FINANCIAL STATEMENTS AND REPORTS AT 31 DECEMBER 2022

BANCA SISTEMA GROUP

CONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2022

BANCA SISTEMA GROUP

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DIRECTORS' REPORT AT 31 DECEMBER 2022

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. Daniele Bonvicini (Independent)
	Ms. Maria Leddi (Independent)
	Ms. Francesca Granata (Independent)
	Mr. Pier Angelo Taverna (Independent)[1]

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

[1]Mr. Pier Angelo Taverna holds the position by virtue of being co-opted by the Board of Directors, through a resolution adopted on 20 May 2022, which became effective on 5 August 2022, and following the resignation of Mr. Marco Giovannini, who gave notice of his resignation on 26 April 2022.

COMPOSITION OF THE INTERNAL COMMITTEES

INTERNAL CONTROL AND RISK MANAGEMENT COMMITTEE

Chairperson	Mr. Daniele Bonvicini
Members	Ms. Maria Leddi
	Mr. Pier Angelo Taverna[2]
	Mr. Daniele Pittatore

APPOINTMENTS COMMITTEE

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

REMUNERATION COMMITTEE

Chairperson	Ms. Francesca Granata
Members	Mr. Giovanni Puglisi
	Mr. Daniele Pittatore

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

[2] Mr. Taverna will serve as a member of the Internal Control and Risk Management Committee starting on 27 January 2023. The office was held by Ms Francesca Granata from 27 April 2022 to 20 May 2022. Mr Marco Giovannini held the office until the date he gave notice of his resignation, 26 April 2022.

FINANCIAL HIGHLIGHTS AT 31 DECEMBER 2022

The Banca Sistema Group comprises the Parent, Banca Sistema S.p.A., with registered office in Milan, the subsidiaries Kruso Kapital S.p.A. (formerly named ProntoPegno S.p.A. up to 20 October 2022), Largo Augusto Servizi e Sviluppo S.r.l., the Greek company Ready Pawn Single Member S.A. (hereinafter also referred to as ProntoPegno Greece), a wholly owned subsidiary of Kruso Kapital S.p.A. and Specialty Finance Trust Holdings Limited (a company incorporated under UK Law placed in liquidation in December 2021).

The scope of consolidation also includes the auction house Art-Rite S.r.l. (wholly owned by Kruso Kapital and outside the Banking Group), the Spanish Joint Venture EBNSistema Finance S.L. and 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. and BS IVA SPV S.r.l. The parent, Banca Sistema S.p.A., is a company registered in Italy, 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, Portuguese and Greek markets, as described below, in addition to funding in Germany and Austria.

The Parent directly carries out factoring activities (mainly with the Italian public administration) and operates in the salary- and pension-backed loans segment through direct origination and through the purchase of receivables generated by other specialist operators, distributing its product through a network of single-company agents and specialised brokers located throughout Italy. Through its subsidiary Kruso Kapital S.p.A., the Group carries out collateralised lending activities in Italy through a network of branches, and in Greece through the ProntoPegno Greece subsidiary, as well as auction house activities. The Group also provides factoring services in Spain and Portugal 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.

31-Dec-22 31-Dec-21 31-Dec-21

Statement of financial position data (€,000)		
Total Assets	4,397,401 3,708,891	18.6%
Securities Portfolio	1,239,416 635,303	95.1%
Loans - Factoring	1,501,353 1,541,687	-2.6%
Loans - Salary-backed loans	933,200 931,767	0.2%
Funding - Banks and REPOs	1,488,743 841,413	76.9%
Funding - Term Deposits	1,431,548 1,387,416	3.2%
Funding - Current Accounts	639,266 775,096	-17.5%

Income statement data (€,000)		
Net interest income	85,428 81,962	4.2%
Net fee and commission income (expense)	16,713 15,655	6.8%
Total income	105,928 107,954	-1.9%
Personnel expense	(26,827) (28,981)	-7.4%
Other administrative expenses	(30,587) (29,547)	3.5%
Profit for the year attributable to the owners of the Parent	22,034 23,251	-5.2%

SIGNIFICANT EVENTS FROM 1 JANUARY TO 31 DECEMBER 2022

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 18 March 2022 the Bank concluded the plan initiated on 15 February 2022 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.

Upon conclusion of the plan, the Bank held a total of 693,000 treasury shares, which correspond to 0.862% of its share capital. On 29 April, in accordance with the remuneration and incentive policies for key personnel, 391,107 shares were assigned with an additional 20,974 shares being assigned on 25 May. As a result, as at 31 December 2022, Banca Sistema holds a total of 280,919 treasury shares corresponding to 0.349% of the share capital and valued at € 558,600.

On 9 February 2022, the Bank was notified of the outcome of a sanctioning proceeding initiated by the Bank of Italy pursuant to Article 144 of the Consolidated Law on Banking. The Bank was ordered to pay fines amounting to € 185,000. On 11 March 2022, Banca Sistema filed an appeal against the fines with the Rome Court of Appeal, still pending.

On 24 February 2022, the Group was notified that the Bank of Italy had initiated the normal proceedings 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 proceedings were concluded on 5 May 2022, confirming the minimum consolidated capital requirements for the Group indicated above, which became effective on 30 June 2022.

On 12 April, the subsidiary Kruso Kapital S.p.A. (formerly ProntoPegno S.p.A. until 20 October 2022) set up a wholly owned subsidiary in Greece, "ΕΤΟΙΜΟ ΕΝΕΧΥΡΟ ΜΟΝΟΠΡΟΣΩΠΗ Α.Ε. ΕΝΕΧΥΡΟΔΑΝΕΙΣΜΟΥ ΚΑΙ ΑΓΟΡΑΣ ΧΡΥΣΟΥ", with an initial capital contribution of € 25 thousand. The new company, which is part of the Banking Group and engages in collateralised lending in Greece, commenced operations in October 2022.

On 9 March, an inspection was conducted at the Bank and its subsidiary Kruso Kapital (formerly Pronto Pegno) by the Financial Information Unit of the Bank of Italy pursuant to Article 6, paragraph 5, letter a) of Legislative Decree No. 231 of 21 November 2007. Requests for clarification were received from the Financial Information Unit after the inspection was completed which were answered by both the Bank and Kruso Kapital on 3 October 2022. As at the date of approval of these financial statements, no other correspondence had been received.

On 26 April 2022, Director Marco Giovannini announced his resignation from his position with immediate effect, without stating his reasons. Marco Giovannini, a non-executive and independent Director as defined by the Consolidated Law on Finance, Ministry of the Economy and Finance Decree no. 169/2020 and the Corporate Governance Code, was Chairperson of the Remuneration Committee and member of the Internal Control and Risk Management Committee. On the date of his resignation, Marco Giovannini held directorships in other non-Group companies, including a banking foundation. Following the resignation, on 20 May the Board of Directors resolved, pursuant to Article 2386 of the Italian Civil Code and Article 10.4 of the Articles of Association, to co-opt Mr. Pier Angelo Taverna to the position of Director. Pursuant to the aforementioned Supervisory Provisions, the effectiveness of the co-optation of Mr. Pier Angelo Taverna was contingent, for a maximum period of 90 days from its receipt by the Bank of Italy, on the outcome of the assessments carried out by the same Supervisory Authority. The co-optation of Pier Angelo Taverna became effective on 5 August 2022 following the positive outcome of the assessments carried out by the Bank of Italy pursuant to the "Supervisory provisions on the eligibility assessment procedure for officers of banks, financial intermediaries, electronic money institutions, payment institutions and depositor guarantee systems".

The Ordinary Shareholders' Meeting of Banca Sistema, which met in a single call on 28 April 2022, resolved to approve the financial statements for the year ended 31 December 2021 and to allocate € 5,790,315.74 to dividends, corresponding to € 0.072 per ordinary share (25% of Group profit); the 2021 dividend was paid on 4 May 2022, with ex-dividend date on 2 May 2022 and record date on 3 May 2022.

On 23 May 2022, notice was given of the termination by mutual consent of the shareholders' agreement between Banca Sistema, the shareholders Società di Gestione delle Partecipazioni in Banca Sistema S.r.l. (SGBS), Fondazione Cassa di Risparmio di Alessandria and Fondazione Sicilia, as it had fulfilled its purpose, consisting mainly in the appointment of the Board of Statutory Auditors, the renewal of which is not expected to occur by the expiry date of the agreement itself.

On 13 July 2022, the Bank was notified of the outcome of a sanctioning proceeding initiated by the Bank of Italy pursuant to Article 144 of the Consolidated Law on Banking. Regarding the irregularities identified by the Supervisory Authority during the inspection conducted from 8 March to 4 June 2021, despite the counter arguments presented by the Bank, the latter paid the penalty imposed amounting to € 100,000.

On 2 September 2022, the Bank securitised a new € 400 million portfolio of salary- and pension-backed loans through Quinto Sistema Sec. 2017. With the sale of the new portfolio, the securitisation increased to € 534 million (€ 480 million in terms of outstanding debt) with Senior class securities increased from € 35 million to € 423 million (with DBRS Morningstar and Moody's ratings of AA low/ Aa3 respectively) and Mezzanine class securities (rating of A/ Baa1) of € 50 million. Senior securities are eligible for use as collateral for Eurosystem refinancing operations and also for bilateral transactions together with Mezzanine securities, thus providing the Bank with important leverage for funding. Both classes of securities are listed on the Luxemburg Stock Exchange.

On 20 October 2022, the Extraordinary Shareholders' Meeting of the subsidiary ProntoPegno S.p.A. approved the change of the company name from ProntoPegno S.p.A. to Kruso Kapital S.p.A.

On 27 October 2022, the Banca Sistema Group, through its subsidiary Kruso Kapital S.p.A., finalised the acquisition of 100% of the share capital of the auction house Art-Rite S.r.l. The acquisition is part of the Group's growth and diversification strategy and aims to expand the range of potential customers. The transaction, which took legal effect as of 2 November 2022, will have no material impact on the capital structure.

THE MACROECONOMIC SCENARIO

In 2022, the global economy was influenced by rising inflation, leading to a deterioration of the global economic outlook. The third quarter saw an acceleration of GDP in emerging countries, particularly in China and Russia, although it remained lower than before the invasion of Ukraine. The situation worsened in the fourth quarter with economic activity in developed countries also slowing as a consequence of the conflict. In China, economic activity softened as a result of the new measures imposed in the closing months of the year to contain the COVID-19 pandemic. Inflation fell in the United States and the United Kingdom, but increased in Japan (3.8%, the highest since 1990). Metal prices rose slightly, driven mainly by the positive outlook for the Chinese economy. The Federal Reserve and the Bank of England raised their benchmark interest rates at their meetings in the final months of 2022 and the Federal Open Market Committee expects to raise them further to bring inflation back to around the 2% mark.

Economic activity in the Euro area also increased in the third quarter in all the major economies, although more modestly in Italy and Germany, only to drop back again in the last quarter.

The Bank of Italy's €-Coin indicator, which estimates the underlying GDP trend in the area, was negative. At both its October and December meetings, the Governing Council of the ECB raised the key interest rates further (+75 and +50 basis points), announcing that they would increase them again to bring inflation to the medium-term target. The same meetings also eased the conditions applied to the targeted longer-term refinancing operations and set the criteria for monetary policy.

ITALY

Consistent with the trend seen in the Euro Area, Italy recorded strong growth in the third quarter of 2022, with GDP increasing by 0.5% (source: Economic Bulletin 1/2023) over the previous quarter driven mainly by the increase in leisure and tourism activities and despite the reduction in industrial activity. Growth, however, slowed in the last quarter due to high energy prices and the implementation of the recovery policies in the sectors most affected by the pandemic, such as tourism and trade. Industrial output declined in the fourth quarter mainly due to persistently high energy costs and softening demand. Investments slowed down in the third quarter with a reduction in construction expenditure and were stable in the fourth quarter, as companies still see poor conditions for investment, despite the fact that the share of companies expecting an improvement is higher than the those expecting the situation to get worse. Home sales declined, due to the expected weakness in demand and rising mortgage rates.

Household spending increased sharply in the third quarter, driven by purchases of both goods and services except for non-durable goods. Disposable income increased slightly, driven by government assistance (Aid Decree). The propensity to save fell back to pre-pandemic levels at 7.1%. The situation changed in the fourth quarter with spending slowing down despite the government measures being extended.

Exports slowed in the third quarter due to a sharp slowdown in sales of goods and falling sales of services. The widening of the current account deficit continued due to the energy deficit. Employment increased slightly, driven mainly by the permanent component. Wages and salaries, on the other hand, remained subdued. In the final months of 2022, the Borsa Italiana index rose sharply, particularly in the banking sector.

Overall, the macroeconomic scenario is very much influenced by the conflict in Ukraine. The tensions associated with the conflict are expected to remain significant at the beginning of the year and then diminish. If energy supplies from Russia were to be suspended, output would contract in both 2023 and 2024 and then increase thereafter, while inflation would rise in the coming years. This is without considering any measures introduced that could mitigate these effects.

FACTORING

The Italian factoring market

According to data released by Assifact, the Italian association of factoring companies, the market posted the best result in its history in 2022, proving not only that it had recovered the volumes lost during the pandemic, but that it had gone well beyond that, driven by the economic recovery, the significant increase in GDP (+3.9% in 2021, according to ISTAT), the growth of the metallurgical and mechanical engineering sectors, the renewed recovery of the manufacturing sector, and the increase in prices, particularly in the energy sector, triggered by the armed conflict between Russia and Ukraine, with inflation rising to 8.1%, total turnover in 2022 increased by 14.61% over 2021 to € 287.2 billion.

The Italian factoring market is one of the most developed not only in Europe, but in the world, ranking fifth globally and fourth in Europe after the UK, France and Germany. Its importance in the real economy is confirmed by its contribution to GDP, which reached 15.57% in 2022. Over the last 10 years, this percentage has grown gradually and continuously (in 2013 it was 10.71%), just as factoring loans (advances and consideration for outright purchases) have grown from € 43.6 billion in 2013 to € 56.63 billion in 2022, in total contrast to traditional bank loans. Nevertheless, it should be noted that of the short-term loans disbursed by Banks/Financial Intermediaries, the share of factoring loans has increased dramatically from 14.30% in 2013 to 35.23% in 2021 (total short-term loans granted by Banks at the end of 2022 are not yet available, but based on the trend seen in previous months, this share should increase further).

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 (78% versus 22%), thereby confirming that the assigning customers prefer completing assignments by hedging the risk associated with the assigned debtors.

The receivables turnover rate in 2022 is largely unchanged from 2021, as the improvement in the average collection time of B2B receivables is offset by the deterioration of B2PA receivables.

The outstanding amounts (loans and receivables to be collected as at 31 December 2022) of € 69.4 billion recorded an increase of 5.9%. An even more robust increase of 10.1% was recorded in advance payments/consideration on assignments, which amounted to € 56.6 billion at the end of 2022.

The proportion of advances to outstanding receivables, which increased to 81.55% from 78.43% in 2021, still allows banks/intermediaries to maintain a conservative margin for any possible credit dilution risks.

Factoring companies have never let up in their support of businesses even in difficult economic times. 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 December 2022, non-performing exposures as a percentage of total gross exposures of intermediaries was 3.34%, down from 4.17% in 2021, of which 0.97% were non-performing past due exposures, 0,79% were unlikely to pay, and 1.57% were bad exposures; these percentages are lower than those recorded for traditional bank loans. It should be noted that non-performing loans and receivables include those relating to invoices which are 90 days past due which, under the EBA's new definition of default which took effect in 2021, are considered "automatic defaults”. 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.

Factoring represents an important instrument - especially for small and medium-sized enterprises - that provides access to essential sources of financing necessary for ensuring financial support for business continuity and growth.

The range of services offered (credit management, risk hedging and credit collection, just to name a few) and the excellent level of expertise attained over the years by factoring companies permit considerable simplification of supply relationships between the participants in the system despite the lack of structural changes in Italy.

Even large companies benefit considerably from factoring services: through without recourse factoring they are able to reduce working capital and improve their net financial position. They can also optimise the supply chain relationship with the various suppliers through Supply Chain Finance and reduce internal costs through the use of advanced technological platforms that banks/intermediaries can make available to them.

Reverse factoring and confirming, which were created to meet the needs of Supply Chain Finance and are so defined because of the unique type of relationship that is created in that they are agreed between the Factors and the purchasing debtors, as opposed to the supplier companies (which are typically SMEs), and aim to facilitate the assignment of credit with the myriad of suppliers in the industrial supply chain. Thanks to the development of technological platforms, the turnover generated within the supply chain has grown exponentially in the last 4 years, reaching over € 28 billion per year in 2022 (+16% on 2021), accounting for about 10% of the total volumes.

Through the servicing businesses, especially SMEs they also receive full support in managing relations with debtors, including the Public Administration, thanks to the specific expertise and thorough monitoring the Factors can provide.

SMEs represent just under 70% of assignor companies and, with regard to economic sectors, 30% are manufacturers, 11% are commercial enterprises and 9% are construction companies.

As a result of the rather long payment times by the public administration, in part due to the complex bureaucratic procedures for recognising and reconciling credit, in addition to the application of the new definition of default introduced by the EBA starting from January 2021 which considers receivables past due by more than 90 days as impaired, the gross amount of receivables due from public entities is constantly decreasing. In 2022, sales of receivables due from the public administration amounted to € 19.3 billion (6.8% of the total annual turnover), down 6.14% on 2021, while outstanding receivables amounted to € 8.46 billion, down 1.82% from the previous year. Outstanding public administration receivables accounted for 12.17% of the total outstanding in the sector, double the percentage recorded in turnover precisely because of the slow rate of payments by the public administration.

Based on surveys conducted by Assifact, the average DSO (days sales outstanding) at the end of 2022 was 83.94 days (1.2 days less than in December 2021), which is an average of payment time of 78.4 days for B2B debtors and 155.43 days for B2PA debtors. For B2B, the average payment time improved by 0.65 days compared to 2021, while for B2PA it worsened by 3.14 days.

At the end of 2022, of the € 8.46 billion in outstanding receivables from the public administration, € 3.5 billion were past due, of which about € 2.3 billion had been past due for more than a year.

The new definition of default severely penalises the sector as it considers receivables that are 90 days past due in default, most of which are subsequently paid. Factoring deals in trade receivables which have different characteristics from financial receivables. While late payment of trade receivables does not lead to a real insolvency situation, as demonstrated by historical data because late payers are often large companies with excellent credit ratings or government agencies, a 90-day delay in the payment of a financial receivable is in fact a sign of possible insolvency. Considering trade receivables in the same way as financial receivables has resulted, is resulting and will result in abandoning a low-risk part of the business (as has already happened with the public administration), thus placing companies in serious difficulty, especially SMEs, which will find it increasingly difficult to monetise their receivables.

On this issue, both Assifact and the EU Federation for the Factoring and Commercial Finance Industry (EUF) are strongly committed to mitigating the effects of the new definition of default and have put forward proposals to the various Authorities, including in the context of the revision of CRR/BASEL 3.

In terms of outlook, despite the expected reduction in GDP and the ECB's policies to contain inflation, estimates made by Assifact see the sector still growing, albeit at much lower rates (+5% at the end of 2023).

BANCA SISTEMA AND FACTORING ACTIVITIES

Banca Sistema was one of the pioneers in the factoring of receivables from the Public Administration, 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. 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 and collection 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. At the end of 2022, EBNSISTEMA's factoring turnover in the market reached € 275 million (€ 120 million at the end of 2021).

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 during the emergency to support businesses, through the granting of SACE and MCC-guaranteed loans for a total of € 74 million in 2022 (€ 104 million in 2021), exclusively for its factoring customers.

Among the products offered by the Factoring Division starting in 2021, the Bank originated € 47 million in "Eco-Sisma bonus 110%" tax credits in 2022 in connection with the implementation of the Relaunch Decree enacted in May 2020; the product, which was very carefully introduced with limited turnover targets, is 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.

The following table shows the factoring volumes by product type:

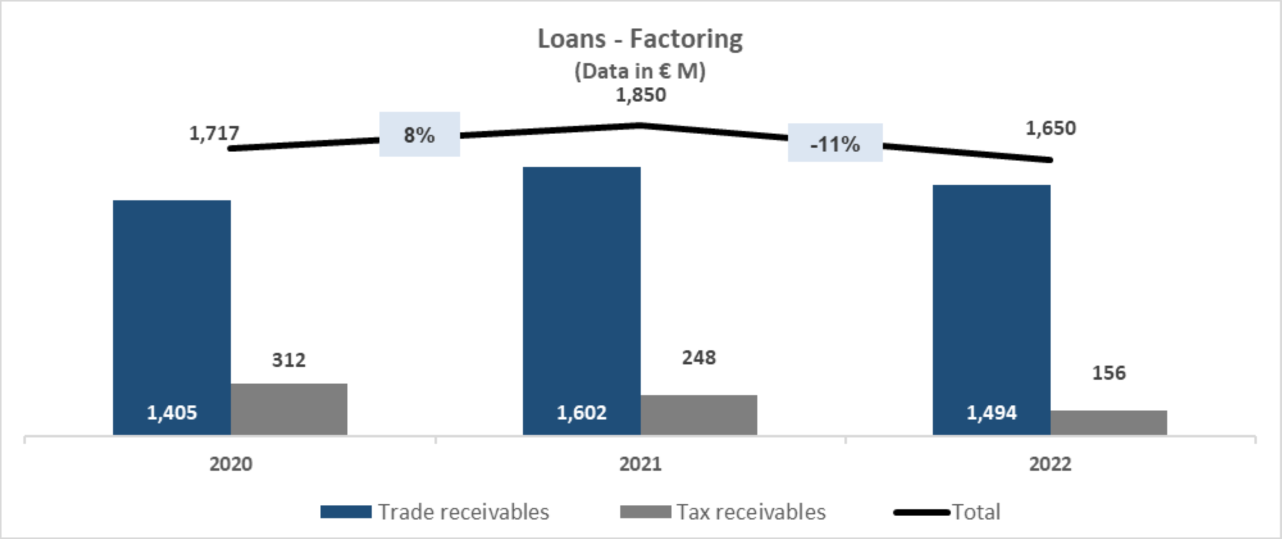
Product (millions of Euro)	31.12.2022	31.12.2021	€ Change	% Change
Trade receivables	3,696	3,308	388	11.7%
of which, without recourse	2,998	2,450	548	22.4%
of which, with recourse	*698*	*858*	*(160)*	*-18.7%*
Tax receivables	*722*	*303*	*419*	*>100%*
of which, without recourse	*722*	*302*	*420*	*>100%*
of which, with recourse	*-*	*1*	*-*	*-100.0%*
Total	**4,417**	**3,611**	**806**	**22.3%**

Volumes were generated through both its own internal commercial network and through other intermediaries with which the Group has entered into distribution agreements. In absolute terms, the growth in volumes derives mainly from the purchase of tax receivables.

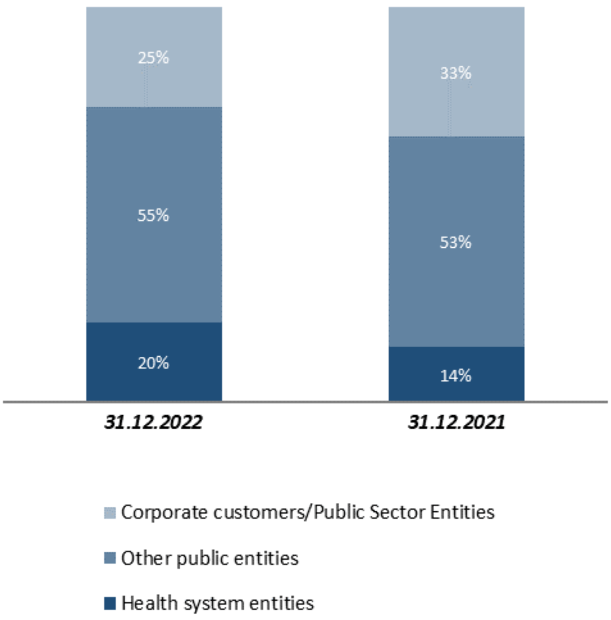
The Bank continues to demonstrate its resilience in the face of the crisis, confirming its ability to provide support to Public Administration suppliers.

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.

Loans at 31 December 2022 (management figures) amounted to € 1,650 million compared to € 1,850 million at 31 December 2021.



The following chart shows the ratio of debtors to the total exposure in the loans and receivables portfolio at 31 December 2022 and 2021. The Group's core factoring business remains the Public Administration entities segment.



Volumes related to the management of third-party portfolios amounted to € 474 million (an increase compared to the € 459 million recognised in the previous year).

SALARY- AND PENSION-BACKED LOANS AND QUINTOPUOI

The market for salary- and pension-backed loans ended 2022 essentially in line, in terms of funded capital, with pre-pandemic levels (2019 being the benchmark, as it was the last year without the effects of the Covid-19 epidemic), and was up slightly (+5%) compared to 2021. However, the figures for the last few months indicate a noticeable slowdown in the market, particularly in terms of the number of transactions, which are also down on a full year basis compared to the pre-pandemic level.

The reasons for this lie in the sharp rise in market rates following the monetary policy measures recently implemented by the European Central Bank, which raised benchmark rates to 250 basis points at the end of 2022, with further increases expected in the coming months. This trend is evident from the statistics published by the Bank of Italy on average OERs, which during the last two quarters of the year revealed an overall increase of over 170 basis points in the rates charged by the banking and financial system. This increase makes it more difficult to refinance loans within the terms set by the relevant regulations and severely restricts this component of consumer credit, which is normally prevalent in the salary-backed market, resulting in an adverse impact on the growth of the entire sector.

Nevertheless, the year ended on a positive note for the CQ Division in terms of business growth, with a total volume of € 322 million of funded capital, up 8% on the previous year. Considering the Quintopuoi direct product on its own, growth was 145% compared to last year.

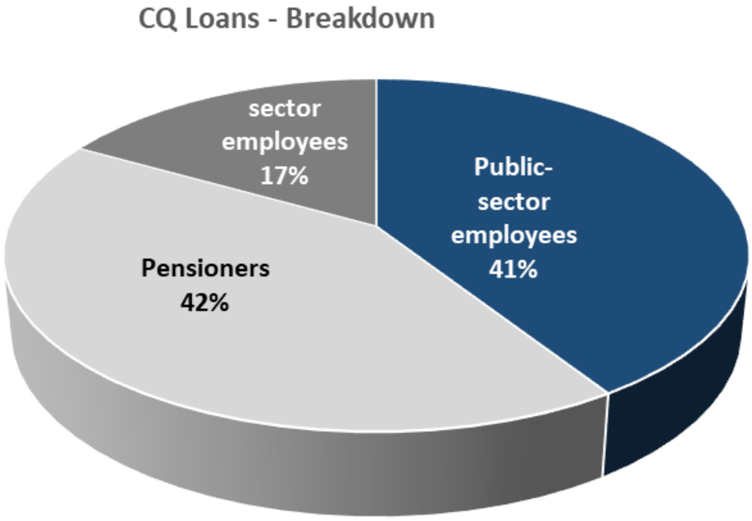
The growth of the Quintopuoi product is the result of a sales development effort that brought the number of active intermediaries to around 70 at the end of 2022, for a total of over 600 operators, up 65% on the previous year. Operating processes were also reviewed and optimised, thanks also to the introduction of robotics and process automation technologies and significant investments in remote identification technologies, which led to over 40% of applications being approved with digital signatures in the last quarter. These investments made it possible to manage the additional volumes with a net increase of only 5 employees directly employed in the division, from 42 to 47.

Sales development was also accompanied by specific marketing initiatives, with significant efficiencies achieved in the selection and use of leads, for which the overall expenditure was halved compared to 2021, while simultaneously improving the redemption rate by 84%, and in the development of the divisional brand identity, with the opening of five Quintopuoi-branded agencies in Turin, Catania, Bologna, Rome and Syracuse, with more planned for early 2023.

