisions regarding access to the workplace using the green pass with all employees adhering to the provisions with full cooperation. Among the other security measures that continue to be applied, social distancing is ensured - as it was in previous months - by introducing an experimental "hybrid" smart working model involving rotating remote work days and at the office days;
- on 22 October 2021, the Board of Directors of Banca Sistema, in execution of the resolutions approved by the Shareholders' Meeting, the last of which was held on 30 April 2021, resolved to pay out dividends from the earnings generated in the 2019 and 2020 financial years amounting to € 13,912,842 or € 0.173 per ordinary share on 10 November 2021, with an ex-dividend date of 8 November 2021 (coupon no. 8);
- on the same date, the Shareholders' Meeting resolved to submit to the Bank of Italy the request for authorisation to repurchase treasury shares, to be used as part of the variable remuneration paid to specific employees, for an amount of no more than € 2,810,000, and

to purchase fully paid-in ordinary treasury shares of the Bank, with a nominal amount of € 0.12 (zero point twelve) each, for the authorised maximum amount of € 2,810,000, as indicated above, and in any case in compliance with the limit of one fifth of the share capital;

- on 17 December 2021, the Board of Directors of the subsidiary SFT Holding initiated the process of liquidating the company.

The Board of Statutory Auditors also carried out the following activities during the year:

- the exchanges of correspondence with supervisory authorities concerning the clarifications requested as part of its ordinary control activities;
- the periodic exchanges of information with the independent auditors;
- the meeting with the Supervisory Body for the exchange of information;
- the approval of the Remuneration Policies Document;
- the analysis and monitoring of business activities in accordance with the Risk Appetite Framework;
- the meeting with the management and control bodies of the banking group companies;
- the verification of anti-money laundering compliance and procedures.

With regard to "significant events during the year", reference is made to the Directors' Report.

The Board of Statutory Auditors did not issue an opinion.

On 26 April 2021, the Board of Statutory Auditors issued its Assessment of the Bank's Restructuring Plan as well as its Observations on the report prepared by the Internal Audit Department on the controls carried out on the major outsourced departments, any deficiencies found and the consequent corrective measures adopted.

Finally, pursuant to Article 2408 of the Italian Civil Code, we declare that in 2021, no complaint from Shareholders or any other complaints were received, no wrongdoing or other significantly negative acts or omissions were reported by the Independent Auditors or others, that required reporting to the Bank of Italy.

Significant events after the reporting date.

Regarding significant events occurring after the reporting date, it should be noted that:

- on 9 February 2022, the Bank was notified of the outcome of a sanctioning proceeding initiated by the Bank of Italy in relation to the following irregularities for which administrative sanctions may be applied:

- violation of the limit on large exposures (Article 395 of Regulation (EU) No. 575/2013-CRR; Articles 144 and 144-quinquies of the Consolidated Law on Banking; Part Two, Chapter 10, Section V of Circular no. 285/13);
- violation of disclosure obligations towards the Supervisory Authority (Article 51 of Legislative Decree 385/1993).

Regarding the aforementioned irregularities, the Supervisory Authority imposed fines amounting to € 100,000 for the violation referred to in point 1) and € 85,000 for the violation referred to in point 2). On 11 March 2022, the Bank filed an appeal against both fines with the Rome Court of Appeal;

- on 15 February 2022 the Bank initiated a plan for the repurchase of treasury shares with the aim of creating a "stock of treasury shares" for the purpose of paying a portion of the variable remuneration allocated to "key personnel" in shares, in line with the remuneration and incentive policies approved by the Shareholders' Meeting;
- on 24 February 2022, the Group was notified that the Bank of Italy had initiated a proceeding regarding the consolidated capital requirements to be observed from the first reporting date for own funds after the date of receipt of the final decision, following the outcome of the Supervisory Review and Evaluation Process (SREP). The Group's consolidated capital requirements, which are reflected where necessary in the estimated recoverable value of financial assets, are as follows: Common Equity Tier 1 ratio ("CET1 ratio") 9.00%; Tier 1 ratio 10.50%; Total Capital ratio ("TC ratio") 12.50%;
- on 24 February 2022, an armed invasion by Russia of Ukraine began, resulting in a violent conflict that is still ongoing. This event - which resulted in economic sanctions prohibiting financial transactions being imposed on Russian citizens - did not affect the Bank's activities, as it has no direct exposures to the targets of these restrictive measures. The Bank will closely and constantly monitor how this conflict and the restrictive measures described above evolve;
- the spread of the Covid-19 virus among the population has not yet completely ended despite the extensive coverage of the vaccination campaign. However, the Italian Government has set 31 March 2022 as the date for ending the state of emergency, with restrictions expected to be eased starting from 1 April 2022.