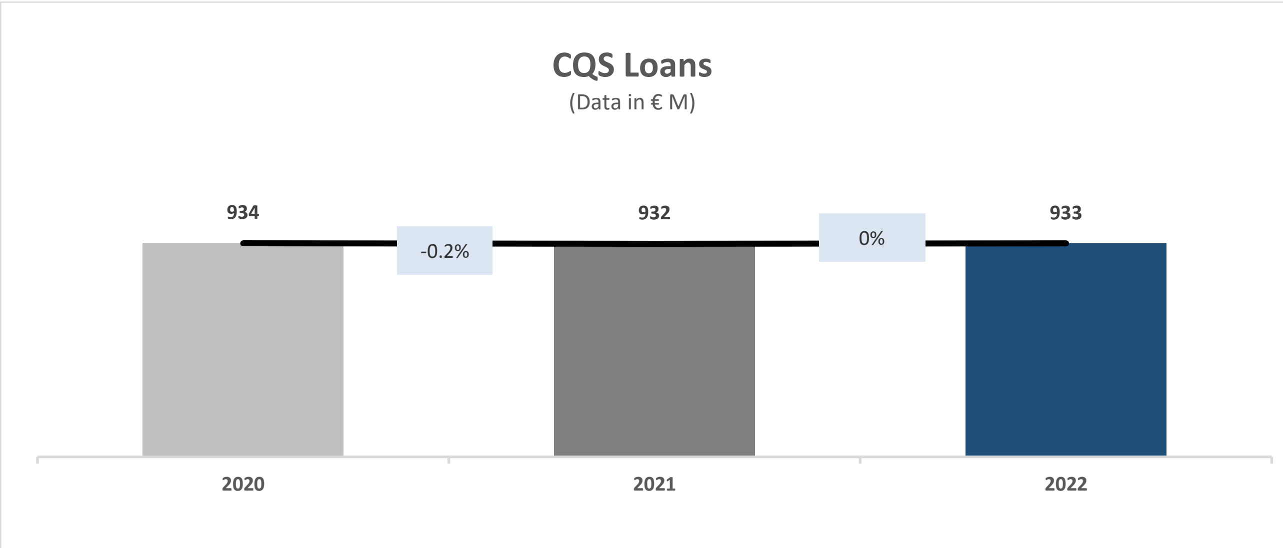
The outstanding capital at the end of 2023 came to € 958 million, roughly unchanged from last year.

	31.12.2022	31.12.2021	€ Change	% Change
No. of applications (#)	15,212	14,732	480	3.3%
of which originated	6,504	3,941	2,563	65.0%
Volumes disbursed (millions of Euro)	322	299	24	7.9%
of which originated	209	85	124	>100%

Loans are split between private-sector employees (17%), pensioners (42%) and public-sector employees (41%). 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 KRUSO KAPITAL

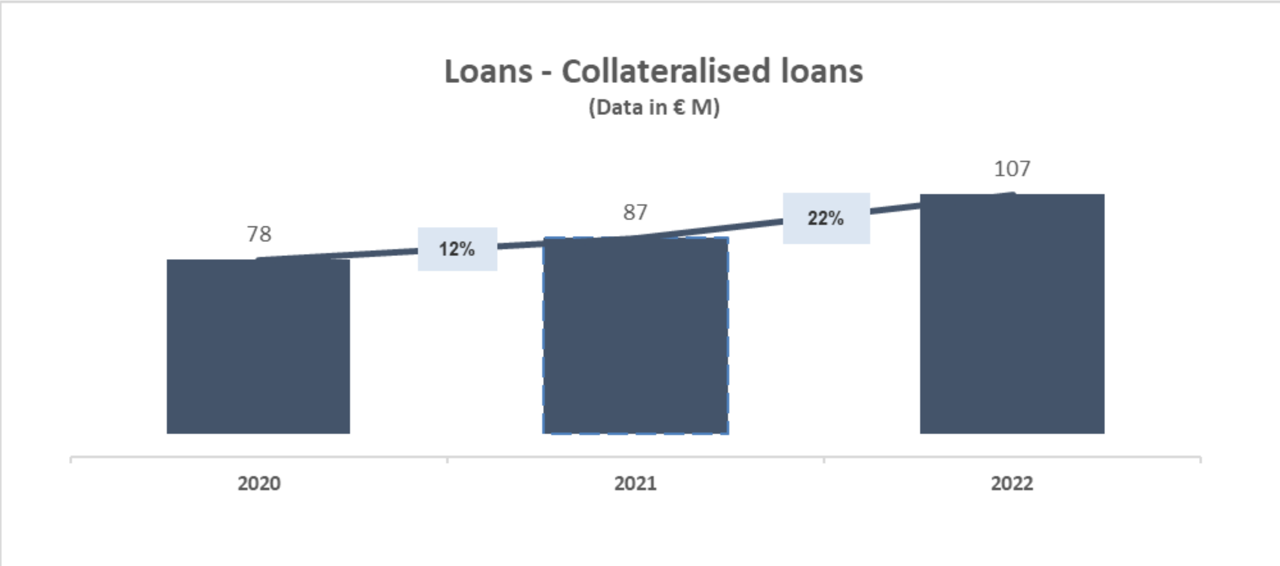
Commercial activity in Italy grew strongly in 2022, with volumes for the year totalling around € 180 million (€ 154 million in 2021), of which € 64 million from renewals. At 31 December 2022, the company had around 62 thousand policies, with total loans of € 107 million, up 21% from 31 December 2021.

The acquisition of the loan portfolio from a financial company with a long history of providing collateralised credit in Naples (1,400 customers) and the opening of the branch in Livorno are expansion and business development initiatives that will lead to further growth in the future.

In 2022, 42 collateralised loan auctions were carried out in Italy.

The company also strengthened its back-office structure thanks to the creation of a call centre aimed at processing requests for information in the shortest possible time and continued to develop digital tools, such as the activation of the "DigitalPegno" app for online renewal of pledges and online bidding for assets being sold at auction. The DigitalPegno app has been very successful and now has over 10,200 registered users, 10,902 digital bids placed at auctions in 2022 and 8,281 online policy renewals.

The following chart shows the performance of outstanding loans:



The statement of financial position of the consolidated company Kruso Kapital as at 31 December 2022 is provided below.

Assets (€,000)	31.12.2022	31.12.2021	Change	%
Cash and cash equivalents	4,884	9,765	(4,881)	-50.0%
Financial assets measured at amortised cost	106,867	90,247	16,620	18.4%
a) loans and receivables with banks	118	217	(99)	-45.6%
b1) loans and receivables with customers - loans	106,749	90,030	16,719	18.6%
Equity investments	1,115	-	1,115	n.a.
Property and equipment	4,503	2,450	2,053	83.8%
Intangible assets	29,195	29,146	49	0.2%
of which: goodwill	28,436	28,436	-	0.0%
Tax assets	1,083	1,388	(305)	-22.0%
Other assets	2,859	1,275	1,584	>100%
Total assets	**150,506**	**134,271**	**16,235**	**12.1%**

Liabilities and equity (€,000)	31.12.2022	31.12.2021	Change	%
Financial liabilities measured at amortised cost	100,633	90,773	9,860	10.9%
a) due to banks	96,018	86,513	9,505	11.0%
b) due to customers	4,615	4,260	355	8.3%
Tax liabilities	1,530	808	722	89.4%
Other liabilities	6,748	3,763	2,985	79.3%
Post-employment benefits	851	951	(100)	-10.5%
Provisions for risks and charges	715	314	401	>100%
Valuation reserves	(22)	(82)	60	-73.2%
Reserves	14,567	13,494	1,073	8.0%
Share capital	23,162	23,162	-	0.0%
Profit (loss) for the year	2,322	1,088	1,234	>100%
Total liabilities and equity	**150,506**	**134,271**	**16,235**	**12.1%**

The assets consist mainly of loans to customers for the collateralised lending business, which increased by € 16.7 million in 2022, and goodwill of € 28.4 million from the acquisition of the business unit from Intesa Sanpaolo in 2020.

The investment recognised in the financial statements relates to the acquisition of Art-Rite (€ 1.1 million) and the establishment of the company in Greece.

The "financial liabilities measured at amortised cost" include the auction buyer's premium of € 4.6 million. For 5 years, this amount is reported in the financial statements as due to customers which become a contingent asset if not collected. Based on historical information, 90% of the auction buyer's premium, amounting to € 4.1 million, will become a contingent asset over the next five years.

The item Due to banks includes loans from Banca Sistema amounting to € 77.7 million at 31 December 2022.

Other liabilities include lease liabilities of € 3.8 million and accrued expenses of € 1.7 million.

The income statement of the consolidated company Kruso Kapital for 2022 is provided below.

Income statement (€,000)	2022	2021	Change	%
Total income	**15,330**	**12,003**	**3,327**	**27.7%**
Net impairment losses on loans and receivables	(46)	132	(178)	<100%
Net financial income (expense)	**15,284**	**12,135**	**3,149**	**25.9%**
Personnel expense	(5,954)	(5,868)	(86)	1.5%
Other administrative expenses	(4,865)	(3,962)	(903)	22.8%
Net impairment losses on property and equipment/intangible assets	(1,325)	(1,235)	(90)	7.3%
Other operating income (expense)	247	413	(166)	-40.2%
Operating costs	**(11,897)**	**(10,652)**	**(1,245)**	**11.7%**
Pre-tax profit from continuing operations	**3,387**	**1,483**	**1,904**	**>100%**
Income taxes for the year	(1,065)	(396)	(669)	>100%
Profit (loss) for the year	**2,322**	**1,087**	**1,235**	**>100%**
Profit (loss) for the year subsidiaries	(500)	-	(500)	n.a.
Profit (loss) for the year of Kruso Kapital Group	**1,822**	**1,087**	**735**	**67.6%**

The company ended 2022 with a profit of € 2.3 million (€ 1.8 million including the results of its subsidiaries), reporting significant growth in total income, mainly due to an increase in average assets and a review of the rates applied. The company does not prepare consolidated financial statements as they are prepared by the Parent Banca Sistema. Therefore, the results of the subsidiaries ProntoPegno Greece and Art-Rite, are presented separately in the Profit and Loss of the subsidiaries information purposes. The results for ProntoPegno Greece are for the first 6 months of its operations (July - December 2022), while those of Art-Rite are for two months (November - December 2022).

The increase in total income, +28% yoy, was driven by the increase volumes and increases in margins of both interest income and custody fees (fee and commission income), in the second half of 2022, also as a result of the change in the European Central Bank's monetary policy. The cost of funding, most of which was guaranteed by Banca Sistema, amounted to € 758 thousand.

The increase in total costs is largely driven by other administrative expenses, up 23% yoy, due to the annualisation of expenses related to the opening of new branches, the modernisation of existing ones, and IT costs.

Personnel expenses essentially include the cost of the company's 78 employees (72 employees in 2021). Other operating income (expense) include deferred charges of € 488 thousand for improvements to new branch offices and the required portion of auction buyer's surpluses of € 560 thousand.

The combined effect of the increase in revenues and to a lesser extent in costs ensured a sharp rise in pre-tax profit, +128% yoy, to about € 3.4 million in 2022 (€ 1.5 million in 2021).

The loss recorded by the ProntoPegno Greece subsidiary of € 363 thousand is driven by start-up and operating expenses, which are not yet matched by the business' revenues as operations started in September 2022 and are still in the start-up phase.

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 2022 was equal to a nominal € 1,286 million compared to € 631 million at 31 December 2021.

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 portfolio amounted to € 586 million (compared to € 446 million as at 31 December 2021) with a duration of 25.6 months (31.4 months at 31 December 2021). At 31 December, the HTC portfolio amounted to € 700 million with a duration of 12.3 months (compared to € 185 million at 31 December 2021, which had a duration of 30.9 months). Duration decreased due to new investments in floating-rate government bonds made in the fourth quarter of 2022.

WHOLESALE FUNDING

At 31 December 2022, wholesale funding was about 45% of the total (32% at 31 December 2021), mainly comprising refinancing transactions with the ECB.

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 securitisations. 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.

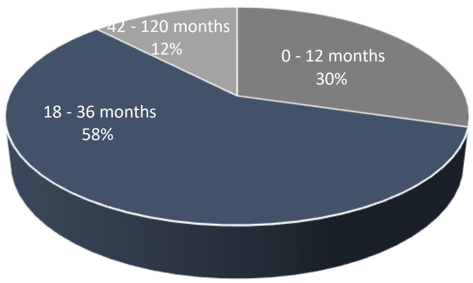
RETAIL FUNDING

Retail funding accounts for 55% 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 2022 amounted to € 1,432 million, an increase of 3% compared to 31 December 2021. The above-mentioned amount also includes total term deposits of € 623 million (obtained with the help of partner platforms) held with entities resident in Germany, Austria, and Spain (accounting for 44% of total deposit funding), an increase of € 25 million over the same period of the previous year.

The breakdown of funding by term is shown below.

Breakdown of deposit accounts as at 31 December 2022



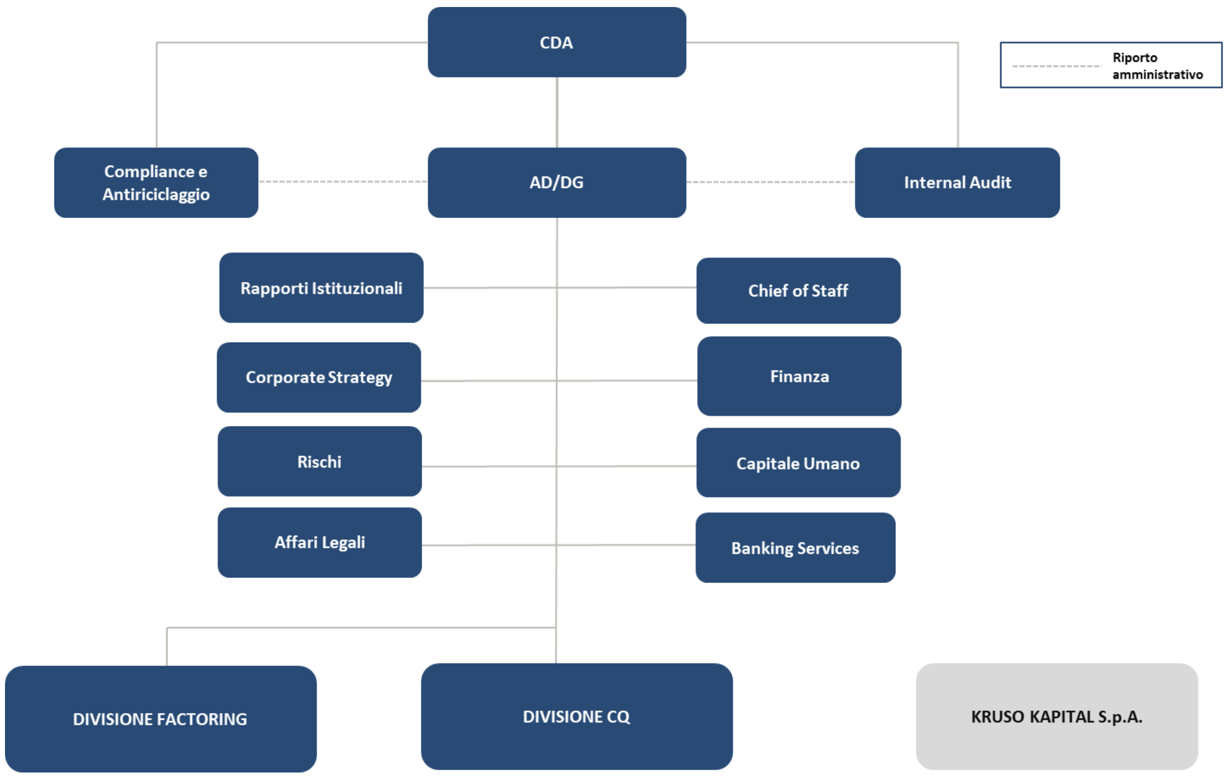
The average residual life is 12 months.

Current accounts increased from 8,009 (as at 31 December 2021) to 8,210 at the end of 2022, while the current account balance at 31 December 2022 decreased on 2021 to € 639 million (-136 million).

COMPOSITION AND STRUCTURE OF THE GROUP

Organisational chart

Since 2020, the Bank's organisational structure has been based on the divisional organisational model which assigns specific powers and autonomy in terms of lending, sales and operations to each of the Factoring and CQ businesses, and more specifically, also allows the divisional organisational structures to evolve according to their respective needs and objectives. With these objectives in mind, during the first half of 2021, two separate Commercial Departments, respectively named Outbound/B2B Commercial Department and Network Commercial Department, were set up within the CQ Division, the former focusing on managing the indirect channel (B2B for the purchase of portfolios originated by third parties) and the outbound channel (acquisition of customers through the portal and the Division's direct sales initiatives), and the latter focusing on monitoring the network and organised geographically. The organisational chart in force since 1 February 2020 is as follows:



HUMAN RESOURCES

As at 31 December 2022, the Group had a staff of 290, broken down by category as follows:

FTES	2022	2021
Senior managers	24	26
Middle managers (QD3 and QD4)	62	61
Other personnel	204	193
Total	**290**	**280**

As described in the previous half-yearly report, during the first part of the year the Bank began a review of the more operational and detailed levels of its organisational structure, a review that was in the months that followed.

The Group, given the gradual exit from the health emergency and in keeping with the regulatory framework that envisaged the end of facilitated access to remote working on 31 August, decided to revert its operating model to one based on full presence, and from 1 September all employees resumed their activities in the offices and branches. Starting from 1 October - again in line with the new legal provisions that have since come into force - a flexible operational model was restored with the introduction of remote working arrangements envisaged until the end of 2022. For 2023, the possibility of working remotely was confirmed for middle managers and employees in the professional areas in accordance with the law and through individual agreements signed with those requesting access. Bank employees who perform all their work in-person at the various locations will receive a special welfare credit to compensate for the increased transport and meal costs they incur over time.

During the past year, 27 people were selected and hired, 80% of which with permanent contracts and mainly in the Salary- and Pension-Backed Loans area and the Corporate Centre. The turnover related only to voluntary resignations was 4.35%, the lowest level in five years.

In terms of skills development, after identifying professional and technical training needs in relation to the Bank's legal and regulatory issues, training sessions on specific legal and regulatory issues of the lending sector in which the Bank operates have been organised and launched. These sessions are currently being carried out with both internal and external instructors and will be delivered in a manner that is compatible with the health emergency. During 2022, 197 employees were involved in training for a total of 416 hours, more than 60% of which were focused on technical and professional training on anti-money laundering, privacy, transparency, Mifid II and related party transactions. Language and negotiation skills training and development courses were also offered.

During the second half of 2022 - in accordance with the guidelines already set out and formalised in the 2022 Remuneration Policies Document - the retention strategies were reviewed, offering employees bound by a Non-Compete Agreement the opportunity to sign specific employee retention agreements. The drafting of a specific operating procedure to define the processes, responsibilities and calculation methods for determining the bonus pool actually payable and the bonuses earned by key personnel was started and completed.

The average age of Group employees is 47.0 for men and 42.8 for women. The breakdown by gender is essentially balanced with men accounting for 56% of the total.

INCOME STATEMENT RESULTS

Income statement (€,000)	2022	2021	Change	%
Net interest income	85,428	81,962	3,466	4.2%
Net fee and commission income (expense)	16,713	15,655	1,058	6.8%
Dividends and similar income	227	227	-	0.0%
Net trading income (expense)	(1,518)	21	(1,539)	<100%
Gain from sales or repurchases of financial assets/liabilities	5,078	10,089	(5,011)	-49.7%
Total income	**105,928**	**107,954**	**(2,026)**	**-1.9%**
Net impairment losses on loans and receivables	(8,502)	(10,624)	2,122	-20.0%
Gains/losses from contract amendments without derecognition	-	(4)	4	-100.0%
Net financial income (expense)	**97,426**	**97,326**	**100**	**0.1%**
Personnel expense	(26,827)	(28,981)	2,154	-7.4%
Other administrative expenses	(30,587)	(29,547)	(1,040)	3.5%
Net accruals to provisions for risks and charges	(4,461)	(1,705)	(2,756)	>100%
Net impairment losses on property and equipment/intangible as	(2,995)	(2,710)	(285)	10.5%
Other operating income (expense)	647	74	573	>100%
Operating costs	**(64,223)**	**(62,869)**	**(1,354)**	**2.2%**
Gains (losses) on equity investments	(31)	2	(33)	<100%
Gains (losses) on sales of investments	-	-	-	n.a.
Pre-tax profit from continuing operations	**33,172**	**34,459**	**(1,287)**	**-3.7%**
Income taxes for the year	(10,659)	(10,916)	257	-2.4%
Post-tax profit for the year	**22,513**	**23,543**	**(1,030)**	**-4.4%**
Post-tax profit (loss) from discontinued operations	(23)	(20)	(3)	15.0%
Profit for the year	**22,490**	**23,523**	**(1,033)**	**-4.4%**
Profit (loss) attributable to non-controlling interests	(456)	(272)	(184)	67.6%
Profit for the year attributable to the owners of the parent	**22,034**	**23,251**	**(1,217)**	**-5.2%**

A profit of € 22.0 million was recognised in 2022, down from the previous year due to higher rates across the various forms of funding, which resulted in a reduction in net interest income in CQ from the fourth quarter of 2022 onwards, and lower profits from the sale of CQ portfolios compared to the previous year.

Regarding operating costs, the increase, on the other hand, was modest and mainly driven by higher charges to provisions for risks which include a non-recurring prudential provision of € 1.3 million, recognised in the fourth quarter of 2022, on CQ contracts originated by the Bank prior to 25 July 2021. The risk for which the provision was made was due to Constitutional Court ruling No. 263 of 22 December 2022, which declared Article 11-octies of Law Decree No. 73/2021 ("*Sostegni bis*" decree), converted into Law No. 106/2021, which amended Art. 125-sexies of the Consolidated Law on Banking (TUB), partially unconstitutional. This ruling also extended the lender's obligation to contracts signed prior to 25 July 2021 to reimburse the customer, upon early repayment of the loan, also the unused portion of the up-front commissions based on the principles of the renowned "Lexitor Sentence", which was instead excluded by the legislative measure mentioned above. To date, however, the legal and case-law framework is still evolving.

Net interest income (€,000)	2022	2021	€ Change	% Change
Interest and similar income				
Loans and receivables portfolios	93,926	92,276	1,650	1.8%
Factoring	58,377	60,455	(2,078)	-3.4%
CQ	20,606	21,438	(832)	-3.9%
Collateralised lending	7,846	5,987	1,859	31.1%
Government-backed loans to SMEs	7,097	4,396	2,701	61.4%
Securities portfolio	5,289	1,743	3,546	>100%
Other	518	670	(152)	-22.7%
Financial liabilities	2,212	3,522	(1,310)	-37.2%
Total interest income	**101,945**	**98,211**	**3,734**	**3.8%**
Interest and similar expense				
Due to banks	(677)	(533)	(144)	27.0%
Due to customers	(13,594)	(12,651)	(943)	7.5%
Securities issued	(2,241)	(2,023)	(218)	10.8%
Financial assets	(5)	(1,042)	1,037	-99.5%
Total interest expense	**(16,517)**	**(16,249)**	**(268)**	**1.6%**
Net interest income	**85,428**	**81,962**	**3,466**	**4.2%**

Net interest income increased compared to last year, due to the higher contribution of the Collateralised Lending Division and the good performance of Factoring division (which includes factoring revenue and "State Guaranteed loans to SMEs"). Interest expense, which benefited from the low cost of funding up to the end of the first half of 2022, tied to negative market rates as well as an additional favourable non-recurring rate applied to TLTRO loans for the period June 2021 to June 2022 that was entirely recorded in the second quarter of 2022, began to increase in the fourth quarter of 2022, resulting in an increase over the previous year, albeit with a cost of funding that averaged below the ECB rate.

The total contribution of the Factoring Division to interest income was € 65.5 million, equal to 70% of the entire loans and receivables portfolio like at 31 December 2021, to which the commission component associated with the factoring business and the revenue generated by the assignment of receivables from the factoring portfolio need to be added. The item also includes the interest component tied to the amortised cost of eco-bonus loans amounting to € 1.8 million.

The component linked to default interest from legal action at 31 December 2022 was € 15.2 million (€ 21.5 million at 31 December 2021):

- of which € 1.6 million resulting from the updated recovery estimates and expected collection times (€ -0.3 million in 2021);
- of which € 7.5 million resulting from the current recovery estimates (€ 11.7 million in 2021);
- of which € 6.1 million (€ 10.1 million in 2021) coming from the difference between the amount collected during the period, equal to € 10.4 million (€ 17.5 million in 2021), and that recognised

on an accruals basis in previous years. In 2021, this item included gross collections of € 0.7 million from transfers to third parties, whereas in 2022, gross collections were € 1.1 million.

The amount of the stock of default interest from legal actions accrued at 31 December 2022, relevant for the allocation model, was € 104 million (€ 99 million at the end of 2021), which becomes € 188 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, whereas the loans and receivables recognised in the financial statements amount to € 56 million. Therefore, the amount of default interest accrued but not recognised in the income statement is € 132 million.

Interest income from the salary-/pension-backed loan portfolios amounted to € 20.6 million, down slightly from the previous year as a result of the increased impact of prepayments on the portfolios, which is expected to decrease in the coming years due to rising market rates.

The contribution of the Collateralised Lending Division grew significantly to € 7.8 million, compared to € 6.0 million in the previous year.

The interest component from government-backed loans, a support measure in response to the COVID-19 pandemic, also had a positive and significant impact.

The item “financial liabilities”, which account for a total of € 2.2 million, mainly includes the effects arising from the financing activity of the securities portfolio in repurchase agreements and ECB loans, which were significantly positive until the first half of the year due to negative interest rates, as well as non-recurring positive interest from the additional rate applied to TLTRO loans, and a one-off positive effect of € 1.1 million recognised in the fourth quarter of 2022.

Interest expense, which until the third quarter of 2022 had made a positive contribution to net interest income, saw an initial increase at 31 December 2022 driven by the new market conditions, which led to a gradual increase in the cost of funding starting in the fourth quarter that will continue in the next financial year.

Accrued interest expense for 2022 on the AT1 instruments classified in equity reserves for the portion of half-yearly coupon payment, amounted to € 2.9 million before tax. In 2021, this componenet was € 1.6 million.

Net fee and commission income (€,000)	2022	2021	€ Change	% Change
Fee and commission income				
Factoring activities	11,996	12,813	(817)	-6.4%
Fee and commission income - off-premises CQ	9,816	4,503	5,313	>100%
Collateralised loans (fee and commission income)	8,327	6,664	1,663	25.0%
Collection activities	1,058	1,235	(177)	-14.3%
Other fee and commission income	384	382	2	0.5%
Total fee and commission income	**31,581**	**25,597**	**5,984**	**23.4%**
Fee and commission expense				
Factoring portfolio placement	(1,176)	(1,426)	250	-17.5%
Placement of other financial products	(1,717)	(1,988)	271	-13.6%
Fees - off-premises CQ	(10,439)	(5,717)	(4,722)	82.6%
Other fee and commission expense	(1,536)	(811)	(725)	89.4%
Total fee and commission expense	**(14,868)**	**(9,942)**	**(4,926)**	**49.5%**
Net fee and commission income	**16,713**	**15,655**	**1,058**	**6.8%**

Net fee and commission income, amounting to € 16.7 million, increased by 6.8%, due to a change in the method of accounting for the rappels to be paid to the agent network, which, in order to better reflect net interest income and to improve the correlation between costs and revenues, have been deferred over the expected life of the loans and receivables, resulting in a decrease in the amount of the item Fees - off premises; without this change in accounting method, net fee and commission income would have been 6.0% lower.

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 € 1.7 million compared to the same period of the previous year thanks to the continuing growth of the business.

Fees and commissions on collection activities, related to the service of reconciliation of third-party invoices collected from Public Administration entities are down 14.3% compared to last year.

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 € 9.8 million, which should be considered together with the item Fees - off-premises CQ, amounting to € 10.4 million, which are composed of the commissions paid to financial advisers for the off-premises placement of the salary- and pension-backed loan product. The increase in fee and commission expense compared to last year is related to the increase in volumes originated.

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 remained 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 (loss) from sales or repurchases (€,000)	2022	2021	€ Change	% Change
Gains from HTCS portfolio debt instruments	1,088	4,090	(3,002)	-73.4%
Gains from HTC portfolio debt instruments	248	458	(210)	-45.9%
Gains from financial liabilities	-	-	-	n.a.
Gains from receivables (Factoring portfolio)	2,213	1,875	338	18.0%
Gains from receivables (CQ portfolio)	1,529	3,666	(2,137)	-58.3%
Total	**5,078**	**10,089**	**(5,011)**	**-49.7%**

The item Gain (loss) from sales or repurchases in 2022 includes net realised gains from the securities portfolio, factoring receivables of € 2.2 million (the revenue from which derives from the sale of factoring portfolios to private-sector assignors) and the sale of a CQ loans and receivables portfolio, which generated revenue of € 1.5 million. Compared to the previous year, the current performance of the market prevented similar profits being realised from the securities portfolio.

Impairment losses on loans and receivables at 31 December 2022 amounted to € 8.5 million (€ 10.6 million at the end of 2021). The loss rate decreased to 0.29% at 31 December 2022 from 0.40% in 2021 (this figure was calculated without annualising the non-recurring adjustments made in 2021).

Spese per il personale (€ .000)	31.12.2022	31.12.2021	Delta €	Delta %
Salari e stipendi	(20.575)	(22.855)	2.280	-10,0%
Contributi e altre spese	(4.766)	(4.661)	(105)	2,3%
Compensi amministratori e sindaci	(1.486)	(1.465)	(21)	1,4%
Totale	**(26.827)**	**(28.981)**	**2.154**	**-7,4%**

The reduction in personnel expense is mainly related to the release of the estimated variable component accrued in 2021 following the application of the remuneration policies (recorded in the first half of 2022), as well as the positive one-off effect from the replacement of the non-compete agreement for part of the recipients with a new retention plan amounting to € 0.8 million (recorded in the fourth quarter of 2022). Net of these items and the positive effect of discounting the liabilities related to the plans mentioned above, wages and salaries remained largely unchanged. The average number of employees increased from 275 to 282, also due to the integration of Art-Rite and the establishment of the collateralised lending company in Greece.

Other administrative expenses (€,000)	2022	2021	€ Change	% Change
Consultancy	(5,822)	(5,175)	(647)	12.5%
IT expenses	(5,908)	(5,932)	24	-0.4%
Servicing and collection activities	(2,206)	(3,070)	864	-28.1%
Indirect taxes and duties	(3,591)	(2,959)	(632)	21.4%
Insurance	(1,342)	(908)	(434)	47.8%
Other	(973)	(689)	(284)	41.2%
Expenses related to management of the SPVs	(764)	(785)	21	-2.7%
Outsourcing and consultancy expenses	(396)	(480)	84	-17.5%
Car hire and related fees	(691)	(830)	139	-16.7%
Advertising and communications	(1,430)	(1,554)	124	-8.0%
Expenses related to property management and logistics	(2,785)	(2,537)	(248)	9.8%
Personnel-related expenses	(71)	(222)	151	-68.0%
Entertainment and expense reimbursement	(671)	(466)	(205)	44.0%
Infoprovider expenses	(624)	(701)	77	-11.0%
Membership fees	(321)	(349)	28	-8.0%
Audit fees	(411)	(296)	(115)	38.9%
Telephone and postage expenses	(478)	(270)	(208)	77.0%
Stationery and printing	(183)	(40)	(143)	357.5%
Total operating expenses	**(28,667)**	**(27,263)**	**(1,404)**	**5.1%**
Resolution Fund	(1,920)	(2,284)	364	-15.9%
Merger-related costs	-	-	-	n.a.
Total	**(30,587)**	**(29,547)**	**(1,040)**	**3.5%**

Administrative expenses were in line with the same period of the last year, with increases in some cost items offset by reductions in others.

Servicing and collection activities decreased due to the reduction in costs for the collection of factoring receivables.

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 decreased due to lower spending on systems upgrades.

Consultancy expenses consist mainly of costs incurred for legal expenses related to pending lawsuits and enforceable injunctions for the recovery of receivables and default interest from debtors of the Public Administration.

Expenses for indirect taxes and duties increased as a result of higher contributions paid for enforceable injunctions against public administration debtors.

The increase in Expenses related to property management and logistics relates to the costs incurred to renovate the building in Rome and extraordinary costs for new locations and the relocation of branches of Kruso Kapital.

The resolution fund, the ordinary portion of which increased again in 2022 by € 0.2 million over the same period of the previous year, decreased overall as no extraordinary contribution was required in 2022, whereas in 2021 a contribution of € 0.6 million was made.

Net impairment losses on property and equipment/intangible assets (€,000)	2022	2021	€ Change	% Change
Depreciation of buildings used for operations	(727)	(644)	(83)	12.9%
Depreciation of furniture and equipment	(365)	(264)	(101)	38.3%
Amortisation of value in use	(1,592)	(1,564)	(28)	1.8%
Amortisation of software	(289)	(71)	(218)	>100%
Amortisation of other intangible assets	(22)	(167)	145	-86.8%
Total	**(2,995)**	**(2,710)**	**(285)**	**10.5%**

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 operating income (expense) (€,000)	2022	2021	€ Change	% Change
Auction buyer's premiums	559	514	45	8.8%
Recovery of expenses and taxes	1,213	700	513	73.3%
Amortisation of multiple-year improvement costs	(456)	(138)	(318)	>100%
Other income (expense)	(882)	(1,818)	936	-51.5%
Contingent assets and liabilities	213	816	(603)	-73.9%
Total	**647**	**74**	**573**	**>100%**

The total of the item increased as a result of higher recoveries of expenses and taxes as well as an income of € 0.7 million due to the release to the profit or loss of a lower earn-out recognised for the acquisition of Atlantide than estimated, because of lower volumes of salary- and pension-backed loan portfolios disbursed compared to the target estimated at the time. The sub-item Other income and expense, which includes the ear-out component paid, decreased because of higher releases in 2021 related to estimated accrued costs, which were not incurred in the following year.

THE MAIN STATEMENT OF FINANCIAL POSITION AGGREGATES

Assets (€,000)	31.12.2022	31.12.2021	Change	%
Cash and cash equivalents	126,589	175,835	(49,246)	-28.0%
Financial assets measured at fair value through profit or loss	-	-	-	n.a.
Financial assets measured at fair value through other comprehensive income	558,384	451,261	107,123	23.7%
Financial assets measured at amortised cost	3,530,678	2,954,174	576,504	19.5%
a) loans and receivables with banks	34,917	33,411	1,506	4.5%
b1) loans and receivables with customers - loans	2,814,729	2,736,721	78,008	2.9%
b2) loans and receivables with customers - debt instruments	681,032	184,042	496,990	>100%
Equity investments	970	1,002	(32)	-3.2%
Property and equipment	43,374	40,780	2,594	6.4%
Intangible assets	34,516	33,125	1,391	4.2%
of which: goodwill	*33,526*	*32,355*	1,171	3.6%
Tax assets	24,861	12,840	12,021	93.6%
Non-current assets held for sale and disposal groups	40	68	(28)	-41.2%
Other assets	77,989	39,806	38,183	95.9%
Total assets	**4,397,401**	**3,708,891**	**688,510**	**18.6%**

The year ended 31 December 2022 closed with total assets up by 18.6% over the end of 2021 and equal to € 4.4 billion.

The securities portfolio relating to Financial assets measured at fair value through other comprehensive income ("HTCS") of the Group was up compared to 31 December 2021 and continues to be mainly comprised of Italian government bonds with an average duration of about 25.6 months (the average remaining duration at the end of 2021 was 31.4 months). The nominal amount of the government bonds held in the HTCS portfolio amounted to € 586 million at 31 December 2022 (€ 446 million at 31 December 2021). The associated valuation reserve was negative at the end of the period, amounting to € 36.9 million before the tax effect.

Loans and receivables with customers (€,000)	31.12.2022	31.12.2021	€ Change	% Change
Factoring receivables	1,501,353	1,541,687	(40,334)	-2.6%
Salary-/pension-backed loans (CQS/CQP)	933,200	931,767	1,433	0.2%
Collateralised loans	106,749	90,030	16,719	18.6%
Loans to SMEs	196,909	160,075	36,834	23.0%
Current accounts	289	396	(107)	-27.0%
Compensation and Guarantee Fund	72,510	9,147	63,363	>100%
Other loans and receivables	3,719	3,619	100	2.8%
Total loans	**2,814,729**	**2,736,721**	**78,008**	**2.9%**
Securities	681,032	184,042	496,990	>100%
Total loans and receivables with customers	**3,495,761**	**2,920,763**	**574,998**	**19.7%**

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% (56% at the end of 2021). The volumes generated during the year amounted to € 4,417 million (€ 3,611 million at 31 December 2021).

Salary- and pension-backed loans were steady compared to the end of the previous year, mainly due to increased volumes disbursed directly by the agent network which rose sharply to € 209 million from € 85 million in 2021.

Government-backed loans to SMEs increased following new disbursements made under SACE and SME Fund guarantees and amounted to € 196.9 million.

The collateralised lending business, carried out through the subsidiary Kruso Kapital, grew significantly, reporting loans of € 107 million at 31 December 2022 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 12.3 months for an amount of € 700 million. The mark-to-market valuation of the securities at 31 December 2022 shows a pre-tax unrealised loss of € 9 million.

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

Status	31/12/2021	31/03/2022	30/06/2022	30/09/2022	31/12/2022
Bad exposures - gross	169,099	169,060	166,825	167,047	170,369
Unlikely to pay - gross	37,374	48,816	46,845	33,743	32,999
Past due - gross	108,598	101,603	77,507	90,948	81,449
Non-performing - gross	**315,071**	**319,479**	**291,177**	**291,738**	**284,817**
Performing - gross	**2,487,995**	**2,609,812**	**2,727,798**	**2,732,517**	**2,598,125**
Stage 2 - gross	102,862	101,406	115,021	112,285	112,799
Stage 1 - gross	2,385,133	2,508,406	2,612,777	2,620,232	2,485,326
Total loans and receivables with customers	**2,803,066**	**2,929,291**	**3,018,975**	**3,024,255**	**2,882,942**
Individual impairment losses	**59,519**	**61,959**	**61,581**	**60,410**	**61,727**
Bad exposures	47,554	48,922	47,758	46,205	47,079
Unlikely to pay	11,374	12,384	13,201	13,379	13,750
Past due	591	653	622	826	898
Collective impairment losses	**6,825**	**6,677**	**7,872**	**6,175**	**6,486**
Stage 2	560	556	626	1,600	1,993
Stage 1	6,265	6,121	7,246	4,575	4,493
Total impairment losses	**66,344**	**68,636**	**69,453**	**66,585**	**68,213**
Net exposure	**2,736,722**	**2,860,655**	**2,949,522**	**2,957,670**	**2,814,729**

The ratio of gross non-performing loans to the total portfolio decreased to 9.9% compared to 11.2% at 31 December 2021, following the decrease in past due loans, which remain high because of 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 coverage ratio for non-performing loans is 21.7%, up from 18.9% at 31 December 2021.

Property and equipment includes the property located in Milan, which is also being used as Banca Sistema's offices, and the building in Rome. The carrying amount of the properties, including capitalised items, is € 35.3 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 of the branches and company cars.

Intangible assets refer to goodwill of € 32.9 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 € 1.4 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.
- provisional goodwill of € 1.2 million, resulting from the acquisition of ArtRite which was completed on 2 November 2022.

A hypothetical allocation of the purchase price for ArtRite is provided below:

Provisional price allocation (€,000)	
Acquisition price (including deferred price) (A)	**1,090**
Art-Rite equity at 31 October 2022 (B)	(80)
Residual value to be allocated (A+B)	**1,170**
Provisional allocation to goodwill	**1,170**

The equity of Art-Rite at 31 October 2022 stems from the first-time adoption (FTA) of international accounting standards.

The investment recognised in the financial statements relates to the 50/50 joint venture with EBN Banco de Negocios S.A. in EBNSISTEMA. Banca Sistema acquired an equity investment in EBNSISTEMA through a capital increase of € 1 million which gave the Bank a 50% stake in the Madrid-based company. The aim of the joint venture is to develop the Public Administration factoring business in the Iberian peninsula, with its core business being the purchase of healthcare receivables. At the end of 2022, EBNSISTEMA originated € 275 million in loans and receivables, an increase of 120 million compared to 2021.

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 period and advance tax payments. The item includes tax credits from the "Eco-Sisma bonus 110" amounting to € 54.9 million at 31 December 2022.

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

Liabilities and equity (€,000)	31.12.2022	31.12.2021	Change	%
Financial liabilities measured at amortised cost	3,916,974	3,257,401	659,573	20.2%
a) due to banks	622,865	592,157	30,708	5.2%
b) due to customers	3,056,210	2,472,054	584,156	23.6%
c) securities issued	237,899	193,190	44,709	23.1%
Financial liabilities held for trading	-	-	-	n.a.
Tax liabilities	17,023	14,981	2,042	13.6%
Liabilities associated with disposal groups	13	18	(5)	-27.8%
Other liabilities	166,896	137,995	28,901	20.9%
Post-employment benefits	4,107	4,310	(203)	-4.7%
Provisions for risks and charges	36,492	28,654	7,838	27.4%
Valuation reserves	(24,891)	(3,067)	(21,824)	>100%
Reserves	194,137	180,628	13,509	7.5%
Equity instruments	45,500	45,500	-	0.0%
Equity attributable to non-controlling interests	10,024	9,569	455	4.8%
Share capital	9,651	9,651	-	0.0%
Treasury shares (-)	(559)	-	(559)	n.a.
Profit for the year	22,034	23,251	(1,217)	-5.2%
Total liabilities and equity	**4,397,401**	**3,708,891**	**688,510**	**18.6%**

Wholesale funding, which represents about 45% of the total (32% at 31 December 2021), increased in absolute terms from the end of 2021 mainly following the increase in funding through repurchase agreements. The contribution of bond funding to total wholesale funding was 22% (23% at the end of 2021).

Due to banks (€,000)	31.12.2022	31.12.2021	€ Change	% Change
Due to Central banks	537,883	540,095	(2,212)	-0.4%
Due to banks	84,982	52,062	32,920	63.2%
Current accounts with other banks	68,982	41,063	27,919	68.0%
Term deposits with banks	-	-	-	n.a.
Financing from other banks	16,000	10,999	5,001	45.5%
Other amounts due to banks	-	-	-	n.a.
Total	**622,865**	**592,157**	**30,708**	**5.2%**

The item "Due to banks" increased by 5.2%, compared to 31 December 2021, as a result of an increase in borrowing from the interbank deposit market and the ECB compared to 31 December 2021.

Due to customers (€,000)	31.12.2022	31.12.2021	€ Change	% Change
Term deposits	1,431,548	1,387,416	44,132	3.2%
Financing (repurchase agreements)	865,878	249,256	616,622	>100%
Customer current accounts	639,266	775,096	(135,830)	-17.5%
Due to assignors	48,542	56,012	(7,470)	-13.3%
Other payables	70,976	4,274	66,702	>100%
Total	**3,056,210**	**2,472,054**	**584,156**	**23.6%**

The item "Due to customers" increased compared to the end of the previous year, reflecting a decrease in funding from current accounts with a concurrent increase in funding through repurchase agreements. The period-end amount of term deposits increased from the end of 2021 (+3.2%), reflecting net positive funding (net of interest accrued) of € 46 million; gross deposits from the beginning of the year were € 1,504 million, against repayments totalling € 1,458 million.

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

Bonds issued (€,000)	31.12.2022	31.12.2021	€ Change	% Change
Bond - AT1	45,500	45,500	-	0.0%
Bond - Tier II	-	-	-	n.a.
Bonds - other	237,899	193,190	44,709	23.1%

The value of bonds issued increased compared to 31 December 2021 due to the increase in the senior shares of the ABS financed by third-party investors as a result of new portfolios transferred to the BS IVA special purpose vehicle.

Bonds issued at 31 December 2022 are as follows:

- AT1 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);
- AT1 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.

It should be noted that, given their predominant characteristics, 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 € 36.5 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 estimates related to the non-compete agreement and the 2022 retention plan, totalling € 5.4 million (the item includes the estimated variable and deferred components, accrued but not paid). The provision also includes an estimate of charges related to possible liabilities to assignors that have yet to be settled and other estimated charges for ongoing lawsuits and legal disputes amounting to € 11.7 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 € 13.1 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 period and equity of the parent and the figures from the consolidated financial statements is shown below.

(€ .000)	PROFIT (LOSS)	EQUITY
Profit (loss)/equity of the parent	**1**	**245,707**
Assumption of value of investments	-	(44,151)
Consolidated profit (loss)/equity	1,634	54,338
Gain (loss) on equity investments	(31)	-
Adjustment to profit (loss) from discontinued operations	-	-
Equity attributable to the owners of the parent	**22,490**	**255,894**
Equity attributable to non-controlling interests	(456)	(10,024)
Profit (loss)/equity of the Group	**22,034**	**245,870**

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	31.12.2022 Transitional	31.12.2021	31.12.2022 Fully loaded
Common Equity Tier 1 (CET1)	**174,974**	**176,077**	**164,238**
ADDITIONAL TIER 1	45,500	45,500	45,500
Tier 1 capital (T1)	**220,474**	**221,577**	**209,738**
TIER2	194	113	194
Total Own Funds (TC)	**220,668**	**221,690**	**209,931**
Total risk-weighted assets	**1,385,244**	**1,517,540**	**1,382,804**
of which, credit risk	1,196,431	1,334,148	1,193,991
of which, operational risk	188,813	183,392	188,813
Ratio - CET1	**12.6%**	**11.6%**	**11.9%**
Ratio - T1	**15.9%**	**14.6%**	**15.2%**
Ratio - TCR	**15.9%**	**14.6%**	**15.2%**

Starting in the second quarter of 2022, the Bank decided to use the mitigating parameter (equal to 40%) for calculating the FVOCI filter for exposures to central authorities, in line with the provisions of Article 468 CRR. This temporary treatment will be valid until the end of 2022 and the tables show both the "transitional" ratios, meaning those using the mitigating measure, and the "fully loaded" ratios, which do not include the mitigating measure and are thus in line with the previous year. In this regard, the neutralisation of all or part of the reserve (HTCS) on government bonds will be the topic of discussion in the European Trilogue, on which Ecofin has already proposed a 100% neutralisation. This change, if approved, would enter into force with its publication in the Official Journal in autumn 2023.

Total regulatory own funds were € 221 million at 31 December 2022 and included the profit, net of dividends estimated on the profit for the period which were equal to a pay-out of 25% of the Parent's profit. The reduction in CET1 compared to 31 December 2021 was driven by an improvement in RWA which more than offset the deterioration of the negative OCI reserve on government bonds of € 36.9 million (negative € 2.4 million at 31 December 2021), treasury shares held at the end of the quarter of € 0.6 million and interest expense accrued during the period on the AT1 instrument.

Risk-weighted assets decreased compared to 31 December 2021 due to reduced exposures to corporates and partially to an improvement in past due amounts of public sector institutions.

The Group's new consolidated capital requirements, which came into effect on 30 June 2022, are as follows:

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

The reconciliation of equity and CET1 is provided below:

	31.12.2022	31.12.2021	€ Change	% Change
Share capital	9,651	9,651	-	0.0%
Equity instruments	45,500	45,500	-	0.0%
Income-related and share premium reserve	194,137	180,628	13,509	7.5%
Treasury shares (-)	(559)	-	(559)	n.a.
Valuation reserves	(24,891)	(3,067)	(21,824)	>100%
Profit	22,034	23,251	(1,217)	-5.2%
Equity attributable to the owners of the parent	**245,872**	**255,963**	**(10,091)**	**-3.9%**
Dividends distributed and other foreseeable expenses	(5,227)	(5,790)	563	-9.7%
Equity assuming dividends are distributed to shareholders	**240,645**	**250,173**	**(9,528)**	**-3.8%**
Regulatory adjustments	(28,905)	(36,613)	7,708	-21.1%
Eligible equity attributable to non-controlling interests	8,734	8,017	717	8.9%
Equity instruments not eligible for inclusion in CET1	(45,500)	(45,500)	-	0.0%
Common Equity Tier 1 (CET1)	**174,974**	**176,077**	**(1,103)**	**-0.6%**

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, as at 31 December 2022 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:

Person at the top of the chain of ownership	Shareholder	No. of shares	% of the voting capital
	SGBS S.r.l.	18,578,900	23.10%
Gianluca Garbi	Garbifin S.r.l.	495,453	0.62%
	Gianluca Garbi	731,791	0.91%
	Fondazione Cassa di Risparmio di Alessandria	6,361,731	7.91%
	Chandler	6,013,000	7.48%
	Fondazione Sicilia	5,950,104	7.40%
	Moneta Micro Entreprises	4,117,558	5.12%
	Fondazione Cassa di Risparmio di Cuneo	4,685,158	5.83%
	Treasury shares	281,474	0.35%
MARKET		33,205,883	41.29%
TOTAL SHARES		**80,421,052**	**100.00%**

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;

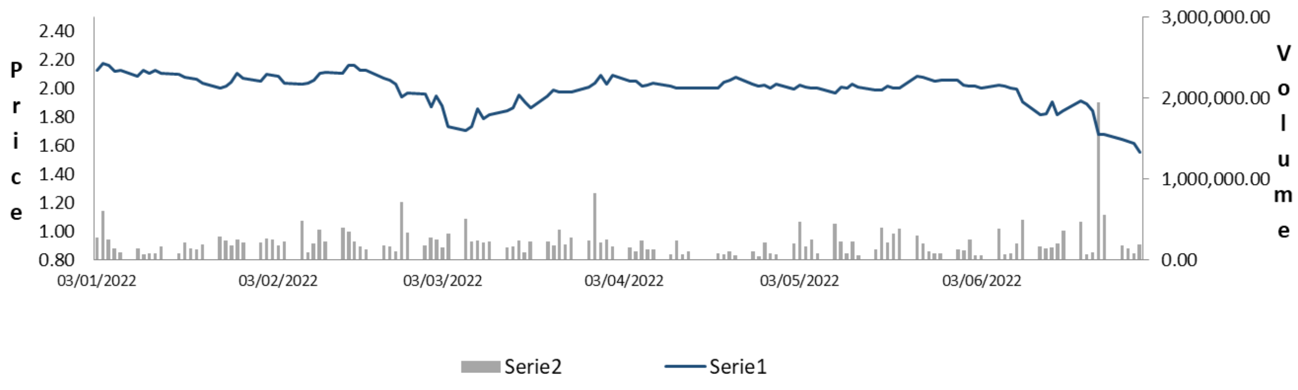
FTSE Italia Finanza;

FTSE Italia Small Cap.

In 2022, a year with high market volatility compared to 2021, the share price of the stock fluctuated in a range between a minimum closing price of € 1.35 and a maximum closing price of € 2.175.

The price change on the last market day of 2022 when compared to the same day of the previous year was a negative 27%.

Average daily volumes were just over 150,000 shares during 2022, a significant decrease over 2021 (around 400,000).



RISK MANAGEMENT AND SUPPORT CONTROL METHODS

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 introduced starting on 1 January 2021.

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 2020 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 factoring 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 draft financial statements as at and for the year ended 31 December 2022 - 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 draft financial statements as at and for the year ended 31 December 2022 - 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 2022.

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 2022, 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

On 18 January 2023, the Bank of Italy, following the measure of 5 May 2022, by which the Bank was notified of additional capital requirements with respect to the minimum capital ratios required by current regulations, informed the Bank not to adopt a new decision on capital as a result of the 2022 SREP (Supervisory Review and Evaluation Process) cycle.

On 27 January 2023, a member of the Internal Control and Risk Management Committee was replaced, with Mr Pier Angelo Taverna, an independent and non-executive director, being appointed to replace Ms Francesca Granata, an independent and non-executive director, who is already a member of the Appointments Committee and the Remuneration Committee.

The Board of Directors of Kruso Kapital (in which Banca Sistema holds a 75% equity interest) approved the start of the process to list the company on the Euronext Growth Market of Borsa Italiana S.p.A. The listing could take place in 2023 depending on market conditions.

On 27 February 2023, the Bank of Italy started an inspection at the Bank relating to the "Evolution of Liquidity Risk Exposure and Related Operational Safeguards", which is still in progress and the results of which are not yet known. At the date of approval of these financial statements, the inspection is being carried out in an orderly manner and no significant matters have yet been communicated to management.

After the reporting date of this Report, there were no events worthy of mention which would have had an impact on the financial position, results of operations and cash flows of the Bank and Group.

BUSINESS OUTLOOK AND MAIN RISKS AND UNCERTAINTIES

The current climate of continuous rate increases by the European Central Bank, with the consequent gradual increase in rates for the various types of funding, has led to an increase in the cost of funding from the fourth quarter of 2022 onwards, which is proving to be faster than the change in the yield of the loan portfolios, a portion of which is at a fixed rate, particularly for salary- and pension-backed loans, leading to a contraction in net interest income, which may be absorbed in the following quarters with the increase in the profitability of the loans.

The Group has no direct exposures to entities and parties subject to restrictive measures decided by the European Union in response to the war in Ukraine. The evolution of this conflict, as well as of the aforementioned restrictive measures, is being continuously and carefully monitored by the Group.