Part Three: supervision of the financial statements

In this section we report on our control activities related to the preparation and drafting of the separate financial statements of Banca Sistema S.p.A. for the year ended 31 December 2021.

The Financial Statements have been drafted in accordance with the International Financial Reporting Standards (IAS/IFRS), as endorsed by the European Commission and transposed in Italy by Legislative Decree 38 of 28 February 2005, while also considering the instructions issued by the Bank of Italy with Circular 262 of 22 December 2005, as amended.

Pursuant to Legislative Decree 39/2010, the person or entity responsible for the statutory audit of the accounts must give an opinion on the financial statements as to whether they comply with the laws and regulations governing their preparation and whether they give a true and fair view of the capital and financial position, the cash flows and the profit and loss for the year. In this regard, BDO Italia S.p.A. ("BDO"), exchanged material information with the Board of Statutory Auditors pursuant to the regulations in force and issued its own audit report on the financial statements at 31 December 2021 today. The report does not contain any objections or censures.

Therefore, the Board of Statutory Auditors assumes that the financial data correspond to the data resulting from the internal accounts, which are regularly kept in compliance with the principles set out in current regulations.

That said, the Board of Statutory Auditors has monitored activities to ensure that the general process of preparing and drafting the financial statements complies with current laws and regulations.

Part Four: relations with the independent auditors

Material information was exchanged during the year with representatives of the Independent Auditors so that they could perform their duties during the periodic meetings held pursuant to the regulations in force. These did not reveal any critical and/or significant problems. In compliance with Article 6, paragraph 2), letter a) of European Regulation 537/2014 and paragraph 17 of international auditing standard (ISA Italia) no. 260, the Independent Auditors have certified that, during the period between 1 January 2021 and today, they found no situations compromising the independence of the Independent Auditors or causes for incompatibility.

Likewise, the Independent Auditors have informed the Board of Statutory Auditors that the legal audit carried out as at 31 December 2021 has not revealed significant shortcomings in the internal control system related to the financial reporting process that need to be brought to the attention of the Board of Statutory Auditors.

Part five: Acceptance of the Code of Conduct

The Bank adheres to the Code of Conduct of the Corporate Governance Committee for listed companies. Information about certain essential elements is provided as follows.

Internal Control Committee

Banca Sistema S.p.A. has its own Internal Control and Risk Management Committee, whose current members were appointed by the BoD on 24 May 2021. Mr. Franco Pozzi was nominated and appointed to head the Internal Control Committee. The Committee and the head of the Internal Control Committee meet periodically.

Other Committees

The Appointments Committee, the Remuneration Committee, and the Ethics Committee have been established.

Board of Directors

- The BoD supervises general operating performance, dedicating special attention to situations exhibiting conflicts of interest, giving special consideration to the information received from the CEO and the Internal Control and Risk Management Committee, by periodically comparing the results achieved with those planned.
- The BoD examines and approves transactions having a significant economic, asset and liability, and financial impact, especially in regard to related party transactions.
- The composition of the Board of Directors includes seven independent directors.
- The Chairperson of the Board of Directors meets the independence requirement pursuant to art. 147-ter, paragraph 4, and art. 148, paragraph 3 of Legislative Decree no. 58 of 24 February 1998, as well as the provisions of art. 3, application criteria 3.c.1.b and 3.c.2 of the Code of Conduct issued by Borsa Italiana.
- The CEO makes periodic reports to the BoD on his activities in the course of exercising his delegated authority.
- The CEO provides adequate information about the related party transactions whose examination is not reserved to the BoD.