Milan, 10 March 2023

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	31.12.2022	31.12.2021
10.	Cash and cash equivalents	126,589	175,835
30.	Financial assets measured at fair value through other comprehensive income	558,384	451,261
40.	Financial assets measured at amortised cost	3,530,678	2,954,174
	a) loans and receivables with banks	34,917	33,411
	b) loans and receivables with customers	3,495,761	2,920,763
70.	Equity investments	970	1,002
90.	Property and equipment	43,374	40,780
100.	Intangible assets	34,516	33,125
	of which:		
	goodwill	33,526	32,355
110.	*Tax assets*	*24,861*	12,840
	a) current	2,136	812
	b) deferred	22,725	12,028
120.	Non-current assets held for sale and disposal groups	40	68
130.	Other assets	77,989	39,806
	Total Assets	**4,397,401**	**3,708,891**

	Liabilities and equity	31.12.2022	31.12.2021
10.	Financial liabilities measured at amortised cost	3,916,974	3,257,401
	a) due to banks	622,865	592,157
	b) due to customers	3,056,210	2,472,054
	c) securities issued	237,899	193,190
60.	Tax liabilities	17,023	14,981
	a) current	236	37
	b) deferred	16,787	14,944
70.	Liabilities associated with disposal groups	13	18
80.	Other liabilities	166,896	137,995
90.	Post-employment benefits	4,107	4,310
100.	Provisions for risks and charges:	36,492	28,654
	a) commitments and guarantees issued	24	39
	c) other provisions for risks and charges	36,468	28,615
120.	Valuation reserves	(24,891)	(3,067)
140.	Equity instruments	45,500	45,500
150.	Reserves	155,037	141,528
160.	Share premium	39,100	39,100
170.	Share capital	9,651	9,651
180.	Treasury shares (-)	(559)	-
190.	Equity attributable to non-controlling interests (+/-)	10,024	9,569
200.	Profit for the year	22,034	23,251
	Total liabilities and equity	**4,397,401**	**3,708,891**

INCOME STATEMENT

(Amounts in thousands of Euro)

		2022	2021
10.	Interest and similar income	101,945	98,211
	of which: interest income calculated with the effective interest method	94,099	91,780
20.	Interest and similar expense	(16,517)	(16,249)
30.	**Net interest income**	**85,428**	**81,962**
40.	Fee and commission income	31,581	25,597
50.	Fee and commission expense	(14,868)	(9,942)
60.	**Net fee and commission income (expense)**	**16,713**	**15,655**
70.	Dividends and similar income	227	227
80.	Net trading income (expense)	(1,518)	21
100.	Gain (loss) from sales or repurchases of:	5,078	10,089
	a) financial assets measured at amortised cost	3,991	5,999
	b) financial assets measured at fair value through other comprehensive income	1,087	4,090
	c) financial liabilities	-	-
120.	**Total income**	**105,928**	**107,954**
130.	Net impairment losses/gains on:	(8,502)	(10,624)
	a) financial assets measured at amortised cost	(8,359)	(10,652)
	b) financial assets measured at fair value through other comprehensive income	(143)	28
140.	Gains/losses from contract amendments without derecognition	-	(4)
150.	**Net financial income (expense)**	**97,426**	**97,326**
190.	Administrative expenses	(57,414)	(58,528)
	a) personnel expense	(26,827)	(28,981)
	b) other administrative expenses	(30,587)	(29,547)
200.	Net accruals to provisions for risks and charges	(4,461)	(1,705)
	a) commitments and guarantees issued	15	(13)
	b) other net accruals	(4,476)	(1,692)
210.	Net impairment losses on property and equipment	(2,684)	(2,471)
220.	Net impairment losses on intangible assets	(311)	(239)
230.	Other operating income (expense)	647	74
240.	**Operating costs**	**(64,223)**	**(62,869)**
250.	Gains (losses) on equity investments	(31)	2
280.	Gains (losses) on sales of investments	-	-
290.	**Pre-tax profit (loss) from continuing operations**	**33,172**	**34,459**
300.	Income taxes	(10,659)	(10,916)
310.	**Post-tax profit from continuing operations**	**22,513**	**23,543**
320.	Post-tax profit (loss) from discontinued operations	(23)	(20)
330.	**Profit for the year**	**22,490**	**23,523**
340	Profit (Loss) for the year attributable to non-controlling interests	(456)	(272)
350.	**Profit for the period attributable to the owners of the parent**	**22,034**	**23,251**

STATEMENT OF COMPREHENSIVE INCOME

(Amounts in thousands of Euro)

		2022	2021
10.	**Profit (loss) for the year**	**22,034**	**23,251**
	Items, net of tax, that will not be reclassified subsequently to profit or loss	-	-
70.	Defined benefit plans	399	(12)
	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	(22,223)	(4,342)
170.	**Total other comprehensive income (expense), net of income tax**	**(21,824)**	**(4,354)**
180.	**Comprehensive income (Items 10+170)**	**210**	**18,897**
190.	**Comprehensive income attributable to non-controlling interests**	**-**	**-**
200.	**Comprehensive income attributable to the owners of the parent**	**210**	**18,897**

STATEMENT OF CHANGES IN EQUITY AT 31/12/2022

Amounts in thousands of Euro

	Balance at 31.12.2021	Change in opening balances	Balance at 1.1.2022	Allocation of prior year profit		Changes during the year									Equity attributable to the owners of the parent at 31.12.2022	Equity attributable to non-controlling interests at 31.12.2022
							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 2022		
Share capital:																
a) ordinary shares	**9,651**		9,651												**9,651**	
b) other shares																
Share premium	**39,100**		39,100												**39,100**	
Reserves	**141,528**		141,528	17,482		(3,973)									**155,037**	
a) income-related	**138,857**		138,857	17,482		(3,007)									**153,332**	
b) other	**2,671**		2,671			(966)									**1,705**	
Valuation reserves	**(3,067)**		(3,067)											(21,824)	**(24,891)**	
Equity instruments	**45,500**		45,500												**45,500**	
Treasury shares								(559)							**(559)**	
Profit (loss) for the year	**23,251**		23,251	(17,482)	(5,769)									22,034	**22,034**	
Equity attributable to the owners of	**255,963**		**255,963**		**(5,769)**	**(3,973)**		**(559)**						**210**	**245,872**	
Equity attributable to non-controllir	**9,569**		**9,569**										**455**			**10,024**

STATEMENT OF CHANGES IN EQUITY 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 attributable to the owners of the parent 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 (loss) for the year	**26,153**		26,153	(19,719)	(6,434)									23,251	**23,251**	
Equity attributable to the owners of	**206,189**		**206,189**		**(6,434)**	**(189)**				**37,500**				**18,897**	**255,963**	
Equity attributable to non-controllir	**9,297**		**9,297**										**272**			**9,569**

STATEMENT OF CASH FLOWS (INDIRECT METHOD)

Amounts in thousands of Euro

	Amount	
	31.12.2022	31.12.2021
A. OPERATING ACTIVITIES		
1. Operations	**42,543**	**44,658**
Profit (loss) for the year (+/-)	22,034	23,251
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/gains due to credit risk (+/-)	8,359	10,652
Net impairment losses/gains on property and equipment and intangible assets (+/-)	2,995	2,710
Net accruals to provisions for risks and charges and other costs/income (+/-)	4,461	1,705
Taxes, duties and tax assets not yet paid (+/-)	(98)	(1,498)
Other adjustments (+/-)	4,792	7,838
2. Cash flows generated by (used for) financial assets	**(723,300)**	**89,028**
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	(105,725)	(18,897)
Financial assets measured at amortised cost	(570,229)	125,181
Other assets	(47,346)	(17,256)
3. Cash flows generated by (used for) financial liabilities	**642,249**	**(39,091)**
Financial liabilities measured at amortised cost	646,196	(31,883)
Financial liabilities held for trading		
Financial liabilities designated at fair value through profit or loss		
Other liabilities	(3,947)	(7,208)
Net cash flows generated by (used for) operating activities	**(38,508)**	**94,595**
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	**(4,411)**	**(11,205)**
Purchases of equity investments		
Purchases of property and equipment	(942)	(9,452)
Purchases of intangible assets	(2,354)	(1,753)
Purchases of business units	(1,115)	
Net cash flows generated by (used in) investing activities	**(4,411)**	**(11,205)**
C. FINANCING ACTIVITIES		
Issues/repurchases of treasury shares	(559)	
Issues/repurchases of equity instruments		37,500
Dividend and other distributions	(5,768)	(13,913)
Net cash flows generated by (used in) financing activities	**(6,327)**	**23,587**
NET CASH FLOWS FOR THE PERIOD	**(49,246)**	**106,977**

Cash and cash equivalents at the beginning of the year	**175,835**	**68,858**
Total net cash flows for the year	(49,246)	106,977
Cash and cash equivalents: effect of change in exchange rates		
Cash and cash equivalents at the end of the period	**126,589**	**175,835**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PART A - ACCOUNTING POLICIES

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 2022 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.

In 2022, the following accounting standards or amendments to existing accounting standards came into force:

- Amendments to IFRS3 Business Combinations;
- IAS16 Property, Plant and Equipment
- IAS37 Provisions, Contingent Liabilities and Contingent Assets;
- Annual improvements (EU Reg. 2021/1080).

The above changes had no material impact on the statement of financial position and income statement.

At 31 December 2022, the following documents were Endorsed by the European Commission:

- amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies (EU Reg. 2022/357) effective for annual reporting periods beginning on or after 1 January 2023;
- amendments to IAS 8 Accounting Policies, Changes and Errors in Estimates: Disclosure of Estimates (EU Reg. 2022/357) effective for annual reporting periods beginning on or after 1 January 2023;
- amendments to IAS 12 Income Taxes: Deferred Taxes Relating to Assets and Liabilities Arising from a Single Transaction (EU Reg. 2022/1392) effective for annual reporting periods beginning on or after 1 January 2023;
- Amendments to IFRS 17 Insurance Contracts: First-time Application of IFRS 17 and IFRS 9 - Comparative Disclosures (EU Reg. 2022/1491) effective for annual reporting periods beginning on or after 1 January 2023.

The group does not expect any significant impact from the entry into force of these accounting standard amendments.

Finally, at 31 December 2022, the IASB had issued the following accounting standards, interpretations or amendments to existing accounting standards, the application of which is, however, subject to the finalisation of the endorsement process by the competent bodies of the European Union:

- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current and Classification of Liabilities as Current or Non-Current - Deferral of Effective Date (January and July 2020, respectively); and Non-Current Liabilities with Covenants (31 October 2022);

Amendments to IFRS 16 Leases: Lease Liabilities in Sale and Leaseback Transactions (22 September 2022).

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.

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 period.

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 recoverable amounts 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 provisions for risks and charges, the amount or timing of which are uncertain;
- the recoverability of deferred tax assets;
- post-employment benefits and other employee benefits payable (including obligations under defined benefit plans).

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.

European Directive 2004/109/EC (the "Transparency Directive") and Delegated Regulation (EU) 2019/815 introduced the obligation for issuers of securities listed on regulated markets in the European Union to prepare their annual financial report using the XHTML language, based on the ESMA-approved European Single Electronic Format (ESEF). For 2022, the entire consolidated financial statements are expected to be "marked up" to ESEF taxonomy, using an integrated computer language (iXBRL).

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.

Company Names	Registered office	Type of Relationship (1)	Investment		% of votes available (2)
			Investing company	% held	
Corporates					
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%
Kruso Kapital S.p.A.	Italy	1	Banca Sistema	75%	75%
Pronto Pegno Greece	Greece	1	Kruso Kapital	75%	75%
Art-Rite S.r.l.	Italy	1	Kruso Kapital	75%	75%
Consolidated at equity:					
EBNSISTEMA Finance S.L.	Spain	7	Banca Sistema	50%	50%

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 and which are consolidated using the full consolidation method:

Quinto Sistema Sec. 2017 S.r.l.

Quinto Sistema Sec. 2019 S.r.l.

BS IVA SPV S.r.l.

Changes in the scope of consolidation

Compared to the situation as at 31 December 2022, the scope of consolidation has changed with the inclusion of ProntoPegno Greece and Art-Rite S.r.l.

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:

(a) the carrying amount of the investments held by the Parent and the corresponding part of the equity are eliminated;

(b) 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 "130 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 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.

Section 4 - Subsequent events

After the reporting date, there were no events worthy of mention in the notes to the consolidated financial statements which would have had an impact on the financial position, results of operations and cash flows of the Bank and Group.

For a description of significant events occurring after the end of the financial year, please refer to the information below.

On 27 February 2023, the Bank of Italy initiated an inspection on the parent Banca Sistema pursuant to Article 54, Legislative Decree 385/93, aimed at verifying the change in exposure to liquidity risk and the related operational controls. The inspection, which is still in progress, is being carried out in an orderly manner and no significant matters have been communicated to management.

Section 5 – Other aspects

The consolidated financial statements were approved on 10 March 2023 by the Board of Directors, which authorised its disclosure to the public in accordance with IAS 10.

Risks and uncertainties related to the conflict between Russia and Ukraine and the COVID-19 epidemic

The current market environment remains highly uncertain for both short-term and medium-term forecasts. The economic consequences of geopolitical tensions continue to manifest themselves and worsen the outlook for the economy of the Euro area, driving up inflationary pressures. In this regard, according to the ECB's macroeconomic projections updated in December 2022, the outlook for the Euro Area includes weak growth, persistently high inflation, high interest rates and an appreciating euro. The negative economic repercussions are expected to be partially mitigated by the energy-related fiscal measures that will support economic growth in 2023, but this is offset by the ending of previous fiscal support related to COVID-19. Also, high levels of natural gas stocks and ongoing efforts to reduce demand and replace Russian gas with alternative sources imply that the Euro Area should avoid the need for mandatory energy-related production cuts over the projection horizon, although the risks of energy supply disruptions remain high (for winter 2023-2024) with some negative economic implications. In the medium term, as the energy market comes back into balance, uncertainty is expected to decrease, and economic growth is expected to resume. Headline inflation is expected to remain extremely high in the short term and decline steadily through 2023.

In addition, ESMA published a document ("European common enforcement priorities for 2022 Annual Financial Reports") indicating the most relevant areas for monitoring and assessing the application of the reporting requirements for the 2022 financial statements. In particular, ESMA notes the need to assess and reflect the effects of the current macroeconomic environment (pandemic, inflation, rising interest rates, deterioration in the economic environment, geopolitical risks and uncertainties about future prospects) in the financial statements and reaffirms what has been set out in previous documents (i.e. October 2021 and June 2022) with regard to the ability to continue as a going concern, impairment of assets, estimation uncertainties, significant judgments and financial statement presentation.

Given the environment of persistent uncertainty outlined above, and considering the previously mentioned ESMA communication, the Bank defined some deteriorating parameters used to test the sustainability of credit exposures, as part of the IFRS 9 measurement model. Sensitivity analyses were also prepared for valuing equity investments and goodwill.

Regarding the risks, uncertainties and impacts of the COVID-19 epidemic, no significant impacts have been noted to date.

The Group's performance in 2023, like that of any other intermediary and, more generally, of any company, will be influenced by the outcome of the conflict, by monetary and fiscal policy decisions and by the ongoing COVID-19 health emergency.

Delegated Regulation (EU) 2019/815

European Directive 2004/109/EC (the "Transparency Directive") and Delegated Regulation (EU) 2019/815 introduced the obligation for issuers of securities listed on regulated markets in the European Union to prepare their separate financial statements using the XHTML language, based on the ESMA-approved European Single Electronic Format (ESEF).

For 2022, the entire consolidated financial statements are expected to be "marked up" to ESEF taxonomy, using an integrated computer language (iXBRL).

Audit of the financial statements

The separate and consolidated financial statements for the year ended 31 December 2022 have been audited by the independent auditors BDO Italia S.p.A. in accordance with Legislative Decree No. 39 of 27 January 2010 and in execution of the shareholders' resolution of 18 April 2019, which appointed them for the nine-year period 2019-2027.

A.2 – INFORMATION ON THE MAIN ITEMS OF THE 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.

Factoring receivables, after their recognition, are measured at amortised cost. This amortised cost is based on the present value of the receivable's expected cash flows. For some factoring receivables relating to the Public Administration and Healthcare entities, the Bank recognises the total receivable including the estimated default interest ("accrual"). This component is calculated over a limited perimeter that is composed of positions for which the conditions that set in motion a legal action for collection against the assigned debtor have not yet been met.

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

Investments in subsidiaries, associates and joint ventures are recognised at acquisition cost, which is the sum of:

- the fair value at the acquisition date of the assets transferred, the liabilities assumed, and the equity instruments issued by the acquirer, in exchange for control of the acquired company; plus
- any cost directly attributable to the acquisition itself.

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.

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 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 “250 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.

Under IAS 36, goodwill is not amortised, and an impairment test is conducted annually (or whenever there is evidence of impairment). For this purpose, goodwill is allocated to cash-generating units ("CGUs"), in compliance with limits on aggregation which may not be larger than the "business segment" identified for management reporting purposes. The amount of any impairment is determined based on the difference between the carrying amount of the CGU and its recoverable amount, being the higher of 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 Group 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 Bank'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.

Other assets and liabilities

Other assets and liabilities include all values that cannot be reclassified to other financial statement items.

Treasury shares

Treasury shares are recognised as a reduction of equity based on their acquisition cost. Gains or losses arising from their subsequent sale are always recognised directly to equity.

Recognition of revenues and costs

The recognition of revenue under IFRS 15 occurs when control over the goods or services subject to the contract is transferred, at an amount that reflects the consideration the enterprise receives or expects to receive from the sale.

For revenue recognition purposes, the standard requires:

- identification of the contract: contract for the sale of goods or services (or combination of contracts);
- identification of the performance obligations in the contract: identification of the obligations to perform under the contract;
- determination of the transaction price: definition of the transaction price for the contract, considering all its components;
- allocation of the transaction price to the performance obligations of the contract;
- recognition of revenue when (or to the extent to which) the performance obligation is satisfied.

Revenue arising from contractual obligations with customers is recognised in profit or loss when it is probable that the entity will receive the consideration to which it is entitled in exchange for the goods or services transferred to the customer. This consideration must be allocated to the individual obligations under the contract and recognised as revenue in profit or loss depending on the timing of performance of the obligation. If the entity receives consideration from the customer that it expects to refund to the customer, in whole or in part, for the revenue recognised in the profit or loss, it shall recognise a liability, which is to be estimated based on expected future refunds ("refund liability"). The estimated refund liability is updated at each annual or interim reporting date and is measured based on the portion of the consideration that the entity expects not to be entitled to.

Costs related to obtaining and fulfilling contracts with customers are recognised in the profit or loss in the periods in which the corresponding revenues are recognised in accordance with the matching of costs and revenues principle; costs that are not directly associated with revenues are immediately recognised in the profit or loss.

Costs directly attributable to financial instruments measured at amortised cost and which can be determined from the beginning, regardless of when they are settled, are charged to the profit or loss by applying the effective interest rate.

Dividends

Dividends are recognised in the profit or loss when their distribution is approved.

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.

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	31.12.2022			31.12.2021		
	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	553,384		5,000	446,261		5,000
3. Hedging derivatives						
4. Property and equipment						
5. Intangible assets						
Total	**553,384**		**5,000**	**446,261**		**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	31.12.2022				31.12.2021			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets measured at amortised cost	3,530,678	672,384		2,862,559	2,954,174	185,666		2,777,129
2. Investment property								
3. Non-current assets held for sale and disposal groups								
Total	**3,530,678**	**672,384**		**2,862,559**	**2,954,174**	**185,666**		**2,777,129**
1. Financial liabilities measured at amortised cost	3,916,974			3,916,974	3,257,401			3,257,401
2. Liabilities associated with disposal groups								
Total	**3,916,974**			**3,916,974**	**3,257,401**			**3,257,401**

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

	31.12.2022	31.12.2021
a) Cash	1,667	1,626
b) current accounts and demand deposits with Central Banks	66,133	108,965
c) Current and deposit accounts with banks	58,789	65,244
Total	**126,589**	**175,835**

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

	31.12.2022			31.12.2021		
	L1	L2	L3	L1	L2	L3
1. Debt instruments	**553,046**			**445,804**		
1.1 Structured instruments						
1.2 Other debt instruments	553,046			445,804		
2. Equity instruments	**338**		**5,000**	**457**		**5,000**
3. Financing						
Total	**553,384**		**5,000**	**446,261**		**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

	31.12.2022	31.12.2021
1. Debt instruments	**553,046**	**445,804**
a) Central Banks		
b) General governments	553,046	445,804
c) Banks		
d) Other financial corporations		
of which: insurance companies		
e) Non-financial corporations		
2. Equity instruments	**5,338**	**5,457**
a) Banks	5,000	5,000
b) Other issuers:	338	457
- other financial corporations	338	457
of which: insurance companies		
- non-financial corporations		
- other		
4. Financing		
a) Central Banks		
b) General governments		
c) Banks		
d) Other financial corporations		
of which: insurance companies		
e) Non-financial corporations		
f) Households		
Total	**558,384**	**451,261**

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 securities	553,368	553,368				322				
Financing										
Totale 31.12.2022	**553,368**	**553,368**				**322**				
Totale 31.12.2021	**445,982**	**445,982**				**178**				

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

	31.12.2022						31.12.2021					
	Carrying amount			Fair value			Carrying amount			Fair value		
	First and second stage	Third stage	of which: purchased or originated credit-impaired	L1	L2	L3	First and second stage	Third stage	of which: purchased or originated credit-impaired	L1	L2	L3
A. Loans and receivables with Central Banks	**17,617**					**17,617**	**18,319**					**18,319**
1. Term deposits				X	X	X				X	X	X
2. Minimum reserve	16,308			X	X	X	18,319			X	X	X
3. Reverse repurchase agreements				X	X	X				X	X	X
4. Other	1,309			X	X	X				X	X	X
B. Loans and receivables with banks	**17,289**	**11**				**17,300**	**15,092**					**14,823**
1. Financing	**17,289**	**11**				**17,300**	**15,092**					**14,823**
1.1 Current accounts and demand deposits				X	X	X	81			X	X	X
1.2. Term deposits	15,000			X	X	X				X	X	X
1.3. Other financing:	2,289	11		X	X	X	15,011			X	X	X
- Reverse repurchase agreements				X	X	X				X	X	X
- Finance leases				X	X	X				X	X	X
- Other	2,289	11		X	X	X	15,011			X	X	X
2. Debt instruments												
2.1 Structured instruments												
2.2 Other debt instruments												
Total	**34,906**	**11**				**34,917**	**33,411**					**33,141**

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

	31.12.2022						31.12.2021					
	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
Financing	**2,591,634**	**223,005**	**84**			**2,916,532**	**2,481,170**	**255,552**				**2,736,722**
1.1. Current accounts	319	153		X	X	X	538	47		X	X	X
1.2. Reverse repurchase agreements				X	X	X				X	X	X
1.3. Loans	195,790	1,966		X	X	X	160,363	425		X	X	X
1.4. Credit cards, personal loans and salary- and pension-backed	899,411	15,411		X	X	X	909,921	11,068		X	X	X
1.5. Finance leases				X	X	X				X	X	X
1.6. Factoring	1,083,395	190,501	84	X	X	X	995,912	230,176		X	X	X
1.7. Other financing	412,719	14,974		X	X	X	414,436	13,836		X	X	X
Debt instruments	**681,038**			**672,384**			**184,041**			**182,885**		
1.1. Structured instruments												
1.2. Other debt instruments	681,038			672,384			184,041			182,885		
Total	**3,272,672**	**223,005**	**84**	**672,384**		**2,916,532**	**2,665,211**	**255,552**		**182,885**		**2,736,722**

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

Loans and receivables with customers, recognised under financial assets measured at amortised cost at 31 December 2022, amounted to €3,496 million, or about 80% of the Group's Total Assets. Salary- and pension-backed loans (included in line items 1.4 and 1.5 of the table) amounted to €933 million, while factoring receivables, including tax receivables recognised under Other loans, amounted to €1,501 million; these include €56 million relating to the stock of default interest pursuant to Legislative Decree No. 231 of 9 October 2002, accrued as of 31 December 2022, which is pertinent to the allocation model.

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

	31.12.2022			31.12.2021		
	First and second stage	Third stage	Purchased or originated credit-impaired	First and second stage	Third stage	Purchased or originated credit-impaired
1. Debt securities	681,032			184,041		
a) General governments	681,032			184,041		
b) Other financial corporations						
of which: insurance companies						
c) Non-financial corporations						
2. Financing to:	2,591,640	223,005	84	2,481,170	255,552	
a) General governments	1,024,613	172,132	84	940,190	208,863	
b) Other financial corporations	78,653	2,225		20,876	1	
of which: insurance companies	256	2,223		9		
c) Non-financial corporations	457,290	31,264		475,716	32,825	
d) Households	1,031,084	17,384		1,044,388	13,863	
Total	**3,272,672**	**223,005**	**84**	**2,665,211**	**255,552**	

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

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		Second stage	Third stage	Purchased or originated credit-impaired	First stage	Second stage	Third stage	Purchased or originated credit-impaired	
		of which instruments with low credit risk								
Debt securities	681,400	681,399				367				
Financing	2,520,239	953,641	112,795	284,744	84	4,496	1,993	61,728		
Totale 31.12.2022	**3,201,639**	**1,635,040**	**112,795**	**284,744**	**84**	**4,863**	**1,993**	**61,728**	**-**	**-**
Totale 31.12.2021	**2,602,642**	**1,018,552**	**102,864**	**315,070**	**1**	**6,324**	**560**	**59,519**		

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	Third stage	Purchased or originated credit-impaired	
1. Forborne loans in compliance with the EBA Guidelines	8,029			246		1,289		47		
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	150,901			515		360		1		
Totale 31.12.2022	158,930			761		1,649		48		
Totale 31.12.2021	157,666		2,507	5,761		413	12	1,325		

Section 7 - Equity investments - item 70

7.1 Equity investments: information on investment relationships

	Registered office	Interest %	Votes available %
A. Fully-controlled companies			
S.F. Trust Holdings Ltd	London	100%	100%
Largo Augusto Servizi e Sviluppo S.r.l.	Milan	100%	100%
Kruso Kapital S.p.A.	Milan	75%	75%
ProntoPegno Greece	Athens	75%	75%
Art-Rite S.r.l.	Milan	75%	75%
B. Joint ventures			
EBNSISTEMA Finance S.L.	Madrid	50%	50%

As at 31 December 2022, the Bank held the following equity investments, which were unchanged from the previous year:

- S.F. Trust Holding Ltd, a company incorporated under English law, which was put into liquidation on 17 December 2021 and whose liquidation process has not yet been completed. The investment was already completely written down in previous years;
- Largo Augusto Servizi e Sviluppo S.r.l., a real estate company whose main business activity is carried out for Banca Sistema Group;
- Kruso Kapital S.p.A. (formerly Pronto Pegno S.p.A.) is a company operating in the collateralised lending sector and is listed in the Bank of Italy's register of Financial Intermediaries pursuant to Article 106 of the Consolidated Law on Banking no. 19493. The Company is 75% owned by Banca Sistema S.p.A. and 25% owned by three Foundations (Pisa, CR Alessandria and Cuneo);
- Pronto Pegno Greece is an Athens-based company operating in the collateralised lending sector that was established in 2022 and is 100% owned by Kruso Kapital S.p.A.;
- Art Rite S.r.l. is an auction house 100% of whose capital was acquired by Kruso Kapital S.p.A.;

EBN Sistema Finance S.L. is a company established under Spanish law with registered office in Madrid operating in the Public Administration factoring segment in the Iberian Peninsula (Spain and Portugal). Its main activity is the origination of healthcare receivables with simultaneous sale to the two majority shareholders. The investment recognised in the financial statements relates to the 50/50 joint venture with EBN Banco de Negocios S.A. in EBNSISTEMA completed on 29 December 2020 through the subscription of a capital increase of € 1 million. At the end of 2022, EBN Sistema Finance originated € 275 million in loans and receivables, an increase compared to the 120 million reported in 2021.

7.2 Non-significant equity investments: carrying amount

	31.12.2022	31.12.2021
B. Joint ventures		
EBNSistema Finance Sl	970	1,002

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	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	Comprehensive income (expense)
A. Fully-controlled companies														
1. S.F. Trust Holdings Ltd										(23)	(23)	(23)		(23)
2. Largo Augusto Servizi e Sviluppo S.r.l.			36,861	21,634	425	1,811	(219)	(834)	(188)	(124)		(124)		(124)
3. Kruso Kapital S.p.A.	4,884	106,867	38,755	100,633	9,844	16,421	7,088	(1,325)	3,387	2,322		2,322		1,105
4. ProntoPegno Greece	98	46	1,481	928	1,034	1	(6)	(139)	(362)	(362)		(362)		(362)
5. Art-Rite S.r.l.	80		280	52	481	53	42	(2)	(137)	(137)		(137)		(137)

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 (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	Comprehensive income (expense)
B. Joint ventures														
1. EBN SISTEMA FINANCE S.L.	12,420	12			10,509		501		(83)	(63)		(63)		(63)

7.5 Equity investments: changes

	31.12.2022	31.12.2021
A. Opening balance	**1,002**	**100**
B. Increases		**2**
B.1 Purchases		
B.2 Impairment gains		
B.3 Revaluations		
B.4 Other increases		2
C. Decreases	**32**	**-**
C.1 Sales		
C.2 Impairment losses		
C.3 Write-offs		
C.4 Other decreases	32	
D. Closing balance	**970**	**1,002**
E. Total revaluations		
F. Total impairment losses		

The decrease relates to the pro-quota result for 2022 of EBN Sistema Finance.

Impairment test on equity investments

As required by IAS/IFRS standards, equity investments are subjected to an impairment test to verify whether there is objective evidence that the carrying value of the assets in question is not fully recoverable.

For equity investments in associates, joint control, and joint ventures, the process of recognising any impairment includes verifying the existence of impairment indicators and determining any write-down. For these unlisted equity investments, the impairment indicators used include:

qualitative indicators, such as the posting losses or, otherwise, material differences with respect to budget targets, the announcement of restructuring plans or the commencement of bankruptcy proceedings;

quantitative indicators represented by a carrying amount of the investment in the separate financial statements that is significantly, and for a prolonged period, higher than the carrying amount in the net assets and goodwill in the consolidated financial statements of the investee company.

When impairment indicators exist, the recoverable value, which is the higher of the fair value less costs to sell and its value in use, is determined, and if the latter is lower than the carrying value, an impairment loss is recognised.

In this regard, it should be noted that the valuation carried out for EBN Sistema Finance confirmed that the recognised values were appropriate. The Company posted a loss for the year that was not significant, but in line with the Budget. The increase in assets, as described above, is evidence of the Company's growth.