The number of BoD, Internal Control Committee, and all Board committee meetings, and the attendance by the members of the Board of Statutory Auditors are shown in the document “Report on Corporate Governance”.

Part Six: disclosure pursuant to Consob Communication no. 1025564 / 2001

This section presents the information required under Consob Communication no. 1025564 of 6 April 2001, as amended. In certain cases, that information has already been reported in other paragraphs of this Report.

- The Company did not execute any atypical or unusual transactions with:
    - Group companies;
    - Related parties;
    - Third parties.

  See also page 319 of the Financial Statements for more information in this regard.
- Significant transactions affecting the financial position, and assets and liabilities of the Bank were executed, and they have been illustrated in the financial statements.
- Ordinary / recurring transactions were executed with related parties, as described (with reference to them for reading) on pages 319-320 of the Financial Statements. In this regard, we inform you that they have always been appropriate and in the Bank’s interest.
- The directors have explicitly stated the company’s interest in execution of the transactions in the Directors’ Report.
- The organisational structure of the Bank was partly revised during 2021. The actions approved by the BoD and subsequently implemented to improve the organisational structure have been illustrated.
- The orders issued by the company to its subsidiaries pursuant to Article 114, paragraph 2 of the Consolidated Law on Finance are considered adequate.
- The Board of Statutory Auditors has exchanged the required information with the corporate bodies of the subsidiaries L.A.S.S. s.r.l., SF Trust and ProntoPegno S.p.A., with no significant issues having arisen.
- The Bank's organisational structure has been analysed by the Board of Statutory Auditors in view of the increased scope of activities carried out and, where necessary, it has identified the need to implement resources and processes. The organisational structure is deemed adequate.

- The internal control system was found to need strengthening: the need for a qualitative and quantitative increase in resources was acknowledged in the actions taken by the Bank, which took steps to strengthen the Compliance and Internal Audit Departments.
- The administrative and accounting system was considered reliable in providing a fair presentation of operations.
- Please refer to "Part Two" of this Report for other assessments, observations and comments.
- No omissions, wrongdoing or irregularities have been found during supervisory activity.
- It is not considered necessary to make proposals to the Shareholders' Meeting in regard to the financial statements and their approval, aside from those approved by the Board of Directors and transcribed in the "summary and conclusions".
- The Board of Statutory Auditors has not had to exercise its powers to call the Shareholders' Meeting or the BoD.
- Pursuant to paragraph 2, sub-paragraph 2 of the Consob Communication, the following details are noted:
    - the transactions indicated in paragraph 2, sub-paragraph 2, in paragraph 2, sub-paragraph 2.1, and in paragraph 2, sub-paragraph 2.2 of Consob Communication no. 1025564 of 6 April 2001. No atypical and/or unusual transactions were executed, including intercompany transactions or related party transactions. Consequently, no additional description needs to be given in this regard;
    - the transactions indicated in paragraph 2, sub-paragraph 2.3 of the Consob Communication: as previously mentioned, reference is made to the reading of pages 319 and 320 of the Financial Statements.

Summary and conclusions

Dear Shareholders of Banca Sistema S.p.A.,

On the basis of the foregoing report and given what has been brought to the attention of the Board of Statutory Auditors, and what has been confirmed by its periodic controls, it is believed that no reasons exist not to approve the draft financial statements of Banca Sistema at 31 December 2021, as drafted and proposed to you by the Board of Directors, and the proposed allocation of the profit for the year.

Likewise, the Board of Statutory Auditors has taken note of and brings to your attention the contents of the report of the Independent Auditors BDO Italia, issued pursuant to Articles 14 of

Legislative Decree 39/2010 and Article 10 of Regulation (EU) no. 537 of 16 April 2014, which shows that the financial statements have been clearly written and give a true and fair view of the operating result, assets and liabilities, financial position and cash flows of the Bank, and the "additional report" prepared in accordance with Article 11 of Regulation (EU) no. 537/2014, in which BDO has confirmed its own independence, has not found material errors, believes that the books are properly kept, and confirms that there are no material aspects requiring a report to the governance bodies.