Section 9 – Property and equipment – Item 90

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

	31.12.2022	31.12.2021
1 Owned	**37,217**	**37,211**
a) land	10,897	10,897
b) buildings	24,512	24,922
c) furniture	576	427
d) electronic equipment	1,232	965
e) other	-	-
2 Right-of-use assets acquired under finance lease	**6,157**	**3,569**
a) land	-	
b) buildings	5,546	2,801
c) furniture	-	
d) electronic equipment	-	
e) other	611	768
Total	**43,374**	**40,780**
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	**10,897**	**32,492**	**1,613**	**3,121**	**1,993**	**50,116**
A.1 Total net impairment losses		4,769	1,186	2,156	1,225	9,336
A.2 Net opening balances	**10,897**	**27,723**	**427**	**965**	**768**	**40,780**
B. Increases:		**4,666**	**249**	**562**	**233**	**5,710**
B.1 Purchases		4,361	241	538	228	5,368
B.2 Capitalised improvement costs		305				305
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			X	X	X	-
B.7 Other increases						-
B.8 Business combination transactions			8	24	5	37
C. Decreases:		**2,331**	**100**	**295**	**390**	**3,116**
C.1 Sales						-
C.2 Depreciation		1,915	93	283	370	2,661
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			X	X	X	-
b) non-current assets held for sale and disposal groups						-
C.7 Other decreases		416			15	431
C.8 Business combination transactions			7	12	5	24
D. Net closing balance	**10,897**	**30,058**	**576**	**1,232**	**611**	**43,374**
D.1 Total net impairment losses	-	7,100	1,286	2,451	1,615	12,452
D.2 Gross closing balance	**10,897**	**37,158**	**1,862**	**3,683**	**2,226**	**55,826**
E. Measurement at cost	10,897	30,058	576	1,232	611	43,374

Section 10 – Intangible assets – Item 100

10.1 Intangible assets: breakdown by type of asset

	31.12.2022		31.12.2021	
	Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life
A.1 Goodwill		**33,526**	**x**	**32,355**
A.2 Other intangible assets	**990**		**770**	
of which software	829		770	
A.2.1 Assets measured at cost:	990		770	
a) Internally developed assets	193			
b) Other	797		770	
A.2.2 Assets measured at fair value:				
a) Internally developed assets				
b) Other				
Total	**990**	**33,526**	**770**	**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 € 32.9 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;
- 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.
- provisional goodwill of € 1.2 million, resulting from the acquisition of ArtRite which was completed on 2 November 2022.

Goodwill impairment tests

Pursuant to IAS 36, goodwill is not amortised, but is tested for impairment at least once a year. For the purpose of this test, goodwill must be allocated to cash-generating units ("CGUs"), in compliance with limits on aggregation which may not be larger than the “operating segment" identified, pursuant to IFRS 8, for management reporting purposes. Specifically, IAS 36 defines the "recoverable amount" as the higher of the value in use and fair value less costs to sell, where fair value is defined as the price that would be received to sell an asset or that would be paid to transfer a liability in an arm's length transaction at the measurement date; the value in use is the present value of the future cash flows expected to be generated by an asset or cash-generating unit. IAS 36 requires goodwill to be tested for impairment to ensure that an entity's assets are not carried at a higher value than their recoverable amount (i.e. the higher of their fair value less costs of disposal and value in use, as described above).

Identification of CGUs

The CGU identified for the ex-Solvi and Atlantide goodwill is the Bank, as management reporting identifies a lower level of CGUs (CQ business unit and Factoring business unit), but there is no specific capital allocation that would allow these CGUs to be autonomous. For the goodwill of the former ISP pledge branch, Kruso Kapital S.p.A. and Art-Rite S.r.l., it is the respective companies as a whole.

Impairment test of the goodwill of the collateralised lending business unit, formerly Intesa Sanpaolo

The Group used an external expert to provide professional assistance in carrying out an impairment test of the remaining goodwill recognised in the separate financial statements of Kruso Kapital S.p.A. following the PPA of the collateralised lending business unit acquired from Intesa Sanpaolo. Given the similarity of values and CGU, this work was also purchased for the consolidated financial statements of Banca Sistema S.p.A.

The measurement method used was based on the 2022-2026 projections of the Kruso Kapital CGU approved by the Board of Directors of Kruso Kapital on 9 March 2023 (“Budget Data").

The expert used the Excess Capital variant of the Dividend Discount Model ('DDM') which is one of the methods based on projected cash flows, represented in this case by future dividends, which is recognised by the majority of academics and practitioners, particularly for companies subject to minimum regulatory capital requirements. This method makes it possible to account for the equity capital of the companies being valued in relation to the regulatory requirements and their earnings prospects reflected in the projections. In particular, only the value in use of the CGUs was estimated (and not the fair value) as this value is higher than the net carrying amount and therefore makes it possible to confirm the value of goodwill, which is consistent with IAS 36.

The growth rate ("g-rate") is assumed to be 2.0%, in line with the long-term inflation estimate for Italy (Source: International Monetary Fund, October 2022).

The cost of capital used to discount cash flows was 12.2% estimated by applying the Capital Asset Pricing Model (CAPM) methodology, using the following variables:

- risk free rate of 4.6%, equal to the yield of the 10-year BPT (Italian treasury bond) maturing on 31 December 2022;
- market risk premium of 6.0% equal to the equity risk premium Source: Duff & Phelps;
- Beta coefficient, which measures the variability of a security's performance with respect to the market, determined based on a sample of comparable companies and weighted by their respective market capitalisation (levered rate equal to 1.3% and is represented by the historical data of a sample of 6 listed Italian banks).

Finally, a sensitivity analysis was performed on the underlying parameters of the model, assuming a variation of +/- 0.25% of the Ke and the g-rate.

The Impairment Test on the goodwill recognised in the consolidated financial statements of Banca Sistema, obtained by comparing the middle value of the recoverable value range attributed to the CGU and the relevant carrying amount, confirmed the adequacy of the values recognised.

Impairment test on Art Rite S.r.l. goodwill

Regarding the goodwill of Art-Rite S.r.l., the Group used the same external expert to provide professional assistance in carrying out an impairment test of the remaining goodwill recognised in the consolidated financial statements of Banca Sistema S.p.A. following the PPA for Art-Rite S.r.l.

The measurement method adopted was based on the 2022-2025 projections of the Art-Rite CGU approved by the Board of Directors of Kruso Kapital on 9 February 2023, also related to the 2022-2026 projections of the Kruso Kapital CGU approved by the Board of Directors of Kruso Kapital on 9 March 2023 ("Budget Data").

The expert used the Discounted Cash Flow Method ("DCF") inspired by the general concept that the value of a company is equal to the discounted value of the following two elements:

- cash flows that it is expected to generate within the forecast horizon;
- the residual value ("Terminal Value" or "TV"), i.e. the value of the business in the period beyond the forecast period.

In the approach that considers operating cash flows (unlevered approach), to obtain the economic value of the operating capital employed ('Enterprise Value' or 'EV'), the cash flows considered are the Unlevered Free Cash Flow ('UFCF'), which are cash flows from operations that reflect the financial aspect of current operations and are thus determined by transforming the operating income generated into actual flows of financial resources generated by core operations, which are discounted at the Weighted Average Cost of Capital (“WACC”). The resulting value is adjusted by the net financial position ("NFP") at the measurement date and by the amount of the value of any non-operating assets, thus obtaining the Equity Value.

The Discounted Cash Flow was based on the statement of financial position at 31 December 2022 of the Art-Rite CGU and the Budget Data approved by the Management of Kruso. The value in use was calculated as the sum of the following components:

- projected 2022-2025 operating cash flows of the Art-Rite CGU discounted at the cost of capital ("Ke Unlevered") of 10.7%;
- Terminal Value. This value represents the sustainable cash flow for the years following the explicit forecast period and was determined based on (i) the expected EBITDA to 2025, (ii) the growth rate ("g") assumed to be 2.0%, which is in line with the long-term inflation rate estimate for Italy (Source: International Monetary Fund, October 2022), and (iii) the discount rate reflected by Ke Unlevered.

The cost of equity is calculated using the Capital Asset Pricing Model (CAPM) method and is composed of:

- risk free rate of 4.6%, equal to the yield of the 10-year BPT (Italian treasury bond) maturing on 31 December 2022;
- market risk premium of 6.0% equal to the equity risk premium Source: Duff & Phelps;
- Beta coefficient, which measures the variability of a security's performance with respect to the market, determined based on a sample of comparable companies and weighted by their respective market capitalisation (unlevered rate equal to 1% and is represented by the historical data of a sample of 4 listed companies operating in the auction house sector).

Finally, a sensitivity analysis was performed on the underlying parameters of the model, assuming a variation of +/- 0.25% of the Ke Unlevered rate and the g-rate.

The Impairment Test on the goodwill of Art-Rite recognised in the consolidated financial statements of Banca Sistema, obtained by comparing the middle value of the recoverable value range attributed to the Art-Rite CGU, confirmed the adequacy of the values recognised.

Impairment test on ex-Solvi and Atlantide goodwill

The Group did not use an external expert and performed the impairment test internally. The measurement method used was based on the 2022-2026 projections of the Bank approved by the Board of Directors of Banca Sistema on 10 March 2023 (“Budget Data").

The Bank used the Excess Capital variant of the Dividend Discount Model ('DDM') method.

The growth rate ("g-rate") is assumed to be 2.0%, in line with the long-term inflation estimate for Italy (Source: International Monetary Fund, October 2022).

The cost of capital used to discount cash flows was 12.68% estimated by applying the Capital Asset Pricing Model (CAPM) methodology, using the following variables:

- risk free rate of 4.6%, equal to the yield of the 10-year BPT (Italian treasury bond) maturing on 31 December 2022;
- market risk premium of 6.0% equal to the equity risk premium Source: Duff & Phelps;
- Beta coefficient, which measures the variability of a security's performance with respect to the market, determined based on a sample of comparable companies and weighted by their respective market capitalisation (levered rate equal to 1.35% and is represented by the historical data of a sample of 6 listed Italian banks).

Finally, a sensitivity analysis was performed on the underlying parameters of the model, assuming a variation of +/- 0.25% of the Ke and the g-rate.

The Impairment Test on the goodwill recognised in the consolidated financial statements of Banca Sistema, obtained by comparing the recoverable value attributed to the CGU and the relevant carrying amount, confirmed the adequacy of the values recognised.

Considering all the above, the conditions necessary to recognise an impairment loss on the goodwill carrying amounts in the financial statements at 31 December 2022 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**			**4,147**		**36,502**
A.1 Total net impairment losses				3,377		3,377
A.2 Net opening balances	**32,355**			**770**		**33,125**
B. Increases	**1,171**			**531**		**1,434**
B.1 Purchases				268		
B.2 Increases in internally developed assets	X					
B.3 Impairment gains	X					
B.4 Fair value gains recognised in:						
- equity	X					
- profit or loss	X					
B.5 Exchange rate gains						
B.6 Other increases						
B.7 Business combination transactions	1,171			263		1,434
C. Decreases				**311**		**311**
C.1 Sales						
C.2 Impairment losses				241		241
- Amortisation	X			241		241
- Impairment losses:						
- equity	X					
- profit or loss						
C.3 Fair value losses recognised in:						
- equity	X					
- profit or loss	X					
C.4 Transfers to disposal groups						
C.5 Exchange rate losses						
C.6 Other decreases						
C.7 Business combination transactions				70		70
D. Net closing balance	**33,526**			**990**		**34,516**
D.1 Total net impairment losses				3,688		3,688
E. Gross closing balance	**33,526**			**4,678**		**38,204**
F. Measurement at cost						

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

	31.12.2022	31.12.2021
Current tax assets	**11,055**	**12,552**
IRES prepayments	8,321	9,829
IRAP prepayments	2,470	2,596
Other	264	127
Current tax liabilities	**(9,155)**	**(11,777)**
Provision for IRES	(5,931)	(8,693)
Provision for IRAP	(2,520)	(2,612)
Provision for substitute tax	(704)	(472)
Total	**1,900**	**775**

11.1 Deferred tax assets: breakdown

	31.12.2022	31.12.2021
Deferred tax assets through profit or loss:	**9,980**	**10,257**
Impairment losses on loans	**1,733**	**1,996**
Non-recurring transactions	348	381
Other	7,899	7,880
Deferred tax assets through equity:	**12,745**	**1,771**
Non-recurring transactions	200	219
HTCS securities	12,483	1,432
Other	62	120
Total	**22,725**	**12,028**

11.2 Deferred tax liabilities: breakdown

	31.12.2022	31.12.2021
Deferred tax liabilities through profit or loss:	**16,787**	**14,944**
Uncollected default interest income	**15,493**	**14,173**
Other	1,294	772
Deferred tax liabilities through equity:	**-**	**-**
HTCS securities	-	-
Total	**16,787**	**14,944**

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

	31.12.2022	31.12.2021
1. Opening balance	**10,257**	**9,712**
2. Increases	**2,849**	**3,004**
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	2,823	3,004
e) business combination transactions	-	-
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	26	-
3. Decreases	**3,126**	**2,459**
3.1 Deferred tax assets derecognised in the year	-	2,454
a) reversals	-	-
b) impairment due to non-recoverability	-	-
c) changes in accounting policies	-	-
d) other	3,126	2,454
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	**9,980**	**10,257**

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

	31.12.2022	31.12.2021
1. Opening balance	**2,596**	**3,029**
2. Increases	**-**	**-**
3. Decreases	**315**	**433**
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	315	433
4. Closing balance	**2,281**	**2,596**

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

	31.12.2022	31.12.2021
1. Opening balance	**14,944**	**14,033**
2. Increases	**1,843**	**920**
2.1 Deferred tax liabilities recognised in the year	1,843	920
a) related to previous years	-	-
b) due to changes in accounting policies	-	-
c) other	1,843	920
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**-**	**9**
3.1 Deferred tax liabilities derecognised in the year		
a) reversals	-	-
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Tax rate reductions	-	-
3.3 Other decreases	-	9
4. Closing balance	**16,787**	**14,944**

11.6 Change in deferred tax assets (through equity)

	31.12.2022	31.12.2021
1. Opening balance	**1,771**	**539**
2. Increases	**12,483**	**1,443**
2.1 Deferred tax assets recognised in the year	12,483	1,443
a) related to previous years		
b) due to changes in accounting policies		
c) other	12,483	1,443
2.2 New taxes or tax rate increases		
2.3 Other increases		
3. Decreases	**1,507**	**211**
3.1 Deferred tax assets derecognised in the year	1,461	35
a) reversals		
b) impairment due to non-recoverability		
c) due to changes in accounting policies		
d) other	1,461	35
3.2 Tax rate reductions		
3.3 Other decreases	46	176
4. Closing balance	**12,747**	**1,771**

11.7 Change in deferred tax liabilities (through equity)

	31.12.2022	31.12.2021
1. Opening balance		**875**
2. Increases		
2.1 Deferred tax liabilities recognised in the year		
a) related to previous years		
b) due to changes in accounting policies		
c) other		
2.2 New taxes or tax rate increases		
2.3 Other increases		
3. Decreases		**875**
3.1 Deferred tax liabilities derecognised in the year		875
a) reversals		
b) due to changes in accounting policies		
c) other		875
3.2 Tax rate reductions		
3.3 Other decreases		
4. Closing balance		

Section 12 - Non-current assets held for sale and disposal groups and associated liabilities - Item 120 of assets and item 70 of liabilities

12.1 Non-current assets held for sale and disposal groups: breakdown by type of asset

	31.12.2022	31.12.2021
A. Non-current assets held for sale		
A.1 Financial assets		
A.2 Investments		
A.3 Property and equipment		
of which: resulting from the enforcement of guarantees		
A.4 Intangible assets		
A.5 Other		
Total A		
B. Discontinued operations		
B.1 Financial assets measured at fair value through profit or loss		
B.2 Financial assets measured at fair value through other comprehensive income		
B.3 Financial assets measured at amortised cost	40	67
B.4 Investments		
B.5 Property and equipment		
B.6 Intangible assets		
B.7 Other assets		1
Total B	**40**	**68**
of which measured at cost		1
of which Fair value level 1	40	67
of which Fair value level 2		
of which Fair value level 3		
C. Liabilities associated with non current assets held for sale		
C.1 Debts		
C.2 Securities		
C.3 Other		
Total C		
D. Liabilities associated with discontinued operations		
D.1 Financial liabilities measured at amortised cost		
D.2 Financial liabilities held for trading		
D.3 Financial liabilities designated at fair value		
D.4 Allowances		
D.5 Other	13	18
Total D	**13**	**18**
of which measured at cost	13	18
of which Fair value level 1		
of which Fair value level 2		
of which Fair value level 3		

12.2 Other Information

The item includes Non-current assets held for sale and associated liabilities related to the liquidation of the equity investment in S.F. Trust Holding Ltd, a company incorporated under English law, which was put into liquidation on 17 December 2021 and whose liquidation process has not yet been completed.

Section 13 - Other assets - Item 130

13.1 Other assets: breakdown

	31.12.2022	31.12.2021
Ecobonus 110% tax assets	54,914	16,462
Tax advances	7,560	8,001
Work in progress	6,045	5,917
Prepayments not related to a specific item	4,730	3,803
Trade receivables	917	1,422
Other	999	2,947
Leasehold improvements	2,632	1,072
Security deposits	192	182
Total	**77,989**	**39,806**

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

	31.12.2022				31.12.2021			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Due to Central banks	**537,883**	**X**	**X**	**X**	**540,095**	**X**	**X**	**X**
2. Due to banks	**84,983**	**X**	**X**	**X**	**52,062**	**X**	**X**	**X**
2.1 Current accounts and demand deposits	2,336	X	X	X		X	X	X
2.2 Term deposits	65,084	X	X	X		X	X	X
2.3 Financing	16,627	X	X	X		X	X	X
2.3.1 Repurchase agreements		X	X	X		X	X	X
2.3.2 Other	16,627	X	X	X	11,165	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	936	X	X	X		X	X	X
Total	**622,866**			**622,866**	**592,157**			**592,157**

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

	31.12.2022				31.12.2021			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	639,184	X	X	X	777,850	X	X	X
2. Term deposits	1,431,435	X	X	X	1,387,255	X	X	X
3. Financing	978,636	X	X	X	305,268	X	X	X
3.1 Repurchase agreements	865,878	X	X	X	249,256	X	X	X
3.2 Other	112,758	X	X	X	56,012	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	6,955	X	X	X	1,681	X	X	X
Total	**3,056,210**			**3,056,210**	**2,472,054**			**2,472,054**

Key:

CA = carrying amount

L1 = Level 1

L2 = Level 2

L3 = Level 3

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

	31.12.2022				31.12.2021			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. bonds	**237,899**			**237,899**	**193,190**			**193,190**
1.1 structured								
1.2 other	237,899			237,899	193,190			193,190
2. other securities								
2.1 structured								
2.2 other								
Total	**237,899**			**237,899**	**193,190**			**193,190**

Key:
CA = carrying amount
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 consolidated financial statements.

Section 7 - Liabilities associated with disposal groups - Item 80

The breakdown as well as the change in the liabilities associated with assets held for sale were illustrated in Part B Section 12 of assets in these notes to the consolidated financial statements.

Section 8 - Other Liabilities - Item 80

8.1 Other liabilities: breakdown

	31.12.2022	31.12.2021
Payments received in the reconciliation phase	103,512	84,177
Accrued expenses	18,814	16,305
Work in progress	19,245	15,860
Trade payables	7,257	9,839
Tax liabilities with the Tax Authority and other tax authorities	9,194	5,743
Finance lease liabilities	5,776	3,655
Due to employees	1,868	1,120
Pension repayments	939	930
Other	291	366
Total	**166,896**	**137,995**

Section 9 - Post-employment benefits - Item 90

9.1 Post-employment benefits: changes

	31.12.2022	31.12.2021
A. Opening balance	**4,311**	**4,428**
B. Increases	**1,127**	**213**
B.1 Accruals	1,121	75
B.2 Other increases		138
B.3 Business combination transactions	6	
C. Decreases	**1,331**	**331**
C.1 Payments	297	205
C.2 Other decreases	1,034	126
D. Closing balance	**4,107**	**4,310**

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	3.77%

Annual inflation rate 2.30%

Annual post-employment benefits increase rate 3.225%

Annual real 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

	31.12.2022	31.12.2021
1. Provisions for credit risk related to commitments and financial guarantees issued	24	39
2. Provisions for other commitments and other guarantees issued		
3. Internal pension funds		
4. Other provisions for risks and charges	36,468	28,615
4.1 legal and tax disputes	12,818	3,699
4.2 personnel expense	5,411	7,716
4.3 other	18,239	17,200
Total	**36,492**	**28,654**

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	**39**		**28,615**	**28,654**
B. Increases			**17,424**	**17,424**
B.1 Accruals			15,321	15,321
B.2 Discounting				-
B.3 Changes due to discount rate changes				-
B.4 Other increases			2,103	2,103
C. Decreases	**15**		**9,571**	**9,586**
C.1 Utilisations			5,771	5,771
C.2 Changes due to discount rate changes				
C.3 Other decreases	15		3,800	3,815
D. Closing balance	**24**		**36,468**	**36,492**

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	24			24
Total	**24**	**-**	**-**	**24**

10.5 Internal defined benefit pension funds

Nothing to report.

10.6 Provisions for risks and charges - other provisions

	31.12.2022	31.12.2021
Legal and tax disputes	12,818	3,699
Personnel expense	5,411	7,716
Other	18,239	17,200
Total	**36,468**	**28,615**

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, 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, as at 31 December 2022 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:

Person at the top of the chain of ownership	Shareholder	No. of shares	% of the voting capital
	SGBS S.r.l.	18,577,263	23.10%
Gianluca Garbi	Garbifin S.r.l.	434,274	0.54%
	Gianluca Garbi	731,832	0.91%
	Fondazione Cassa di Risparmio di Alessandria	6,288,926	7.82%
	Chandler	6,015,495	7.48%
	Fondazione Sicilia	5,951,158	7.40%
	Moneta Micro Entreprises	4,117,558	5.12%
	Fondazione Cassa di Risparmio di Cuneo	4,029,095	5.01%
	Treasury shares	281,474	0.35%
MARKET		33,993,979	42.27%
TOTAL SHARES		**80,421,052**	**100.00%**

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

	Amount 31.12.2022	Amount 31.12.2021
1. Share capital	9,651	9,651
2. Share premium	39,100	39,100
3. Reserves	155,037	141,528
4. Equity instruments	45,500	45,500
5. (Treasury shares)	(559)	-
6. Valuation reserves	(24,891)	(3,067)
7. Equity attributable to non-controlling interests	10,024	9,569
8. Profit	22,034	23,251
Total	**255,896**	**265,532**

The Parent, Banca Sistema, holds a total of 280,919 treasury shares corresponding to 0.349% of the share capital valued at € 558,600.

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 (-)		
A.2 Outstanding shares: opening balance		
B. Increases	**412,081**	**-**
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	412,081	
B.3 Other increases		
C. Decreases	**693,000**	
C.1 Cancellation		
C.2 Repurchase of treasury shares	693,000	
C.3 Disposal of equity investments		
C.4 Other decreases		
D. Outstanding shares: closing balance	**80,140,133**	
D.1 Treasury shares (+)		
D.2 Closing balance		
- 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.

	Valore al 31.12.2022	Possible use	Available portion
A) Share capital	9,651	-	
B) Equity-related reserves:	39,100	-	
Share premium reserve	39,100	A,B,C	
Reserve to provide for losses	-	-	
C) Income-related reserves:	128,442	-	
Legal reserve	1,984	B	
Valuation reserve	(24,891)	-	
Negative goodwill	1,774	A,B,C	
Retained earnings	149,575	A,B,C	
Reserve for treasury shares	-	-	
Reserve for future capital increase	-	-	
D) Other reserves	1,705	-	
E) Equity instruments	45,500	-	
F) Treasury shares	(559)	-	
Total	**223,839**	**-**	
Profit for the year	22,034	-	
Total equity	**245,873**	**-**	
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% From 18 June 2023, 6-month Euribor +5% variable rate	Perpetual	8,000	8,018
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**	**45,576**

Therefore, the characteristics of bonds issued at 31 December 2022, which given their predominant characteristics are classified under equity instruments in item 140 of equity, 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). 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"

	31.12.2022	31.12.2021
Equity investments in consolidated companies with significant non-controlling interests		
1. Kruso Kapital S.p.A.	10,084	9,538
2. ProntoPegno Greece	(91)	-
3. Quinto Sistema 2019 S.r.l.	12	12
4. Quinto Sistema 2017 S.r.l.	9	9
5. BS IVA S.r.l.	10	10
Total	**10,024**	**9,569**

Other information

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

	Nominal amount of commitments and financial guarantees issued				31.12.2022	31.12.2021
	First stage	Second stage	Third stage	Purchased or originated credit-impaired		
Commitments to disburse funds	**899,908**	**6,763**	**44,261**		**950,932**	**338,070**
a) Central Banks						
b) General governments	251,900		31,052		282,952	
c) Banks						
d) Other financial corporations	450,899				450,899	189,967
e) Non-financial corporations	196,379	6,763	13,200		216,342	146,244
f) Households	730		9		739	1,859
Financial guarantees issued	**9,707**				**9,707**	**11,084**
a) Central Banks						
b) General governments	60				60	20
c) Banks	2,446				2,446	2,446
d) Other financial corporations	122				122	67
e) Non-financial corporations	7,027				7,027	8,463
f) Households	52				52	88

3. Assets pledged as collateral for liabilities and commitments

	Amount	
	31.12.2022	31.12.2021
1. Financial assets measured at fair value through profit or loss		
2. Financial assets measured at fair value through other comprehensive income	553,046	94,958
3. Financial assets measured at amortised cost	540,472	363,122
4. Property and equipment		
of which: Property and equipment included among inventories		

5. Management and trading on behalf of third parties

Type of services	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	**1,887,499**
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	32,127
1. securities issued by the reporting entity	3,775
2. other securities	28,352
c) third-party securities deposited with third parties	32,127
d) securities owned by the bank deposited with third parties	1,855,372
4. Other transactions	

PART C - INFORMATION ON THE INCOME STATEMENT

Section 1 – Interest - Items 10 and 20

1.1 Interest and similar income: breakdown

Items/Technical forms	Debt instruments	Financing	Other transactions	2022	2021
1. Financial assets measured at fair value through profit or loss:	94			94	
1.1 Financial assets held for trading	17			17	
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	77			77	
2. Financial assets measured at fair value through other comprehensive income	723		X	723	
3. Financial assets measured at amortised cost:	4,471	94,443		98,914	94,689
3.1 Loans and receivables with banks		363	X	363	115
3.2 Loans and receivables with customers	4,471	94,080	X	98,551	94,574
4. Hedging derivatives					
5. Other assets			2	2	
6. Financial liabilities	X	X	X	2,212	3,522
Total	**5,288**	**94,443**	**2**	**101,945**	**98,211**
of which: interest income on impaired assets					
of which: interest income on finance leases	X		X		

The total contribution of the Factoring Division to interest income was equal to 70% of the entire loans and receivables portfolio like at 31 December 2021, to which the commission component associated with the factoring business and the revenue generated by the assignment of 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 2022, 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 component linked to default interest from legal action at 31 December 2022 was € 15.2 million (€ 21.5 million at 31 December 2021):

- of which € 1.6 million resulting from the updated recovery estimates and expected collection times (€ -0.3 million in 2021);

- of which € 7.5 million resulting from the current recovery estimates (€ 11.7 million in 2021);
- of which € 6.1 million (€ 10.1 million in 2021) coming from the difference between the amount collected during the period, equal to € 10.4 million (€ 17.5 million in 2021), and that recognised on an accruals basis in previous years. In 2021, this item included gross collections of € 0.7 million from transfers to third parties, whereas in 2022, gross collections were € 1.1 million.

Interest income from the salary-/pension-backed loan portfolios amounted to € 20.6 million, down slightly from the previous year as a result of the increased impact of prepayments on the portfolios, which is expected to decrease in the coming years due to rising market rates.

Also having a positive and significant impact was the interest component from government-backed loans, a support measure in response to the COVID-19 pandemic, and from the operations of the collateralised lending business.

The item "financial liabilities", which account for a total of €2.2 million, mainly includes the effects arising from the financing activity of the securities portfolio in repurchase agreements and ECB loans, which were significantly positive until the first half of the year due to negative interest rates, as well as non-recurring positive interest from the additional rate applied to TLTRO loans, and a one-off positive effect of €1.1 million recognised in the fourth quarter of 2022.