Consequently, and notwithstanding all the references to the individual paragraphs of the Financial Statements previously made in this Report, the Board of Statutory Auditors reports that the proposal of the Board of Directors of Banca Sistema S.p.A. regarding the allocation of the profit for the year is as follows:

"Dear Shareholders,

The financial statements as at and for the year ended 31 December 2021, which we submit for your approval, show a profit for the year of € 23,142,841.44.

We recommend allocating the profit for the year as follows:

- *a dividend of € 5,790,315.74;*
- *the remainder of € 17,352,525.70 to retained earnings.*

An allocation to the Legal Reserve was not made since the limits set out in Article 2430 of the Italian Civil Code were reached."

In light of the above, the Board of Statutory Auditors invites the Shareholders' Meeting to approve the financial statements at 31 December 2021 as prepared by the Board of Directors, and the proposed allocation of the profit for the year.

Milan, 29 March 2022

Board of Statutory Auditors

Massimo Conigliaro	Lucia Abati	Marziano Viozzi
Chairperson	*Standing Auditor*	*Standing Auditor*

INDEPENDENT AUDITORS' REPORT

Banca Sistema S.p.A.

Independent auditor’s report pursuant to article 14 of Legislative Decree n. 39, dated January 27 2010 and article 10 of EU Regulation n. 537/2014

Financial statements as at December 31, 2021

AMZ/FBR/cpo - RC043882021BD1087

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Viale Abruzzi, 94
20131 Milano

Independent auditor's Report
pursuant to article 14 of Legislative Decree n. 39, dated January 27 2010 and article 10 of EU Regulation n. 537/2014

To the shareholders of Banca Sistema S.p.A.

Report on the financial statements

Opinion

We have audited the financial statements of Banca Sistema S.p.A. (the Company), which comprise the balance sheet as at December 31, 2021, the profit and loss account, the statement of other comprehensive income, statement of changes in net equity, the cash flow statement for the year then ended and notes and comments to the financial statements.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2021 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as the regulation issued to implement article 9 of Legislative Decree NO. 38/05 as well and article 43 of Legislative Decree NO. 136/15.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical and independence requirements applicable in Italy to the audit of financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	Audit responses
CLASSIFICATION AND MEASUREMENT OF LOANS AND RECEIVABLES WITH CUSTOMERS BOOKED UNDER THE FINANCIAL ASSETS MEASURED AT AMORTISED COST	

Notes to the separate financial statements: Part A) Accounting policies – paragraph A.2, "Information on the main items of the separate financial statements": "Financial assets measured at amortised cost"; Part B) Information on the statement of financial position, Assets – Section 4 "Financial assets measured at amortised cost"; Part C) Information on the income statement – Section 8.1 "Net impairment losses due to credit risk related to financial assets measured at amortised cost: breakdown"; Part E) Information concerning risk and related hedging policies – Section 1 "Credit risk"

Loans and receivables with customers, which are booked under the financial assets measured at amortised cost as of December 31, 2021, are equal to Euro 2,884 million and represent the 79% of the Company's total assets.

The acquisition by the Company of non-impaired loans claimed by companies supplying goods and services, mainly towards the public administration (the "factoring credits") and origination of credits relating to the sector of the transfers of salary or pension backed loans (the "CQS/CQP credits") represent the Company's main activities.

Factoring credits and CQS/CQP credits as of December 31, 2021, are equal to, respectively, Euro 1,226 million and Euro 932 million.

For classification purposes, the directors of the Company carry out analyses, sometimes complex, aimed at identifying the positions which, after the disbursement and / or acquisition, show evidence of a possible loss of value, considering both internal information related to the trend credit positions, and external information related to the sector of reference or to the overall exposure of such debtors to the banking system.