1.3 Interest and similar expense: breakdown

Items/Technical forms	Liabilities	Securities	Other transactions	2022	2021
1. Financial liabilities measured at amortised cost	14,234	2,241		16,475	15,207
1.1 Due to Central banks		X			
1.2 Due to banks	677	X		677	533
1.3 Due to customers	13,557	X		13,557	12,651
1.4 Securities issued	X	2,241		2,241	2,023
2. Financial liabilities held for trading					
3. Financial liabilities designated at fair value through profit or loss					
4. Other liabilities and provisions	X	X	37	37	
5. Hedging derivatives	X	X			
6. Financial assets	X	X	X	5	1,042
Total	**14,234**	**2,241**		**16,517**	**16,249**
of which: interest expense related to lease liabilities	23	X	X	23	46

Section 2 - Net fee and commission income - Items 40 and 50

2.1 Fee and commission income: breakdown

	2022	2021
a) Financial instruments	137	166
1. Placement of securities	86	95
1.1 Underwritten and/or on a firm commitment basis	86	95
1.2 Without a firm commitment basis		
2. Order collection and transmission, and execution of orders on behalf of customers	40	59
2.1 Order collection and transmission for one or more financial instruments	40	59
2.2 Execution of orders on behalf of customers		
3. Other fees associated with activities related to financial instruments	11	12
of which: dealing on own account		
of which: individual asset management	11	12
b) Corporate Finance		
c) Investment advisory activities		
d) Clearing and settlement		
e) Custody and administration		1
f) Central administrative services for collective asset management		
g) Fiduciary activities		
h) Payment services	141	131
1. Current accounts	74	70
2. Credit cards		
3. Debit and other payment cards	22	18
4. Bank transfers and other payment orders		
5. Other fees related to payment services	45	43
i) Distribution of third party services	2	
2. Insurance products	2	
j) Structured finance		
k) Servicing of securitisations		
l) Commitments to disburse funds		
m) Financial guarantees issued	37	46
n) Financing transactions	11,996	12,969
o) Foreign currency transactions		
p) Commodities		
q) Other fee and commission income	19,268	12,284
Total	**31,581**	**25,597**

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.

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

Channels/Amounts	2022	2021
a) at its branches:	**99**	
1. asset management	11	
2. placement of securities	86	
3. third-party services and products	2	
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

Services/Amounts	2022	2021
a) Financial instruments	72	53
of which: trading in financial instruments	72	53
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	302	284
of which: credit cards, debit cards and other payment cards	216	218
e) Servicing of securitisations		
f) Commitments to receive funds		
g) Financial guarantees received	1,032	385
of which: credit derivatives		
h) Off-premises distribution of securities, products and services	13,383	9,147
i) Foreign currency transactions		
j) Other fee and commission expense	79	73
Total	**14,868**	**9,942**

Net fees and commissions benefitted from a change in the method of accounting for the rappels to be paid to the agent network, which, in order to better reflect and to improve the correlation between costs and revenues, have been deferred over the expected life of the loans, resulting in a decrease in the amount of the item Fees - off-premises; without this change in accounting method, fee and commission expense would have been higher by € 2 million.

Section 3 – Dividends and similar income – item 70

3.1 Dividends and similar income: breakdown

Items/Income	2022		2021	
	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 (expense) – Item 80

4.1 Net trading income (expense): breakdown

	Gains (A)	Trading income (B)	Losses (C)	Trading losses (D)	Net trading income (expense) [(A+B) - (C+D)]
1. Financial assets held for trading		**125**		**(1,643)**	**(1,518)**
1.1 Debt instruments		123		(1,643)	(1,520)
1.2 Equity instruments					
1.3 OEIC units					
1.4 Financing					
1.5 Other		2			2
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		**125**		**(1,643)**	**(1,518)**

Section 6 - Gain from sales or repurchases - Item 100

6.1 Gain from sales or repurchases: breakdown

	2022			2021		
	Gain	Loss	Net gain	Gain	Loss	Net gain
A. Financial assets						
1. Financial assets measured at amortised cost:	3,990		3,990	6,196	(197)	5,999
1.1 Loans and receivables with banks						
1.2 Loans and receivables with customers	3,990		3,990	6,196	(197)	5,999
2. Financial assets measured at fair value through other comprehensive income	3,292	(2,205)	1,087	4,607	(517)	4,090
2.1 Debt instruments	3,292	(2,205)	1,087	4,607	(517)	4,090
2.4 Financing						
Total assets (A)	**7,282**	**(2,205)**	**5,077**	**10,803**	**(714)**	**10,089**
B. Financial liabilities measured at amortised cost						
1. Due to banks						
2. Due to customers						
3. Securities issued						
Total liabilities						

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)				31.12.2022	31.12.2021
	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	**143**										**143**	**(28)**
B. Financing												
- To customers											-	
- To banks											-	
Total	**143**										**143**	**(28)**

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						31.12.2022	31.12.2021
	First stage	Second stage	Third stage		Purchased or originated			
			write-offs	Other	write-offs	Other		
1. Forborne loans in compliance with the EBA Guidelines	1,244	(12)		(1,278)			(46)	411
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	(20)			1			(19)	165
Total	**1,224**	**(12)**		**(1,277)**			**(65)**	**576**

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)				31.12.2022	31.12.2021
	First stage	Second stage	Third stage		Purchased or originated credit-		First stage	Second stage	Third stage	originated credit-impaired		
			Write-offs	Other	Write-offs	Other						
A. Debt instruments	**143**										**143**	**(28)**
B. Financing												
- To customers											-	
- To banks											-	
Total	**143**										**143**	**(28)**

Section 9 – Gains/losses from contract amendments without derecognition – Item 140

9.1 Gains (losses) from contract amendments: breakdown

	31.12.2022	31.12.2021
9.1 Gains (losses) from contract amendments: breakdown		(4)

Section 12 – Administrative expenses – Item 190

12.1 Personnel expense: breakdown

	31.12.2022	31.12.2021
1) Employees	24,853	27,010
a) wages and salaries	16,586	16,207
b) social security charges	4,465	4,352
c) post-employment benefits		
d) pension costs		
e) accrual for post-employment benefits	1,082	1,061
f) accrual for pension and similar provisions:	-	-
- defined contribution plans		
- defined benefit plans		
g) payments to external supplementary pension funds:	301	309
- defined contribution plans	301	309
- defined benefit plans		
h) costs of share-based payment plans		
i) other employee benefits	2,419	5,081
2) Other personnel	488	493
3) Directors and statutory auditors	1,486	1,478
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		
Total	**26,827**	**28,981**

12.2 Average number of employees by category

Employees

a) Senior managers	25
b) Middle managers (Q4 – Q3)	62
c) Remaining employees	192

12.5 Other administrative expenses: breakdown

Other administrative expenses	31.12.2022	31.12.2021
Consultancy	(5,822)	(5,175)
IT expenses	(5,908)	(5,932)
Servicing and collection activities	(2,206)	(3,070)
Indirect taxes and duties	(3,591)	(2,959)
Insurance	(1,342)	(908)
Other	(973)	(688)
Expenses related to management of the SPVs	(764)	(785)
Outsourcing and consultancy expenses	(396)	(480)
Car hire and related fees	(691)	(830)
Advertising and communications	(1,430)	(1,554)
Expenses related to property management and logistics	(2,785)	(2,537)
Personnel-related expenses	(71)	(222)
Entertainment and expense reimbursement	(671)	(466)
Infoprovider expenses	(624)	(701)
Membership fees	(321)	(349)
Audit fees	(411)	(296)
Telephone and postage expenses	(478)	(270)
Stationery and printing	(183)	(40)
Total operating expenses	**(28,667)**	**(27,262)**
Resolution Fund	(1,920)	(2,284)
Total	**(30,587)**	**(29,546)**

Section 13 – Net accruals to provisions for risks and charges – Item 200

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

	31.12.2022	31.12.2021
Net accruals for other commitments and other guarantees	15	(13)
Total	**15**	**(13)**

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

	31.12.2022	31.12.2021
Provisions for risks and charges - other provisions and risks	(4,476)	(1,692)
Release of provisions for risks and charges		
Total	**(4,476)**	**(1,692)**

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	2,684			2,684
- owned	1,092			1,092
- right-of-use assets acquired under a leas	1,592			1,592
2. Investment property				
- owned				
- right-of-use assets acquired under a leas				
3. Inventories	X			
Total	**2,684**			**2,684**

Section 15 – Net impairment losses on intangible assets – Item 220

15.1 Net impairment losses on intangible assets: breakdown

	Depreciation (a)	Impairment losses (b)	Impairment gains (c)	Net gain Carrying amount (a + b - c)
A. Intangible assets				
of which: software				
A.1 Owned	311			311
- Developed internally				
- Other	311			
A.2 Right-of-use assets acquired under a l				
Total	**311**			**311**

Section 16 – Other operating income (expense) – Item 230

16.1 Other operating expense: breakdown

	31.12.2022	31.12.2021
Amortisation of leasehold improvements	60	28
Other operating expense	3,492	3,090
Total	**3,552**	**3,118**

16.2 Other operating income: breakdown

	31.12.2022	31.12.2021
Recoveries of expenses on current accounts and deposits for sundry taxes	1,100	633
Recoveries of sundry expenses	187	312
Other income	2,912	2,247
Total	**4,199**	**3,192**

Section 17 – Gains (losses) on equity investments – Item 250

17.1 Gains (losses) on equity investments: breakdown

	31/12/2022	31/12/2021
A. Income	**251**	**188**
1. Revaluations		
2. Gains on sale		
3. Impairment gains		
4. Other income	251	188
B. Expense	**(282)**	**(186)**
1. Write-offs		
2. Impairment losses		
3. Losses on sale		
4. Other expense	(282)	(186)
Net gain	**(31)**	**2**

Section 21 – Income taxes – Item 300

21.1 Income taxes: breakdown

	31.12.2022	31.12.2021
1. Current taxes (-)	(8,642)	(10,575)
2. Changes in current taxes of previous years (+/-)		26
3. Decrease in current taxes for the year (+)		-
3bis. Decrease in current taxes for the year due to tax assets pursuant to Law no. 214/2011 (+)		-
4. Changes in deferred tax assets (+/-)	(247)	545
5. Changes in deferred tax liabilities (+/-)	(1,770)	(912)
6. Tax expense for the year (-) (-1+/-2+3+/-4+/-5)	(10,659)	(10,916)

21.2 Reconciliation between theoretical and effective tax expense

IRES (CORPORATE INCOME TAX)	able income	NCOME TAX)	%
Theoretical IRES expense	**30,543**	**(8,399)**	**27.50%**
Permanent increases	1,263	(347)	1.14%
Temporary increases	7,636	(2,100)	6.87%
Permanent decreases	(4,563)	1,255	-4.11%
Temporary decreases	(11,959)	3,289	-10.77%
Effective IRES expense	**22,919**	**(6,303)**	**20.64%**
IRAP (REGIONAL BUSINESS TAX)	**33,930**	**(1,890)**	**5.57%**
Theoretical IRAP expense	75,370	(4,198)	11.36%
Permanent increases	5,648	(314)	0.90%
Temporary increases	(69,838)	3,890	-10.39%
Permanent decreases	(3,314)	184	-0.60%
Temporary decreases	41,796	(2,329)	6.86%
Effective IRAP expense	**64,715**	**(8,632)**	**28.26%**
- Other tax expense		(2,027)	3.93%
Total effective IRES and IRAP expense	**64,715**	**(10,659)**	**32.19%**

Section 22 - Post-tax profit (loss) from discontinued operations - Item 320

22.1 Post-tax profit (loss) from discontinued operations: breakdown

	31.12.2022	31.12.2021
1. Income		2
2. Expense	(23)	(5)
3. Result of the measurement of the group of assets and associated liabilities		
4. Gains (losses) on sales		
5. Taxes and duties		(17)
Gain (loss)	**(23)**	**(20)**

22.2 Breakdown of income taxes from discontinued operations

	31.12.2022	31.12.2021
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

	31.12.2022	31.12.2021
Equity investments in consolidated companies with significant non-controllin	**456**	**272**
1.Kruso Kapital S.p.A.	581	272
2. ProntoPegno Greece	(91)	
3.Art-Rite Srl	(34)	
Other investments		
Total	**456**	**272**

Section 24 - Other Information

Nothing to report.

Section 25 – Earnings per share

Earnings per share (EPS)	31.12.2022	31.12.2021
Profit for the year (thousands of Euro)	22,034	23,251
Average number of outstanding shares	80,113,775	80,391,577
Basic earnings per share (basic EPS) (in Euro)	0.275	0.289
Diluted earnings per share (diluted EPS) (in Euro)	0.275	0.289

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

		31.12.2022	31.12.2021
10.	**Profit (loss) for the year**	**22,034**	**23,251**
	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:		
30.	Financial liabilities designated at fair value through profit or loss (changes in own credit rating):		
40.	Hedging of equity instruments designated at fair value through other comprehensive income:		
50.	Property and equipment		
60.	Intangible assets		
70.	Defined benefit plans	399	(12)
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:		
120.	Exchange rate gains (losses):		
130.	Cash flow hedges:		
140.	Hedging instruments (non-designated elements):		
150.	Financial assets (other than equity instruments) measured at fair value through other comprehensive income:	(22,223)	(4,342)
	a) fair value gains (losses)	(23,462)	(2,542)
	b) reclassification to profit or loss		
	- impairment losses due to credit risk	143	(29)
	- gains/losses on sales	1,096	(1,771)
	c) other changes		
160.	Non-current assets held for sale and disposal groups:		
170.	Share of valuation reserves of equity-accounted investments:		
180.	Income taxes on items that will be reclassified subsequently to profit or loss		
190.	**Total other comprehensive income (expense)**	**(21,824)**	**(4,371)**
200.	**Comprehensive income (expense) (10+130)**	**210**	**18,897**
210.	**Comprehensive income attributable to non-controlling interests**		
220.	**Comprehensive income attributable to the owners of the parent**	**210**	**18,897**

PART E - INFORMATION CONCERNING RISKS AND RELATED HEDGING POLICIES

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	Performing past due exposures	Other performing exposures	Total
1. Financial assets measured at amortised cost	123,290	19,248	80,562	317,982	2,989,595	3,530,677
2. Financial assets measured at fair value through other comprehensive income					553,046	553,046
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						
Totale 31.12.2022	**123,290**	**19,248**	**80,562**	**317,982**	**3,542,641**	**4,083,723**
Totale 31.12.2021	**121,545**	**26,001**	**108,010**	**320,265**	**2,824,157**	**3,399,978**

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

	Non-performing				Performing			Total (carrying amount)
	Gross amount	Total impairment losses	Net exposure	overall partial write-offs (*)	Gross amount	Total impairment losses	Net exposure	
1. Financial assets measured at amortised cost	284,829	61,728	223,101		3,314,433	6,856	3,307,577	3,530,678
2. Financial assets measured at fair value through other comprehensive income					553,367	322	553,045	553,045
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								
Totale 31.12.2022	**284,829**	**61,728**	**223,101**		**3,867,800**	**7,178**	**3,860,622**	**4,083,723**
Totale 31.12.2021	**315,075**	**59,519**	**255,556**		**3,151,484**	**7,062**	**3,152,790**	**3,399,978**

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 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 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 (“CRR”) incorporates the standards defined by the Basel Committee on Banking Supervision (“Basel III”).

However, starting from 30 June 2021, the provisions of Regulation 2019/876 (CRR II) of 20 May 2019 entered into force. This Regulation amended Regulation (EU) No. 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, and reporting and disclosure requirements.

Public disclosure by institutions (Pillar 3) is therefore directly governed by:

- CRR II (Regulation 2019/876) Part Eight "Disclosure by Institutions”, as amended;
- Regulation (EU) 2021/637 of 15 March 2021, as amended.

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 2022, 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 and other parties segment, it uses the agencies “Fitch Ratings” and Standard & Poor’s.

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 with guarantee from EIF);
- Acquisition without recourse of salary-/pension-backed loans;
- Collateralised Lending (mainly secured by gold).

2. Credit Risk Management Policies

2.1 Organisational aspects

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 Kruso Kapital 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 assigning financial company or bank
- 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;
- over-indebtedness resolution procedure/debtor restructuring plan.

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

- the policy for credit risk requires the insurance company to provide cover in the event of loss of employment (even when it is the result of a default by the Atc); it should be noted that prior to requesting compensation from the insurance company (when possible), the post-employment benefits (TFR) is required as collateral - the life risk policy requires the insurance company to provide cover in the event of death; the possibility of acting on the heirs for any outstanding instalments prior to the event of premature death remains if they are not covered by the insurance company.

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:

- any new insurance company proposed by the assignors must be approved by the Bank's CEO Credit Committee;
- 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.

As outlined in the accounting policies, 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 (whose statistical series starts from 2008) are based on a confidence interval of the twentieth percentile, while for ASL - local health authorities (whose statistical series starts 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 2022, the expected rates of recovery of default interest on factoring, based on the statistical evidence that benefits from the progressive consolidation of the historical data series, were increased, as have the related collection times used. The combined update of these estimates led to an increase in interest income of € 1.6 million (negative € 0.3 million in 2021). 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 appears more stable and not as susceptible to significant variations.

Regarding the new definition of default ("New DoD"), the Bank believes that, since the end of 2021, it has already considered the Bank of Italy's clarification in its Note of 23 September 2022 "Application of the definition of default pursuant to Article 178 of Regulation (EU) No. 575/2013 and alignment of the definitions of non-performing exposures".

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.

Regarding the credit risk of the bond portfolio, in 2022 the purchase of Italian government bonds classified as financial assets available for sale (formerly "Available for Sale" now HTCS) continued along with the purchase of government bonds classified as assets to be held to maturity (HTC). 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.

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 reverse repurchase and repurchase agreements being that Italian government securities are the predominant underlying instrument and the Compensation and Guarantee Fund is the counterparty.

In 2022, the Bank planned another reverse repurchase agreement involving the underlying Class C Notes tranche of the Quinto Sistema sec. 2019 with NOMURA FINANCIAL PRODUCTS EUROPE GMBH as the counterparty.

2.3 Methods for 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:

a) the exposure to local institutions (municipalities and provinces) in state of financial difficulty for the portion subject to the applicable liquidation procedure;

b) receivables acquired from third parties in which the main debtors are non-performing, regardless of the portfolio's accounting allocation.

(c) exposures to entities that qualify for classification as bad exposures and have one or more credit lines that meet the definition of non-performing exposures with forbearance measures.

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	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	15,236	19,315	282,726	87	226	393	728	2,362	175,476			84
2. Financial assets measured at fair value through other comprehensive income												
3. Financial assets held for sale												
Totale 31.12.2022	**15,236**	**19,315**	**282,726**	**87**	**226**	**393**	**728**	**2,362**	**175,476**			**84**
Totale 31.12.2021	**29,827**	**12,845**	**276,169**	**38**	**888**	**500**	**1,296**	**3,504**	**187,195**			

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	**7**	**6,324**	**178**			**6,510**		**560**				**560**		**59,519**			**59,519**							**39**				**66,628**
Increases in purchased or originated financial assets		1,926	9			1,936		122				122		2,747			2,747							7				4,812
Derecognition other than write-offs	1	218				220		22				22		336			336											578
Net impairment losses/gains due to credit risk (+/-)	(3)	(3,169)	134			(3,038)		1,333				1,333		(153)			(153)							(22)				(1,880)
Contract amendments without derecognition																												
Changes in estimation method																												
Write-offs not recognised directly through profit or loss														49			49											49
Other changes																												
Closing total impairment losses	**3**	**4,863**	**321**			**5,188**		**1,993**				**1,993**		**61,777**			**61,777**							**24**				**68,933**
Recoveries from collection on financial assets that have been written																												
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 third stage	From the third to the first stage
1. Financial assets measured at amortised cost	42,796	4,270	2,988	251	29,561	34,916
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	6,763				9,425	14,388
Totale 31.12.2022	**49,559**	**4,270**	**2,988**	**251**	**38,986**	**49,304**
Totale 31.12.2021	**52,774**	**70,568**	**6,543**	**211**	**54,857**	**56,098**

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					**93**	
A.1 forborne in compliance with the EBA Guidelines						
A.2 subject to existing moratoria no longer in compliance with the EBA Guidelines and not considered forborne					93	
A.3 subject to other forbearance measures						
A.4 new loans						
B. Loans measured at fair value through other comprehensive income					**515**	
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					515	
Totale 31.12.2022					**608**	
Totale 31.12.2021						**50**

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					Net exposure	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	**124,925**	**124,925**				**4**	**4**				**124,921**	
a) Non-performing		**X**					**X**					
b) Performing	**124,925**	**124,925**		**X**		**4**	**4**		**X**		**124,921**	
A.2 OTHER	**34,920**	**34,909**		**11**		**3**	**3**				**34,917**	
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	11	X		11			X				11	
- of which: forborne exposures		X					X					
d) Performing past due exposures	1,310	1,310		X		1	1		X		1,309	
- of which: forborne exposures				X					X			
e) Other performing exposures	33,599	33,599		X		2	2		X		33,597	
- of which: forborne exposures				X					X			
TOTAL A	**159,845**	**159,834**		**11**		**7**	**7**				**159,838**	
B. OFF-STATEMENT OF FINANCIAL POSITION LOANS AND RECEIVABLES												
a) Non-performing		X					X					
b) Performing	2,446	2,446		X		2			X		2,444	
TOTAL B	**2,446**	**2,446**				**2**					**2,444**	
TOTAL (A+B)	**162,291**	**162,280**		**11**		**9**	**7**				**162,282**	

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					Net exposure	Overall partial write-offs *
		First stage	Second stage	Third stage	originated credit-impaired		First stage	Second stage	Third stage	Purchased or originated credit-		
A. ON-STATEMENT OF FINANCIAL POSITION LOANS AND RECEIVABLES												
a) Bad exposures	170,369	X		170,285	84	47,079			47,079		123,290	
- of which: forborne exposures	503	X		503		48			48		455	
b) Unlikely to pay	32,999	X		32,999		13,751			13,751		19,248	
- of which: forborne exposures	293	X		293		176			176		117	
c) Non-performing past due exposures	81,449	X		81,449		898			898		80,551	
- of which: forborne exposures	2,673	X		2,673		34			34		2,639	
d) Performing past due exposures	318,398	317,686	712	X		1,725	1,719	7	X		316,673	
- of which: forborne exposures				X					X			
e) Other performing exposures	3,514,494	3,377,811	112,083	X		5,450	3,470	1,986	X		3,509,044	
- of which: forborne exposures	206	206		X					X		206	
TOTAL A	**4,117,709**	**3,695,497**	**112,795**	**284,733**	**84**	**68,903**	**5,189**	**1,993**	**61,728**		**4,048,806**	
B. OFF-STATEMENT OF FINANCIAL POSITION LOANS AND RECEIVABLES												
a) Non-performing	44,261	X		44,261			X				44,261	
b) Performing	913,933	907,169	6,763	X		22	22		X		913,911	
TOTAL B	**958,194**	**907,169**	**6,763**	**44,261**		**22**	**22**				**958,172**	
TOTAL (A+B)	**5,075,903**	**4,602,666**	**119,558**	**328,994**	**84**	**68,925**	**5,211**	**1,993**	**61,728**		**5,006,978**	

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
A. Opening gross balance			**3**
- of which: positions transferred but not derecognised			1
B. Increases			**8**
B.1 transfers from performing loans			1
B.2 transfers from purchased or originated credit-impaired financial assets			
B.3 transfers from other categories of non-performing exposures of which noı			
B.4 contract amendments without derecognition			
B.5 other increases			6
C. Decreases			
C.1 transfers to performing loans			
C.2 write-offs			
C.3 collections			
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			**11**
- of which: positions transferred but not derecognised			3

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
A. Opening gross balance	**169,100**	**37,374**	**108,598**
- of which: positions transferred but not derecognised	25	1,546	5,375
B. Increases	**13,362**	**18,888**	**130,966**
B.1 transfers from performing loans	8,062	12,969	53,775
B.2 transfers from purchased or originated credit-impaired financial assets			
B.3 transfers from other categories of non-performing exposures	3,344	19	
B.4 contract amendments without derecognition			
B.5 other increases	1,956	5,900	77,191
C. Decreases	**12,094**	**23,263**	**158,115**
C.1 transfers to performing loans	1,842	113	63,173
C.2 write-offs		483	
C.3 collections	10,252	20,226	94,019
C.4 gains on sales			
C.5 losses on sales			
C.6 transfers to other categories of non-performing exposures		2,441	923
C.7 contract amendments without derecognition			
C.8 other decreases			
D. Closing gross balance	**170,368**	**32,999**	**81,449**
- of which: positions transferred but not derecognised	29	3,022	9,362

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

	Gross amount					Total impairment and allowances					Net exposure	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	**153**			**153**		**44**			**44**		**109**	
a) Forborne in compliance with the EBA Guidelines	153			153		44			44		109	
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	**608**			**608**		**4**			**4**		**604**	
a) Forborne in compliance with the EBA Guidelines	93			93		3			3		90	
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	515			515		1			1		514	
D) PERFORMING 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												
E) OTHER PERFORMING LOANS	**153,571**	**151,034**	**2,537**			**1,637**	**364**	**1,273**			**151,934**	
a) Forborne in compliance with the EBA Guidelines	2,670	133	2,537			1,277	4	1,273			1,393	
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	150,901	150,901				360	360				150,541	
TOTAL (A+B+C+D+E)	**154,332**	**151,034**	**2,537**	**761**		**1,685**	**364**	**1,273**	**48**		**152,647**	

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	**1,822**	**1,062**
- of which: positions transferred but not derecognised		
B. Increases	**2,676**	**238**
B.1 transfers from performing exposures without forbearance measures	1,612	
B.2 transfers from forborne performing exposures	1,062	X
B.3 transfers from non-performing exposures with forbearance measures	X	236
B.4 transfers from non-performing exposures without forbearance measures		
B.5 other increases	2	2
C. Decreases	**1,028**	**1,094**
C.1 transfers to performing exposures without forbearance measures	X	
C.2 transfers to forborne performing exposures	236	X
C.3 transfers to non-performing exposures with forbearance measures	X	1,062
C.4 write-offs		
C.5 collections	735	32
C.6 gains on sales		
C.7 losses on sales		
C.8 other decreases	57	
D. Closing gross balance	**3,470**	**206**
- 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	**47,555**	**499**	**11,373**	**139**	**591**	**1**
- of which: positions transferred but not derecognised			202		6	
B. Increases	**9,369**		**5,181**	**58**	**643**	**34**
B.1 impairment losses on purchased or originated credit-impaired financial assets		X		X		X
B.2 other impairment losses	8,729		5,179	58	604	24
B.3 losses on sales						
B.4 transfers from other categories of non-performing exposures	623					
B.5 contract amendments without derecognition						
B.6 other increases	17		2		39	10
C. Decreases	**9,844**	**451**	**2,803**	**22**	**335**	**1**
C.1 impairment gains	9,356	81	2,080		198	
C.2 impairment gains due to collections	327		115	5	14	
C.3 gains on sales						
C.4 write-offs						
C.5 transfers to other categories of non-performing exposures		369	607	17	15	1
C.6 contract amendments without derecognition						
C.7 other decreases	161	1	1		108	
D. Closing total impairment losses	**47,080**	**48**	**13,751**	**175**	**899**	**34**
- of which: positions transferred but not derecognised			413		11	

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" and Standard & Poor's, for exposures to companies and other parties.

Exposures	External rating class						Without rating	Total
	class 1	class 2	class 3	class 4	class 5	class 6		
A. Financial assets measured at amortised cost			**681,399**				**2,917,862**	**3,599,261**
- First stage			681,399				2,520,239	3,201,638
- Second stage							112,795	112,795
- Third stage							284,744	284,744
- Purchased or originated credit-impaired							84	84
B. Financial assets measured at fair value through other comprehensive income			**553,367**					**553,367**
- First stage			553,367					553,367
- 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)			**1,234,766**				**2,917,862**	**4,152,628**
D. Commitments to disburse funds and financial guarantees issued							**960,640**	**960,640**
- First stage							909,616	909,616
- Second stage							6,763	6,763
- Third stage							44,261	44,261
- Purchased or originated credit-impaired								
Total D							**960,640**	**960,640**
Total (A + B + C + D)			**1,234,766**				**3,878,502**	**5,113,268**

"**DBRS Ratings Limited**", for exposures to: central authorities and central banks, supervised brokers, public sector institutions, territorial entities

of which long-term rating

Creditworthiness class	Risk weighting factors				ECAI
	Central governments 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)

Creditworthiness class	Risk weighting factors	ECAI
		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

Creditworthiness class	Risk weighting factors				ECAI
	Central governments 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, RD, D

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

Creditworthiness class	Risk weighting factors	ECAI DBRS Ratings Limited
1	20%	F1+
2	50%	F1
3	100%	F2, F3
da 4 a 6	150%	B, C, RD,D

Standard & Poor's Ratings Services for exposures to companies and other parties.

of which long-term rating

Creditworthiness class	Risk weighting factors				ECAI
	Central governments and central banks	Supervised brokers, public sector institutions and territorial entities	Multilateral development banks	Companies and other parties	
1	0%	20%	20%	20%	AAA, AA
2	20%	50%	50%	50%	A
3	50%	50%	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)

Creditworthiness class	Risk weighting factors	ECAI DBRS Ratings Limited
1	20%	A-1+
2	50%	A-1
3	100%	A-2, A-3
from 4 to 6	150%	B, C, R, SD/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	Net exposure	Collateral (1)				Personal guarantees (2)									Total (1)+(2)
							Credit derivatives					Endorsement credits				
								Other derivatives								
			Mortgaged estate	Properties under finance lease	Securities	Other collateral	CLN	Central Counterparties	Banks	Other financial corporations	Other	General governments	Banks	Other financial corporations	Other	
1. Guaranteed on-statement of financial position loans:	**1,319,305**	**1,310,034**	**2,270**		**117**	**1,018,233**						**172,704**	**37,612**	**23,427**	**13,157**	**1,267,520**
1.1 fully guaranteed	1,125,184	1,118,755	2,270		117	1,018,233						53,504	8,765	23,427	12,440	1,118,756
- of which non-performing	21,474	16,761				15,501						64		10	1,186	16,761
1.2 partially guaranteed	194,121	191,279										119,200	28,847		717	148,764
- of which non-performing	4,798	2,397										2,158				2,158
2. Guaranteed off-statement of financial position loans:	**21,525**	**21,525**			**36**	**233**							**518**	**12,674**	**2,627**	**16,088**
2.1 fully guaranteed	15,070	15,070			36	233								12,674	2,127	15,070
- of which non-performing	404	404													404	404
2.2 partially guaranteed	6,455	6,455											518		500	1,018
- of which non-performing																

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

	General governments		Financial corporations		Financial corporations (of which: insurance companies)		Non-financial corporations		Households	
	Net exposure	Total impairment	Net exposure	Total impairment	Net exposure	Total impairment	Net exposure	Total impairment	Net exposure	Total impairment
A. On-statement of financial position loans and receivables										
A.1 Bad exposures	118,947	15,379					4,311	30,940	32	759
- of which: forborne exposures	455	48								
A.2 Unlikely to pay	156	13					15,987	9,900	3,106	3,839
- of which: forborne exposures							117	176		
A.3 Non-performing past due exposures	53,113	97	2,225	7	2,223	7	10,966	615	14,247	179
- of which: forborne exposures							2,640	34		
A.4 Performing exposures	2,258,690	2,829	78,699	30	256		457,290	2,785	1,031,038	1,530
- of which: forborne exposures	206									
Total (A)	**2,430,906**	**18,318**	**80,924**	**37**	**2,479**	**7**	**488,554**	**44,240**	**1,048,423**	**6,307**
B. Off-statement of financial position loans and receivables										
B.1 Non-performing exposures	31,052						13,200		9	
B.2 Performing exposures	251,960		451,021				210,147	22	782	
Total (B)	**283,012**		**451,021**				**223,347**	**22**	**791**	
Totale (A+B) 31.12.2022	**2,713,918**	**18,318**	**531,945**	**37**	**2,479**	**7**	**711,901**	**44,262**	**1,049,214**	**6,307**
Totale (A+B) 31.12.2021	**1,673,020**	**16,019**	**316,809**	**59**	**9**		**663,209**	**46,039**	**1,060,198**	**4,458**

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	
	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment
A. On-statement of financial position loans and receivables										
A.1 Bad exposures	123,290	46,999		80						
A.2 Unlikely to pay	19,248	13,751								
A.3 Non-performing past due exposure	80,551	898								
A.4 Performing exposures	3,663,705	6,949	157,706	209	3,836	15	472	2		
Total (A)	**3,886,794**	**68,597**	**157,706**	**289**	**3,836**	**15**	**472**	**2**		
B. Off-statement of financial position loans and receivables										
B.1 Non-performing exposures	44,261									
B.2 Performing exposures	879,820	14	31,984				2,106	8		
Total (B)	**924,081**	**14**	**31,984**				**2,106**	**8**		
Totale (A+B) 31.12.2022	**4,810,875**	**68,611**	**189,690**	**289**	**3,836**	**15**	**2,578**	**10**		
Totale (A+B) 31.12.2021	**3,604,634**	**66,134**	**101,622**	**408**	**4,251**	**20**	**2,606**	**12**	**124**	**1**

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	
	Net exposure	Total impairment losses	Net exposure	Total impairment losses	Net exposure	Total impairment losses	Net exposure	Total impairment losses	Net exposure	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 exposure	11									
A.4 Performing exposures	159,786	7	41							
Total (A)	**159,797**	**7**	**41**							
B. Off-statement of financial position lo										
B.1 Non-performing exposures										
B.2 Performing exposures	2,445	2								
Total (B)	**2,445**	**2**								
Totale (A+B) 31.12.2022	**162,242**	**9**	**41**							
Totale (A+B) 31.12.2021	**212,844**	**53**								

B.4 Large exposures

As at 31 December 2022, the large exposures of the Group are as follows:

a) Carrying amount € 3,504,935 thousand

b) Weighted amount € 398,627 thousand

c) No. of positions 21.

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).

Quantitative disclosure

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 securitisations transactions	of which: subject to a sales contract with repurchase agreement	of which: non-performing	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 securities				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 securities							
2. Equity instruments				X			
3. Financing							
C. Financial assets designated at fair value through profit or loss							
1. Debt securities							
2. Financing							
D. Financial assets measured at fair value through other comprehensive income	**553,046**		**553,046**		**553,307**		**553,307**
1. Debt securities	553,046		553,046		553,307		553,307
2. Equity instruments				X			
3. Financing							
E. Financial assets measured at amortised cost	**578,701**	**247,185**	**331,516**	**2,731**	**581,588**	**268,977**	**312,611**
1. Debt securities	331,516		331,516		312,611		312,611
2. Financing	247,185	247,185		2,731	268,977	268,977	
Totale 31.12.2022	**1,131,747**	**247,185**	**884,562**	**2,731**	**1,134,895**	**268,977**	**865,918**
Totale 31.12.2021	**563,965**	**316,094**	**247,871**	**1,999**	**442,535**	**193,280**	**249,256**

E. Prudential consolidation - Models for the measurement of credit risk

1.2. Market risks

The Group did not conduct trading activity on financial instruments. At 31 December 2022 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, and 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. It should be noted that at the reporting date, a new model for allocating retail segment demand deposits and prepayments of salary- and pension-backed loans was implemented that considers customer conduct.

- 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-backed loans (CQS) / Pension-backed loans (CQP) portfolio contains fixed-rate contracts and is therefore the one with the longest duration;
- 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 Group is in the process of implementing behavioural models for the SICONTO DEPOSITO ITALIA product for the Retail segment;
- 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	**1,408,798**	**434,627**	**630,932**	**80,274**	**1,184,414**	**505,452**	**67**	
1.1 Debt instruments	6		568,817	13,994	601,259	81,146		
- with early repayment option								
- other	6		568,817	13,994	601,259	81,146		
1.2 Financing to banks	130,401	31,325						
1.3 Financing to customers	1,278,391	403,302	62,115	66,280	583,155	424,306	67	
- current accounts	160,968							
- other financing	1,117,423	403,302	62,115	66,280	583,155	424,306	67	
- with early repayment option		261,093	61,951	65,753	498,839	302,380	67	
- other	1,117,423	142,209	164	527	84,316	121,926		
2. Liabilities	**924,328**	**1,350,858**	**149,216**	**412,756**	**1,053,624**	**32,111**	**1**	
2.1 Due to customers	922,551	1,285,858	149,216	412,756	515,741	32,111	1	
- current accounts	807,339	408,132	147,850	407,190	430,275	24,862	1	
- other payables	115,212	877,726	1,366	5,566	85,466	7,249		
- with early repayment option								
- other	115,212	877,726	1,366	5,566	85,466	7,249		
2.2 Due to banks	1,777	65,000			537,883			
- current accounts	1,567							
- other payables	210	65,000			537,883			
2.3 Debt instruments								
2.4 Other liabilities								
3. Financial derivatives		**15,691**	**52**	**603**	**13,789**	**1,223**	**24**	
3.1 With underlying security								
- Options								
- Other derivatives								
3.2 Without underlying security		15,691	52	603	13,789	1,223	24	
- Options		15,691	52	603	13,789	1,223	24	
+ long positions			52	603	13,789	1,223	24	
+ short positions		15,691						
- Other derivatives								
4. Other off-statement of financial position transactions	**261,167**	**261,167**						
+ long positions	233,025	28,142						
+ short positions	28,142	233,025						

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

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	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	**617**							
1.1 Debt instruments								
- with early repayment option								
- other								
1.2 Financing to banks	617							
1.3 Financing to customers								
- current accounts								
- other financing								
- with early repayment option								
- other								
2. Liabilities	**582**							
2.1 Due to customers	582							
- current accounts	582							
- 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	**608**	**2**	**1**	**1**	**2**	**4**
A.1 Debt instruments						
A.2 Equity instruments						
A.3 Financing to banks	608	2	1	1	2	4
A.4 Financing to customers						
A.5 Other financial assets						
B. Other assets						
C. Financial liabilities	**582**					
C.1 Due to banks						
C.2 Due to customers	582					
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	**608**	**2**	**1**	**1**	**2**	**4**
Total liabilities	**582**					
Difference (+/-)	**26**	**2**	**1**	**1**	**2**	**4**

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 2022, 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. In the case of 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 2022, the characteristics of the securities of the Quinto Sistema Sec. 2017 transaction were as follows.

Quinto Sistema Sec. 2017	ISIN	Amount outstanding at 31.12.2022	Rating (DBRS/Moody's)	Interest Rate	Maturity
Class A (senior)	IT0005246811	382.148	AAlow/Aa3	0.40%	2034
Class B1 (mezzanine)	IT0005246837	50.400	A/Baa1	0.50%	2034
Class B2 (sub-mezzanine)	IT0005246845	43.890	n.a.	0.50%	2034
Class C (junior)	IT0005246852	2.520	n.a.	0.50%	2034
		478,958			

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 2022, the characteristics of the securities of the Quinto Sistema Sec. 2019 transaction were as follows.

Quinto Sistema Sec. 2019	ISIN	Amount outstanding at 31.12.2022	Rating (DBRS/Moody's)	Interest Rate	Maturity
Class A (senior)	IT0005382996	119,537	Not Rated	Euribor1M+1,00%	2038
Class B (mezzanine)	IT0005383002	19,400	Not Rated	0.50%	2038
Class C (junior)	IT0005383010	30,500	Not Rated	0.50%	2038
		169,437			

The senior security is held by a third party for funding purposes.
At 31 December 2022, the characteristics of the securities of the BS IVA SPV transaction were as follows.

BS IVA SPV	ISIN	Amount outstanding at 31.12.2022	Rating	Interest Rate	Maturity
Class A Notes (senior)	IT0005218802	130,754	n.a.	Euribor3M+0,90%	2038
Class B Notes (junior)	IT0005218810	24,530	n.a.	0.50%	2038
		155,284			

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	More than 5 years	Open term
Assets	**1,452,703**	**3,754**	**3,847**	**34,174**	**101,840**	**157,606**	**161,236**	**1,264,189**	**1,010,797**	**16,308**
A.1 Government securities			409		853	8,663	23,925	647,352	625,000	
A.2 Other debt instruments										
A.3 OEIC units										
A.4 Financing	1,452,703	3,754	3,438	34,174	100,988	148,942	137,311	616,837	385,797	16,308
- banks	135,669			17	15,000					16,308
- customers	1,317,035	3,754	3,438	34,156	85,988	148,942	137,311	616,837	385,797	
Liabilities	**675,431**	**871,192**	**31,033**	**77,199**	**496,693**	**150,878**	**418,799**	**1,167,054**	**32,112**	
B.1 Deposits and current accounts	675,405	34,131	31,033	77,199	343,566	150,878	418,799	1,053,494	32,112	
- banks	20,919	10,000		15,000	40,000			537,883		
- customers	654,486	24,131	31,033	62,199	303,566	150,878	418,799	515,612	32,112	
B.2 Debt instruments					124,338			113,560		
B.3 Other liabilities	27	837,062			28,790					
Off-statement of financial position transactions	**524,101**	**233,025**			**27**			**5,075**		
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	233,025	233,025								
- long positions	233,025									
- short positions		233,025								
C.4 Commitments to disburse funds	288,630									
- long positions	144,315									
- short positions	144,315									
C.5 Financial guarantees issued	2,446				27			5,075		
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	More than 5 years	Open term
Assets	**617**									
A.1 Government securities										
A.2 Other debt instruments										
A.3 OEIC units										
A.4 Financing	617									
- banks	617									
- customers										
Liabilities	**582**									
B.1 Deposits and current accounts	582									
- banks										
- customers	582									
B.2 Debt instruments										
B.3 Other liabilities										
Off-statement of financial position transactions										
C.1 Financial derivatives with exchange of principal										
C.2 Financial derivatives without exchange of principal										
C.3 Deposits and financing to be received										
C.4 Commitments to disburse funds										
C.5 Financial guarantees issued										
C.6 Financial guarantees received										
C.7 Credit derivatives with exchange of principal										
C.8 Credit derivatives without exchange of principal										

The positions shown relate solely to the US dollar.

With reference to the financial assets subject to “self-securitisation”, at the end of 2022, 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 (“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, based on which the specific risk levels (“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:

- provides for 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;
- provided for appropriate contractual riders to cover damages caused by infrastructure and service suppliers;
- has planned an update of the Business Continuity Plan;
- provides for tools to counter cyber attacks via e-mail (phishing);
- provides for the simulation of phishing attacks to assess the ability of users to respond;
- has planned a periodic update of the IT security policy.

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

	31.12.2022	31.12.2021
1. Share capital	9,651	9,651
2. Share premium	39,100	39,100
3. Reserves	155,040	141,528
- income-related	153,334	138,857
a) legal	1,984	1,930
b) established under the Articles of Association		
c) treasury shares		200
d) other	151,349	136,727
- other	1,706	2,671
4. Equity instruments	45,500	45,500
3.5 Interim dividends (-)		
5. (Treasury shares)	(559)	
6. Valuation reserves	(24,892)	(3,067)
- Equity instruments designated at fair value through other comprehensive income	(543)	(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	(24,400)	(2,257)
- 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 gains (losses) on defined benefit pension plans	51	(347)
- Shares of valuation reserves of equity-accounted investees		
- Special revaluation laws		
7. Profit (loss) for the year	22,034	23,251
Total	**245,874**	**255,962**

B.2 Valuation reserves for financial assets measured at fair value through other comprehensive income: breakdown

	31.12.2022		31.12.2021	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities		24,401		2,257
2. Equity instruments		543		463
3. Financing				
Total		**24,943**		**2,720**

B.3 Valuation reserves for financial assets measured at fair value through other comprehensive income: changes

	Debt instruments	Equity instruments	Financing
1. Opening balance	**(2,257)**	**(463)**	
2. Increases	**12,793**	**268**	
2.1 Fair value gains			
2.2 Impairment losses due to credit risk	144	X	
2.3 Reclassifications of negative reserves to profit or loss on sale	1,637	X	
2.4 Transfers to other equity items (equity instruments)			
2.5 Other increases	11,012	268	
3. Decreases	**34,936**	**348**	
3.1 Fair value losses		119	
3.2 Impairment gains due to credit risk			
3.3 Reclassifications of positive reserves to profit or loss: on sale	X		
3.4 Transfers to other equity items (equity instruments)			
3.5 Other decreases	34,936	229	
4. Closing balance	**(24,401)**	**(543)**	

B.4 Valuation reserves related to defined benefit plans: changes

	31.12.2022
A. Opening balance	**(347)**
B. Increases	**550**
B.1 Actuarial gains	
B.2 Other increases	550
C. Decreases	**151**
C.1 Actuarial losses	
C.2 Other decreases	151
D. Closing balance	**52**
Total	**52**

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 2022 were determined based on the provisions 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 on Bank of Italy Circulars no. 285 and no. 286 (enacted in 2013).

Starting in the second quarter of 2022, the Banca Sistema Group decided to use the mitigating parameter (equal to 40%), to determine the allowable portion of the FVOCI reserve for exposures to central governments, in line with the provisions of Article 468 CRR. This temporary treatment was valid until the end of 2022. It should be noted that the neutralisation of all or part of the reserve (HTCS) on government bonds will be the topic of discussion in the European Trilogue, on which Ecofin has already proposed a 100% neutralisation. This change, if approved, would enter into force with its publication in the Official Journal in autumn 2023.

Reconciliation of Group equity and Own Funds

	31.12.2022	31.12.2021
Equity	245,872	255,963
Dividends distributed and other foreseeable expenses	(5,227)	(5,790)
Equity assuming dividends are distributed to shareholders	**240,645**	**250,173**
Regulatory adjustments	**(28,904)**	**(36,614)**
- Deduction of intangible assets	(32,393)	(32,415)
- Prudent valuation adjustment (1)	(558)	(451)
- Prudential filter for insufficient coverage of NPEs	(1,186)	(1,908)
- Prudential filter pursuant to art. 468	9,760	-
- Other adjustments	(4,528)	(1,840)
Equity instruments not eligible for inclusion in CET1	(45,500)	(45,500)
Eligible equity attributable to non-controlling interests	8,734	8,017
Common Equity Tier 1 (CET1)	**174,975**	**176,076**
Equity instruments eligible for inclusion in AT1	45,500	45,500
Additional Tier 1 (AT1) capital	**220,475**	**221,576**
Tier 2 Capital	193	114
Total Own Funds	**220,668**	**221,690**

(1) Regulatory filter for additional valuation adjustments (AVA) to the prudential valuation under the provisions of Regulation 2016/101

A. Quantitative disclosure

	31.12.2022
A. Common Equity Tier 1 (CET1) before application of prudential filters	195,144
of which CET 1 instruments covered by transitional measures	
B. CET1 prudential filters (+/-)	8,734
C. CET1 including items to be deducted and the effects of the transitional regime (A+/-B)	**203,878**
D. Items to be deducted from CET1	38,665
E. Transitional regime - Impact on CET (+/-)	9,760
F. Total Common Equity Tier 1 (CET1) (C-D+/-E)	**174,974**
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	194
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)	**194**
Q. Total Own Funds (F+L+P)	**220,668**

2.2 Capital adequacy

A. Qualitative disclosure

Total own funds were € 220.7 million at 31 December 2022 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 2022, the Group had a CET1 capital ratio equal to 12.6%, a Tier 1 capital ratio equal to 15.9% and a Total capital ratio of 15.9%.

	Unweighted amounts		Weighted amounts/requirements	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021
A. EXPOSURES				
A.1 Credit and counterparty risk	6,461,157	4,576,069	1,194,472	1,334,176
1. Standardised approach	6,461,157	4,576,069	1,194,472	1,334,176
2. Internal ratings based approach				
2.1 Basic				
2.2 Advanced				
3. Securitisations				
B. CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			95,558	106,734
B.2 Credit valuation adjustment risk			157	
B.3 Settlement risk				
B.4 Market risk				
1. Standard approach				
2. Internal models				
3. Concentration risk				
B.5 Operational risk			15,105	14,671
1. Standard approach			15,105	14,671
2. Internal models				
3. Concentration risk				
B.6 Other calculation elements				
B.7 Total prudential requirements			110,820	121,405
C. EXPOSURES AND CAPITAL RATIOS			**1,385,244**	**1,517,568**
C.1 Risk-weighted assets			1,385,244	1,517,568
C.2 CET1 capital/risk-weighted assets (CET1 Capital Ratio)			12.6%	11.6%
C.3 Tier 1 capital/risk-weighted assets (Tier 1 Capital Ratio)			15.9%	14.6%
C.4 Total Own Funds/risk-weighted assets (Total Capital Ratio)			15.9%	14.6%

PART G - BUSINESS COMBINATIONS

Section 1 - Transactions performed in the year

On 27 October 2022, the Banca Sistema Group, through its subsidiary Kruso Kapital S.p.A., finalised the acquisition of 100% of the share capital of the auction house Art-Rite S.r.l. The transaction took legal effect on 2 November 2022.

Key information concerning this transaction is summarised below:

Company name	Transaction date (1)	Transaction cost (2)	% held	Total income (3)	Group net profit (3)
Art-Rite S.r.l.	02/11/2022	1,090	75%	106,275	21,894

(1) Date on which control was acquired and from which the financial results of Art-Rite are included

(2) The consideration included the estimated deferred price

(3) The amounts, in accordance with IFRS 3, are determined assuming that the combination was carried out at the beginning of the year

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 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, 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 art. 136 of the Consolidated Law on Banking, they are included in the Executive Committee resolution, specifically authorised by the Board of Directors and with the approval of the 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.

1. 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	31.12.2022
Remuneration to Board of Directors and Board of Statutory Auditors	2,149	222	-	2,371
Short-term benefits for employees	-	-	3,412	3,412
Post-employment benefits	145	-	238	383
Other long-term benefits	388	-	446	834
Termination benefits	-	-	-	-
Share-based payments	331	-	307	638
Total	**3,013**	**222**	**4,403**	**7,638**

2. Disclosure on related party transactions

The following table shows the assets, liabilities, guarantees and commitments as at 31 December 2022, 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	501	971	0.0%
Due to customers	2,326	2,895	0.2%

The following table indicates the costs and income for 2022, 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	0.0%
Interest expense	30	28	0.4%

Details are provided below for each of the following related parties that are shareholders exceeding the 5% stake threshold in individual Group companies.

In thousands of Euro	Amount (Thousands of Euro)	Percentage (%)
LIABILITIES	**419**	**0.0%**
Due to customers		
Shareholders - SGBS	320	0.0%
Shareholders - Fondazione CR Alessandria	42	0.0%
Shareholders - Fondazione Sicilia	57	0.0%

PART I - SHARE-BASED PAYMENT PLANS

Qualitative disclosure

As indicated in the 2022 Policies Document, Banca Sistema, having a four-year average of total assets of less than € 5 billion and not belonging to a group with assets worth more than € 30 billion, is considered to be a ''smaller and less complex bank''.

Therefore, the Bank shall apply the provisions relating to key personnel subject to percentages and to deferral and retention periods that may be defined in proportion to their characteristics, thereby ensuring a proportional alignment criterion also in relation to the provisions of the Corporate Governance Code, for longer deferral in the case of members of the Board of Directors and key management personnel (they are thus extended to all Key Personnel).

The Bank indicates 25% of average total remuneration of Italian high earners, as indicated in the latest EBA report (published in August 2021) and relating to data processed at the end of 2019, as being a particularly high level of variable remuneration. The variable remuneration for "key personnel" relating to the performance of the year 2022 will be paid as follows, after the approval of the financial statements, subject to verification of compliance with the gates and the actual availability of the bonus pool according to the following methods:

- amounts equal to or lower than € 50,000 of variable remuneration, provided that this does not represent more than one third of the beneficiary's total annual remuneration: entirely up-front and in cash;
- amounts greater than € 50,000 and up to € 435,000 or where the condition referred to in the previous point is not met:
  - up-front and in cash for 70%;
  - for the remaining 30%: deferred in the first and second subsequent year, with payment according to the pro-rata criterion equal to 15%;
- for amounts greater than € 435,000:
  - up-front and in cash for 60%;
  - for the remaining 40%: deferred in the first and second subsequent year, with payment according to the pro-rata criterion equal to 20%.

Given the new provisions of the Bank of Italy Circular, which allow banks with assets of less than € 5 billion (as an average of the last four years) to neutralise the provisions relating to the disbursement of variable remuneration in financial instruments and to solely apply an "appropriate" deferral period, Banca Sistema intends to make use of this simplification and apply the abovementioned cash payment schemes for the payment of variable remuneration starting from 2022 (without prejudice to any regulatory updates and/or the achievement of the size thresholds indicated by Circular 285).

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 2022, 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	BDO Italy	Banca Sistema	200
Other certifications	BDO Italy	Banca Sistema	39
Audit	BDO Italy	LASS	13
Audit	BDO Italy	QS 2017	22
Audit	BDO Italy	Kruso Kapital	35
Audit	BDO Greece	Kruso Kapital - Greece	7
Total			**316**

PART L - 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 as at 31 December 2022

Income statement (€,000)	Factoring Division	CQ Division	Collateralised Lending Division	Corporate Centre	Group Total
Net interest income	59,292	19,017	7,081	38	85,428
Net fee and commission income (expense)	9,499	(1,073)	8,285	2	16,713
Dividends and similar income	149	78	-	-	227
Net trading income (expense)	(994)	(524)	-	-	(1,518)
Gain from sales or repurchases of financial assets/liabilities	3,088	1,990	-	-	5,078
Total income	**71,034**	**19,488**	**15,366**	**40**	**105,928**
Net impairment losses on loans and receivables	(7,602)	(781)	(46)	(73)	(8,502)
Net financial income (expense)	**63,432**	**18,707**	**15,320**	**(33)**	**97,426**

Statement of Financial Position (€,000)	Factoring Division	CQ Division	Collateralised Lending Division	Corporate Centre	Group Total
Cash and cash equivalents	82,920	43,669	-	-	126,589
Financial assets (HTS and HTCS)	365,759	192,625	-	-	558,384
Loans and receivables with banks	24,063	10,854	-	-	34,917
Loans and receivables with customers	2,193,014	1,194,532	106,794	1,421	3,495,761
loans and receivables with customers - loans	1,746,917	959,597	106,794	1,421	2,814,729
loans and receivables with customers - debt instruments	446,097	234,935	-	-	681,032
Due to banks	-	-	-	622,865	622,865
Due to customers	48,542	-	-	3,007,668	3,056,210

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:

1. Property used for business and personal purposes;

2. Cars.

At 31 December 2022, there were 54 leases, 18 of which were property leases for a total right of use value of € 4.9 million, while 38 were for cars, for a total right of use value of € 0.6 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	4,947,384	4,513,997
Long-term car lease	611,206	621,543
Total	**5,558,590**	**5,135,540**

(*) 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	51,885	1,217,375
Long-term car lease	7,752	374,731
Total	**59,637**	**1,592,105**

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 2022.

2. Reference model

The suitability of the administrative and accounting procedures for the drafting of the consolidated financial statements at 31 December 2022 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, 10 March 2023

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, 2022

AMZ/PPL/fbs - RC043882022BD1053

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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 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, 2022, 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, 2022 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, 2022, are equal to Euro 3.496 million and represent the 80% 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") represents the Company's main activities. Factoring credits and CQS/CQP credits as of December 31, 2022, are equal to, respectively, Euro 1.274 million and Euro 914 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 impairment, 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 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 our audit.

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.

The credits recognized on an accrual basis and reported in the consolidated balance sheet as at December 31, 2022 amount to Euro 56 million. The default interest recognized on an accrual basis as at December 31, 2022, equals to Euro 15,2 million and will be collected in the forthcoming years. This amount includes Euro 7,5 million recognized on an accrual basis from current estimates, Euro 1,6 million due to the update on the recovery estimates and Euro 6,1 million represented by collections in excess with respect to the revenues already recorded on an accrual basis in the previous years.

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 our audit.

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 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”

In the consolidated financial statements as at 31 December 2022, among the intangibles, the Group recorded a goodwill of Euro 33.5 million. As required by the IAS36 “Impairment of assets”, goodwill is not a depreciable asset and, as such, it undergoes annually - at least - an “Impairment test”. The test is compares the carrying value with the recoverable value of each CGU -which are represented by their value in use.

The impairment test performed by the Holding Company according to and using the DDM methodology with the variant “excess of capital”, has highlighted an overestimate of the “value in use” of the CGU if compared to its net accounting value, confirming the recoverability of the goodwill accounted for 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 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, actions taken to eliminate relevant risks or the safeguards measures applied.