The evaluation of loans and receivables with customers is a complex estimation activity, characterized by a high degree of uncertainty and subjectivity, in which the Company's directors use evaluation models that take into consideration numerous quantitative and qualitative elements such as, among others, historical data relating to collections, expected cash flows and related recovery times, the existence of indicators of possible impairment, the assessment of any guarantee, the impact of macroeconomic variables,

Our main audit procedures carried out in response to the key audit matter relating to the classification and measurement of loans and receivables with customers, also carried out with the support of our specialists, concerned the following activities:

- analysis of the procedures and processes related to the item and verification of the effectiveness of controls to monitor these procedures and processes;
- analysis of the adequacy of the IT environment related to IT applications that are relevant to the process of evaluating loans to banks and customers;
- procedures for reconciling data between management systems and information reported in the financial statements;
- comparative analysis procedures and analysis of the results with the management involved;
- analysis of the criteria and methods for the evaluation of credits (analytical and collective) and verification on a sample basis of the reasonableness of the assumptions and of the components used for the assessment and the relative results;
- examination on a sample basis of the classification and valuation in the financial statements in accordance with the IFRS adopted by the European Union and the provisions issued pursuant to Article 43 of Legislative Decree 136/2015;
- examination of the disclosures provided in the explanatory notes.

future scenarios and risks of the sectors in which the Company's customers operate.

For these reasons, we have considered the classification and evaluation of loans and receivables with customers booked under financial assets valued at amortized cost, a significant key matter in the context of the auditing activity.

DETECTION OF DEFAULT INTEREST PURSUANT TO LEGISLATIVE DECREE NO. 231 OF 9 OCTOBER 2002 ON PERFORMING RECEIVABLES ACQUIRED WITHOUT RECOURSE

Notes to the separate financial statements: Part A) Accounting policies – paragraph A.2., "Information on the main items of the separate financial statements"; Part C) Information on the income statement – Section 1 "interest – item 10 and 20"; Part E) Information concerning risk and related hedging policies – Section 1 "Credit risk"

The Company accounts for accrued default interest pursuant to legislative decree no. 231 of 9 october 2002 on performing receivables acquired without recourse.

Default interest recognized on an accrual basis, which will be collected in the forthcoming years, in the year ended on 31 December 2021 amount to Euro 11 million and represent the 12% of the Company's interest and similar income.

The default interest deemed recoverable by the directors of the Bank is estimated by using models based on the analysis of the time series concerning the recovery percentages and actual collection times observed internally.

These analyses are periodically updated following the progressive consolidation of the time series.

The aforementioned estimate, characterized by a high degree of uncertainty and subjectivity, is made through models that take into account numerous quantitative and qualitative elements such as, among others, the historical data relating to collections, expected cash flows, the relative times collection costs and the impact of the risks associated with the geographical areas in which the Company's customers operate.

For these reasons, we have considered the detection of default interest pursuant to legislative decree no. 231 of 9 october 2002 on performing receivables acquired without recourse a significant key matter in the context of the auditing activity.

The main audit procedures carried out in response to the key audit matter relating to the detection of default interest pursuant to legislative decree no. 231 of 9 october 2002 on performing receivables acquired without recourse, also carried out with the support of our specialists, concerned the following activities:

- analysis of the procedures and processes related to the item and verification of the effectiveness of controls to monitor these procedures and processes;
- analysis of the adequacy of the IT environment related to IT applications that are relevant to the process of detection of default interest;
- procedures for reconciling data between management systems and information reported in the financial statements;
- comparative analysis procedures and analysis of the results with the management involved;
- analysis of the models used to estimate default interest and examination of the reasonableness of the main assumptions contained in them;
- analysis of the adequacy of the information provided in the explanatory notes.

VALUATION OF EQUITY INVESTMENT HELD IN THE CONTROLLED COMPANY PRONTOPEGNO

Notes to the separate financial statements: Part A) Accounting policies – paragraph A.2, "Information on the main items of the separate financial statements": "Equity investments"; Part B) Information on the statement of financial position, Assets – Section 7 "Equity investments"

The Company recorded Euro 29 million as the value of the equity investments held in the controlled company ProntoPegno S.p.A. as of December 31, 2021.

We focused on this area due to the significance of its amount and the significant judgement and complexity of the evaluation process; the impairment test is based on the realisation of the assumptions of the plan, discount rates and expected future growth rates and other subjective assumptions.

Our main audit procedures performed in response to the key audit matter regarding the valuation of equity investments held in the controlled company ProntoPegno, also carried out with the support of our specialists, included the following:

- we challenged the reasonableness of the key underlying assumptions of the plan;
- we assessed and challenged the adequacy of the impairment model adopted;
- we assessed the main key underlying assumptions for the impairment model, in particular the ones related to cash flow projections, discount rates, long term growth rates;
- we verified the clerical accuracy of the impairment model adopted;
- we performed sensitivity analysis of the control model of impairment when key assumptions change;
- we verified the disclosures provided in the explanatory notes.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, as well as the regulation issued to implement art. 9 of Legislative Decree NO. 38/05, as well as the regulation issued to implement article 9 of Legislative Decree NO. 38/05 and article 43 of Legislative Decree NO. 136/15 and, within the terms provided by the law, for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also have:

- Identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We have communicated with those charged with governance, as properly identified in accordance with ISA Italia, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have also provided those charged with governance with a statement that we have complied with relevant ethical and independence requirements applicable in Italy, and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We described those matters in the auditor's report.

Other information communicated pursuant to article 10 of Regulation (EU) 537/2014

We were initially engaged by the shareholders meeting of Banca Sistema S.p.A. on April 18, 2019 to perform the audit of the separate and the consolidated financial statements of each fiscal year starting from December 31, 2019 to December 31, 2027.

We declare that we did not provide prohibited non audit services, referred to article 5, paragraph 1, of Regulation (EU) 537/2014, and that we remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements included in this audit report is consistent with the content of the additional report prepared in accordance with article 11 of the EU Regulation n.537/2014, submitted to those charged with governance.

Report on other legal and regulatory requirements

Opinion on the compliance to the requirements of the Delegated Regulation (EU) 2019/815

The directors of Banca Sistema S.p.A. are responsible for the application of the requirements of Delegated Regulation (EU) 2019/815 of European Commission regarding the regulatory technical standards pertaining the electronic reporting format specifications (ESEF – European Single Electronic Format) (hereinafter the "Delegated Regulation") to the financial statements.

We have performed the procedures required under audit standard (SA Italia) no. 700B in order to express an opinion on the compliance of the financial statements to the requirements of the Delegated Regulation.

In our opinion, the financial statements have been prepared in XHTML format in compliance to the requirements of the Delegated Regulation.

Opinion pursuant to article 14, paragraph 2, letter e), of Legislative Decree n. 39/10 and of article 123-bis of Legislative Decree n. 58/98.

The directors of Banca Sistema S.p.A. are responsible for the preparation of the report on operations and of the corporate governance report of Banca Sistema S.p.A. as at December 31, 2021, including their consistency with the financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and of specific information of the corporate governance report as provided by article 123-bis, paragraph. 4, of Legislative Decree n. 58/98, with the financial statements of Banca Sistema S.p.A. as at December 31, 2021 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the report on operations and the above mentioned specific information of the corporate governance report are consistent with the financial statements of Banca Sistema S.p.A. as at December 31, 2021 and are compliant with applicable laws and regulations.

With reference to the assessment pursuant to article 14, paragraph. 2, letter e), of Legislative Decree n. 39/10 based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Milan, March 29, 2022

BDO Italia S.p.A.

(signed in the original)
Andrea Mezzadra
Partner

As disclosed by the Directors, the accompanying financial statements of Banca Sistema S.p.A. constitute a non-official version which is not compliant with the provisions of the Commission Delegated Regulation (EU) 2019/815. This independent auditor's report has been translated into the English language solely for the convenience of international readers. Accordingly, only the original text in Italian language is authoritative.

BANCA SISTEMA