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 of Banca Sistema S.p.A. 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 at December 31, 2022 have been prepared in XHTML format and have been marked-up, in all material respects, in compliance to the requirements of the Delegated Regulation.

Due to certain technical limitations, some information included in the notes to the consolidated financial statements when extracted from the XHTML format to an XBRL instance may not be reproduced in an identical manner with respect to the corresponding information presented in the consolidated financial statements in XHTML format.

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, 2022, 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, 2022 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, 2022 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 28, 2023

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.

SEPARATE FINANCIAL STATEMENTS
AT 31 DECEMBER 2022

BANCA SISTEMA

DIRECTORS’ REPORT AT 31 DECEMBER 2022

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 2022

31-Dec-22 | 31-Dec-21 | 31-Dec-21

Statement of financial position data (€,000)

	31-Dec-22	31-Dec-21	Change
Total Assets	4,377,941	3,650,173	19.9%
Securities Portfolio	1,239,416	635,303	95.1%
Loans - Factoring	1,429,794	1,435,788	-0.4%
Loans - Salary-backed loans	933,200	931,767	0.2%
Funding - Banks and REPOs	1,470,538	830,247	77.1%
Funding - Term Deposits	1,431,548	1,387,416	3.2%
Funding - Current Accounts	794,878	805,766	-1.4%

Income statement data (€,000)

	31-Dec-22	31-Dec-21	Change
Net interest income	76,184	74,387	2.4%
Net fee and commission income (expense)	8,305	9,216	-9.9%
Total income	90,471	95,796	-5.6%
Personnel expense	(20,817)	(23,100)	-9.9%
Other administrative expenses	(25,546)	(25,195)	1.4%
Profit for the year attributable to the owners of the Parent	20,887	23,143	-9.7%

HUMAN RESOURCES

As at 31 December 2022, the Bank had staff of 202, broken down by category as follows:

FTES	31.12.2022	31.12.2021
Senior managers	22	24
Middle managers (QD3 and QD4)	51	50
Other personnel	129	132
Total	**202**	**206**

As described in the previous half-yearly report, during the first part of the year the Bank began a review of the more operational and detailed levels of its organisational structure, a review that was in the months that followed.

The Bank - given the gradual exit from the health emergency and in keeping with the regulatory framework that envisaged the end of facilitated access to remote working on 31 August - decided to revert its operating model to one based on full presence, and from 1 September all employees resumed their activities in the offices and branches. Starting from 1 October - again in line with the new legal provisions that have since come into force - a flexible operational model was restored with the introduction of remote working arrangements envisaged until the end of 2022. For 2023, the possibility of working remotely was confirmed for middle managers and employees in the professional areas in accordance with the law and through individual agreements signed with those requesting access. Bank employees who perform all their work in-person at the various locations will receive a special welfare credit to compensate for the increased transport and meal costs they incur over time.

In terms of skills development, after identifying professional and technical training needs in relation to the Bank's legal and regulatory issues, training sessions on specific legal and regulatory issues of the lending sector in which the Bank operates have been organised and launched. These sessions are currently being carried out with both internal and external instructors and will be delivered in a manner that is compatible with the health emergency. During 2022, more than 60% of the days were dedicated to technical and professional training on anti-money laundering, privacy, transparency, Mifid II and related party transactions. Language and negotiation skills training and development courses were also offered.

During the second half of 2022 - in accordance with the guidelines already set out and formalised in the 2022 Remuneration Policies Document - the retention strategies were reviewed, offering employees bound by a Non-Competition Agreement the opportunity to sign specific employee retention agreements. The drafting of a specific operating procedure to define the processes, responsibilities and calculation methods for determining the bonus pool actually payable and the bonuses earned by key personnel was started and completed.

The average age of Bank employees is 44.7 for men and 41.5 for women. The breakdown by gender is essentially balanced with men accounting for 51.9% of the total.

INCOME STATEMENT RESULTS

Income statement (€,000)	2022	2021	Change	%
Net interest income	76,184	74,387	1,797	2.4%
Net fee and commission income (expense)	8,305	9,216	(911)	-9.9%
Dividends and similar income	227	227	-	0.0%
Net trading income (expense)	(1,518)	21	(1,539)	<100%
Gain from sales or repurchases of financial assets/liabilities	5,077	10,089	(5,012)	-49.7%
Net gain (loss) on other financial assets and liabilities measured at FV through profit or loss	2,196	1,856	340	18.3%
Total income	**90,471**	**95,796**	**(5,325)**	**-5.6%**
Net impairment losses on loans and receivables	(8,476)	(10,715)	2,239	-20.9%
Gains/losses from contract amendments without derecognition	-	(4)	4	-100.0%
Net financial income (expense)	81,995	85,077	(3,082)	-3.6%
Personnel expense	(20,817)	(23,100)	2,283	-9.9%
Other administrative expenses	(25,546)	(25,195)	(351)	1.4%
Net accruals to provisions for risks and charges	(4,461)	(1,705)	(2,756)	>100%
Net impairment losses on property and equipment/intangible as	(1,524)	(1,583)	59	-3.7%
Other operating income (expense)	897	407	490	>100%
Operating costs	**(51,451)**	**(51,176)**	**(275)**	**0.5%**
Pre-tax profit	30,544	33,901	(3,357)	-9.9%
Income taxes for the year	**(9,657)**	**(10,758)**	**1,101**	**-10.2%**
Profit for the year	**20,887**	**23,143**	**(2,256)**	**-9.7%**

A profit of € 20.9 million was recognised in 2022, down from the previous year due to higher rates across the various forms of funding, which resulted in a reduction in net interest income in CQ from the fourth quarter of 2022 onwards, and lower profits from the sale of CQ portfolios compared to the previous year.

Regarding operating costs, the increase, on the other hand, was modest and mainly driven by higher charges to provisions for risks which include a non-recurring prudential provision of € 1.3 million, recognised in the fourth quarter of 2022, on CQ contracts originated by the Bank prior to 25 July 2021. The risk for which the provision was made was due to Constitutional Court ruling No. 263 of 22 December 2022, which declared Article 11-octies of Law Decree No. 73/2021 ("*Sostegni bis*" decree), converted into Law No. 106/2021, which amended Art. 125-sexies of the Consolidated Law on Banking (TUB), partially unconstitutional. This ruling also extended the lender's obligation to contracts signed prior to 25 July 2021 to reimburse the customer, upon early repayment of the loan, also the unused portion of the up-front commissions based on the principles of the renowned "Lexitor Sentence", which was instead excluded by the legislative measure mentioned above. To date, however, the legal and case-law framework is still evolving.

Net interest income (€,000)	2022	2021	€ Change	% Change
Interest and similar income				
Loans and receivables portfolios	82,191	83,734	(1,543)	-1.8%
Factoring	54,488	57,900	(3,412)	-5.9%
CQ	20,606	21,438	(832)	-3.9%
Government-backed loans to SMEs	7,097	4,396	2,701	61.4%
Securities portfolio	5,438	1,775	3,663	>100%
Other	1,310	1,392	(82)	-5.9%
Financial liabilities	2,212	3,521	(1,309)	-37.2%
Total interest income	**91,151**	**90,422**	**729**	**0.8%**
Interest and similar expense				
Due to banks	(527)	(460)	(67)	14.6%
Due to customers	(13,572)	(12,660)	(912)	7.2%
Securities issued	(863)	(1,872)	1,009	-53.9%
Financial assets	(5)	(1,043)	1,038	-99.5%
Total interest expense	**(14,967)**	**(16,035)**	**1,068**	**-6.7%**
Net interest income	**76,184**	**74,387**	**1,797**	**2.4%**

Net interest income increased compared to last year, due to the higher contribution of the "State Guaranteed loans to SMEs" (included in the Factoring division) and a decrease in the cost of funding resulting from the repayment of previous Tier 2 loans. Interest expense, which benefited from the low cost of funding up to the end of the first half of 2022, tied to negative market rates as well as an additional favourable non-recurring rate applied to TLTRO loans for the period June 2021 to June 2022 that was entirely recorded in the second quarter of 2022, began to increase in the fourth quarter of 2022, resulting in an increase over the previous year, albeit with a cost of funding that averaged below the ECB rate.

The total contribution of the Factoring Division to interest income was € 65.2 million, equal to 75% of the entire loans and receivables portfolio (in line with 31 December 2021), to which the commission component associated with the factoring business and the revenue generated by the assignment of receivables from the factoring portfolio need to be added. The item also includes the interest component tied to the amortised cost of eco-bonus loans amounting to € 1.8 million.

The component linked to default interest from legal action at 31 December 2022 was € 15.2 million (€ 21.5 million at 31 December 2021):

- of which € 1.6 million resulting from the updated recovery estimates and expected collection times (€ -0.3 million in 2021);
- of which € 7.5 million resulting from the current recovery estimates (€ 11.7 million in 2021);
- of which € 6.1 million (€ 10.1 million in 2021) coming from the difference between the amount collected during the period, equal to € 10.4 million (€ 17.5 million in 2021), and that recognised on an accruals basis in previous years. In 2021, this item included gross collections of € 0.7 million from transfers to third parties, whereas in 2022, gross collections were € 1.1 million.

The amount of the stock of default interest from legal actions accrued at 31 December 2022, relevant for the allocation model, was € 104 million (€ 99 million at the end of 2021), which becomes € 188 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, whereas the loans and receivables recognised in the financial statements amount to € 56 million. Therefore, the amount of default interest accrued but not recognised in the income statement is € 132 million.

Interest income from the salary-/pension-backed loan portfolios amounted to € 20.6 million, down slightly from the previous year as a result of the increased impact of prepayments on the portfolios, which is expected to decrease in the coming years due to rising market rates.

The interest component from government-backed loans, a support measure in response to the COVID-19 pandemic, also had a positive and significant impact.

The item "financial liabilities", which account for a total of € 2.2 million, mainly includes the effects arising from the financing activity of the securities portfolio in repurchase agreements and ECB loans, which were significantly positive until the first half of the year due to negative interest rates, as well as non-recurring positive interest from the additional rate applied to TLTRO loans, and a one-off positive effect of € 1.1 million recognised in the fourth quarter of 2022.

Interest expense, which until the third quarter of 2022 had made a positive contribution to net interest income, saw an initial increase at 31 December 2022 driven by the new market conditions, which led to a gradual increase in the cost of funding starting in the fourth quarter that will continue in the next financial year.

Accrued interest expense for 2022 on the AT1 instruments classified in equity reserves for the portion of half-yearly coupon payment, amounted to € 4.5 million before tax.

Net fee and commission income (€,000)	2022	2021	€ Change	% Change
Fee and commission income				
Factoring activities	11,380	12,813	(1,433)	-11.2%
Fee and commission income - off-premises CQ	9,816	4,503	5,313	>100%
Collection activities	1,058	1,235	(177)	-14.3%
Other fee and commission income	827	541	286	52.9%
Total fee and commission income	**23,081**	**19,092**	**3,989**	**20.9%**
Fee and commission expense				
Factoring portfolio placement	(1,176)	(1,426)	250	-17.5%
Placement of other financial products	(1,717)	(1,988)	271	-13.6%
Fees - off-premises CQ	(10,439)	(5,717)	(4,722)	82.6%
Other fee and commission expense	(1,444)	(745)	(699)	93.8%
Total fee and commission expense	**(14,776)**	**(9,876)**	**(4,900)**	**49.6%**
Net fee and commission income	**8,305**	**9,216**	**(911)**	**-9.9%**

Net fee and commission income of € 8.3 million decreased by 9.9% due to lower commissions from factoring. These 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.

Net fees and commissions benefitted from a change in the method of accounting for the rappels to be paid to the agent network, which, in order to better reflect net interest income and to improve the correlation between costs and revenues, have been deferred over the expected life of the loans, resulting in a decrease in the amount of the item Fees - off-premises; without this change in accounting method, net fee and commission income (expense) would have been 30% lower.

Fees and commissions on collection activities, related to the service of reconciliation of third-party invoices collected from Public Administration entities are down 14.3% compared to last year.

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 € 9.8 million, which should be considered together with the item Fees - off-premises CQ, amounting to € 10.4 million, which are composed of the commissions paid to financial advisers for the off-premises placement of the salary- and pension-backed loan product. The increase in fee and commission expense compared to last year is related to the increase in volumes originated.

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 remained 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 (loss) from sales or repurchases (€,000)	2022	2021	€ Change	% Change
Gains from HTCS portfolio debt instruments	1,087	4,090	(3,003)	-73.4%
Gains from HTC portfolio debt instruments	248	458	(210)	-45.9%
Gains from financial liabilities	-	-	-	n.a.
Gains from receivables (Factoring portfolio)	2,213	1,875	338	18.0%
Gains from receivables (CQ portfolio)	1,529	3,666	(2,137)	-58.3%
Total	**5,077**	**10,089**	**(5,012)**	**-49.7%**

The item Gain (loss) from sales or repurchases in 2022 includes net realised gains from the securities portfolio, factoring receivables of € 3.3 million (the revenue from which derives from the sale of factoring portfolios to private-sector assignors) and the sale of a CQ loans and receivables portfolio, which generated revenue of € 1.5 million. Compared to the previous year, the current performance of the market prevented similar profits being realised from the securities portfolio.

Impairment losses on loans and receivables at 31 December 2022 amounted to € 8.5 million (€ 10.7 million at the end of 2021). The loss rate decreased to 0.29% at 31 December 2022 from 0.40% in 2021 (this figure was calculated without annualising the non-recurring adjustments made in 2021).

Personnel expense (€,000)	31.12.2022	31.12.2021	€ Change	% Change
Wages and salaries	(15,925)	(18,373)	2,448	-13.3%
Social security contributions and other costs	(3,578)	(3,491)	(87)	2.5%
Directors' and statutory auditors' remuneration	(1,314)	(1,236)	(78)	6.3%
Total	**(20,817)**	**(23,100)**	**2,283**	**-9.9%**

The reduction in personnel expense is mainly related to the release of the estimated variable component accrued in 2021 following the application of the remuneration policies (recorded in the first half of 2022), as well as the positive one-off effect from the replacement of the non-compete agreement for part of the recipients with a new retention plan amounting to € 0.6 million (recorded in the fourth quarter of 2022). Net of these items and the positive effect of discounting the liabilities related to the plans mentioned above, wages and salaries remained largely unchanged. The average number of employees is largely unchanged, going from 202 to 203.

Other administrative expenses (€,000)	2022	2021	€ Change	% Change
Consultancy	(5,220)	(5,059)	(161)	3.2%
IT expenses	(5,136)	(5,311)	175	-3.3%
Servicing and collection activities	(2,206)	(3,070)	864	-28.1%
Indirect taxes and duties	(3,133)	(2,518)	(615)	24.4%
Insurance	(951)	(464)	(487)	105.0%
Other	(898)	(639)	(259)	40.5%
Expenses related to management of the SPVs	(454)	(467)	13	-2.8%
Outsourcing and consultancy expenses	(281)	(391)	110	-28.1%
Car hire and related fees	(575)	(716)	141	-19.7%
Advertising and communications	(993)	(1,225)	232	-18.9%
Expenses related to property management and logistics	(1,470)	(1,022)	(448)	43.8%
Personnel-related expenses	(33)	(121)	88	-72.7%
Entertainment and expense reimbursement	(513)	(355)	(158)	44.5%
Infoprovider expenses	(624)	(701)	77	-11.0%
Membership fees	(310)	(337)	27	-8.0%
Audit fees	(343)	(235)	(108)	46.0%
Telephone and postage expenses	(460)	(258)	(202)	78.3%
Stationery and printing	(26)	(22)	(4)	18.2%
Total operating expenses	**(23,626)**	**(22,911)**	**(715)**	**3.1%**
Resolution Fund	(1,920)	(2,284)	364	-15.9%
Merger-related costs	-	-	-	n.a.
Total	**(25,546)**	**(25,195)**	**(351)**	**1.4%**

Administrative expenses were in line with the same period of the last year, with increases in some cost items offset by reductions in others.

Servicing and collection activities decreased due to the reduction in costs for the collection of factoring receivables.

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 decreased due to lower spending on systems upgrades.

Consultancy expenses consist mainly of costs incurred for legal expenses related to pending lawsuits and enforceable injunctions for the recovery of receivables and default interest from debtors of the Public Administration.

Expenses for indirect taxes and duties increased as a result of higher contributions paid for enforceable injunctions against public administration debtors.

The resolution fund, the ordinary portion of which increased again in 2022 by € 0.2 million over the same period of the previous year, decreased overall as no extraordinary contribution was required in 2022, whereas in 2021 a contribution of € 0.6 million was made.

Net impairment losses on property and equipment/ intangible assets (€,000)	2022	2021	€ Change	% Change
Depreciation of buildings used for operations	-	-	-	n.a.
Depreciation of furniture and equipment	(79)	(91)	12	-13.2%
Amortisation of value in use	(1,422)	(1,484)	62	-4.2%
Amortisation of software	-	(8)	8	-100.0%
Amortisation of other intangible assets	(23)	-	(23)	n.a.
Total	**(1,524)**	**(1,583)**	**59**	**-3.7%**

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 operating income (expense) (€,000)	2022	2021	€ Change	% Change
Recovery of expenses and taxes	1,153	700	453	64.7%
Amortisation of multiple-year improvement costs	(47)	(28)	(19)	67.9%
Other income (expense)	(392)	(1,077)	685	-63.6%
Contingent assets and liabilities	183	812	(629)	-77.5%
Total	**897**	**407**	**490**	**>100%**

The total of the item increased as a result of higher recoveries of expenses and taxes as well as an income of € 0.7 million due to the release to the profit or loss of a lower earn-out recognised for the acquisition of Atlantide than estimated, because of lower volumes of salary- and pension-backed loan portfolios disbursed compared to the target estimated at the time. The sub-item Other income and expense, which includes the ear-out component paid, decreased because of higher releases in 2021 related to estimated accrued costs, which were not incurred in the following year.

THE MAIN STATEMENT OF FINANCIAL POSITION AGGREGATES

Assets (€,000)	31.12.2022	31.12.2021	Change	%
Cash and cash equivalents	124,175	168,902	(44,727)	-26.5%
Financial assets measured at fair value through profit or loss	24,600	8,368	16,232	>100%
Financial assets measured at fair value through other comprehensive income	558,384	451,261	107,123	23.7%
Financial assets measured at amortised cost	3,519,272	2,917,200	602,072	20.6%
a) loans and receivables with banks	34,825	33,141	1,684	5.1%
b1) loans and receivables with customers - loans	2,803,415	2,700,017	103,398	3.8%
b2) loans and receivables with customers - debt instruments	681,032	184,042	496,990	>100%
Equity investments	45,250	45,250	-	0.0%
Property and equipment	3,035	4,499	(1,464)	-32.5%
Intangible assets	3,957	3,980	(23)	-0.6%
of which: goodwill	*3,920*	*3,920*	-	0.0%
Tax assets	23,239	10,973	12,266	>100%
Non-current assets held for sale and disposal groups	-	-	-	n.a.
Other assets	76,029	39,740	36,289	91.3%
Total assets	**4,377,941**	**3,650,173**	**727,768**	**19.9%**

The year ended 31 December 2022 closed with total assets up by 19.9% over the end of 2021 and equal to € 4.4 billion.

The securities portfolio relating to Financial assets measured at fair value through other comprehensive income ("HTCS") of the Group was up compared to 31 December 2021 and continues to be mainly comprised of Italian government bonds with an average duration of about 25.6 months (the average remaining duration at the end of 2021 was 31.4 months). The nominal amount of the government bonds held in the HTCS portfolio amounted to € 586 million at 31 December 2022 (€ 446 million at 31 December 2021). The associated valuation reserve was negative at the end of the period, amounting to € 36.9 million before the tax effect.

Loans and receivables with customers (€,000)	31.12.2022	31.12.2021	€ Change	% Change
Factoring receivables	1,429,794	1,435,788	(5,994)	-0.4%
Salary-/pension-backed loans (CQS/CQP)	933,200	931,767	1,433	0.2%
Loans to SMEs	196,863	160,075	36,788	23.0%
Current accounts	160,783	156,840	3,943	2.5%
Compensation and Guarantee Fund	72,510	9,147	63,363	>100%
Other loans and receivables	10,265	6,400	3,865	60.4%
Total loans	**2,803,415**	**2,700,017**	**103,398**	**3.8%**
Securities	681,032	184,042	496,990	>100%
Total loans and receivables with customers	**3,484,447**	**2,884,059**	**600,388**	**20.8%**

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 51% (53% at the end of 2021). The volumes generated during the year amounted to € 4,417 million (€ 3,611 million at 31 December 2021).

Salary- and pension-backed loans were steady compared to the end of the previous year, mainly due to increased volumes disbursed directly by the agent network which rose sharply to € 209 million from € 85 million in 2021.

Government-backed loans to SMEs increased following new disbursements made under SACE and SME Fund guarantees and amounted to € 196.9 million.

HTC Securities are composed entirely of Italian government securities with an average duration of 12.3 months for an amount of € 700 million. The mark-to-market valuation of the securities at 31 December 2022 shows a pre-tax unrealised loss of € 9 million.

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

Status	31/12/2021	31/12/2022
Bad exposures - gross	169,100	170,369
Unlikely to pay - gross	36,693	32,309
Past due - gross	108,598	81,449
Non-performing - gross	**314,391**	**284,127**
Performing - gross	**2,448,801**	**2,580,630**
Stage 2 - gross	102,858	112,795
Stage 1 - gross	2,345,943	2,467,835
Total loans and receivables with customers	**2,763,192**	**2,864,757**
Individual impairment losses	**59,201**	**61,454**
Bad exposures	47,555	47,079
Unlikely to pay	11,055	13,477
Past due	591	898
Collective impairment losses	**6,755**	**6,432**
Stage 2	560	1,993
Stage 1	6,195	4,439
Total impairment losses	**65,956**	**67,886**
Net exposure	**2,697,236**	**2,796,871**

The ratio of gross non-performing loans to the total portfolio decreased to 9.9% compared to 11.4% at 31 December 2021. Following the decrease in past due loans, which remain high because of 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 to not pose particular problems in terms of credit quality and probability of collection.

The coverage ratio for non-performing loans is 21.6%, up from 18.8% at 31 December 2021.

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 of the 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.

The investment recognised in the financial statements relates to the 50/50 joint venture with EBN Banco de Negocios S.A. in EBNSISTEMA. Banca Sistema acquired an equity investment in EBNSISTEMA through a capital increase of € 1 million which gave the Bank a 50% stake in the Madrid-based company. The aim of the joint venture is to develop the Public Administration factoring business in the Iberian peninsula, with its core business being the purchase of healthcare receivables. At the end of 2022, EBNSISTEMA originated € 275 million in loans and receivables, an increase of 120 million compared to 2021.

Other assets mainly include amounts being processed after the end of the period and advance tax payments. The item includes tax credits from the "Eco-Sisma bonus 110" amounting to € 54.9 million at 31 December 2022.

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

Liabilities and equity (€,000)	31.12.2022	31.12.2021	Change	%
Financial liabilities measured at amortised cost	3,923,476	3,219,805	703,671	21.9%
a) due to banks	604,660	580,991	23,669	4.1%
b) due to customers	3,318,816	2,638,814	680,002	25.8%
c) securities issued	-	-	-	n.a.
Financial liabilities held for trading	-	-	-	n.a.
Tax liabilities	15,493	14,173	1,320	9.3%
Liabilities associated with disposal groups	-	-	-	n.a.
Other liabilities	154,238	127,425	26,813	21.0%
Post-employment benefits	3,250	3,360	(110)	-3.3%
Provisions for risks and charges	35,777	28,340	7,437	26.2%
Valuation reserves	(24,870)	(2,986)	(21,884)	>100%
Reserves	195,098	181,762	13,336	7.3%
Equity instruments	45,500	45,500	-	0.0%
Equity attributable to non-controlling interests	-	-	-	n.a.
Share capital	9,651	9,651	-	0.0%
Treasury shares (-)	(559)	-	(559)	n.a.
Profit for the year	20,887	23,143	(2,256)	-9.7%
Total liabilities and equity	**4,377,941**	**3,650,173**	**727,768**	**19.9%**

Wholesale funding, which represents about 40% of the total (28% at 31 December 2021), increased in absolute terms from the end of 2021 mainly following the increase in funding through repurchase agreements.

Due to banks (€,000)	31.12.2022	31.12.2021	€ Change	% Change
Due to Central banks	537,883	540,095	(2,212)	-0.4%
Due to banks	66,777	40,896	25,881	63.3%
Current accounts with other banks	66,777	40,897	25,880	63.3%
Term deposits with banks	-	-	-	n.a.
Financing from other banks	-	(1)	1	-100.0%
Other amounts due to banks	-	-	-	n.a.
Total	**604,660**	**580,991**	**23,669**	**4.1%**

The item "Due to banks" increased by 4.1%, compared to 31 December 2021, as a result of an increase in borrowing from the interbank deposit market and the ECB compared to 31 December 2021.

Due to customers (€,000)	31.12.2022	31.12.2021	€ Change	% Change
Term deposits	1,431,548	1,387,416	44,132	3.2%
Financing (repurchase agreements)	865,878	249,256	616,622	>100%
Customer current accounts	794,878	805,766	(10,888)	-1.4%
Due to assignors	46,590	56,012	(9,422)	-16.8%
Other payables	179,922	140,364	39,558	28.2%
Total	**3,318,816**	**2,638,814**	**680,002**	**25.8%**

The item "Due to customers" increased compared to the end of the previous year, reflecting a decrease in funding from current accounts with a concurrent increase in funding through repurchase agreements. The period-end amount of term deposits increased from the end of 2021 (+3.2%), reflecting net positive funding (net of interest accrued) of € 46 million; gross deposits from the beginning of the year were € 1,504 million, against repayments totalling € 1,458 million.

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

The provision for risks and charges of € 35.8 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 estimates related to the non-compete agreement and the 2022 retention plan, totalling € 5 million (the item includes the estimated variable and deferred components, accrued but not paid). The provision also includes an estimate of charges related to possible liabilities to assignors that have yet to be settled and other estimated charges for ongoing lawsuits and legal disputes amounting to € 11.7 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 € 13.1 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 the Bank is shown below.

Own funds (€,000) and capital ratios	31.12.2022 Transitional	31.12.2021
Common Equity Tier 1 (CET1)	**198,182**	**197,634**
ADDITIONAL TIER 1	45,500	45,500
Tier 1 capital (T1)	**243,682**	**243,134**
TIER2	-	-
Total Own Funds (TC)	**243,682**	**243,134**
Total risk-weighted assets	**1,354,950**	**1,504,323**
of which, credit risk	1,188,606	1,332,507
of which, operational risk	166,344	171,816
Ratio - CET1	**14.6%**	**13.1%**
Ratio - T1	**18.0%**	**16.2%**
Ratio - TCR	**18.0%**	**16.2%**

Starting in the second quarter of 2022, the Bank decided to use the mitigating parameter (equal to 40%) for calculating the FVOCI filter for exposures to central authorities, in line with the provisions of Article 468 CRR. This temporary treatment will be valid until the end of 2022 and the tables show both the "transitional" ratios, meaning those using the mitigating measure, and the "fully loaded" ratios, which do not include the mitigating measure and are thus in line with the previous year. In this regard, the neutralisation of all or part of the reserve (HTCS) on government bonds will be the topic of discussion in the European Trilogue, on which Ecofin has already proposed a 100% neutralisation. This change, if approved, would enter into force with its publication in the Official Journal in autumn 2023.

Total regulatory own funds were € 244 million at 31 December 2022 and included the profit, net of dividends estimated on the profit for the period which were equal to a pay-out of 25% of the Parent's profit. The reduction in CET1 compared to 31 December 2021 was driven by an improvement in RWA which more than offset the deterioration of the negative OCI reserve on government bonds of € 36.9 million (negative € 2.4 million at 31 December 2021), treasury shares held at the end of the quarter of € 0.6 million and interest expense accrued during the period on the AT1 instrument.

Risk-weighted assets decreased compared to 31 December 2022 due to reduced exposures to corporates and partially to an improvement in past due amounts of public sector institutions.

The Group's new consolidated capital requirements, which came into effect on 30 June 2022, are as follows:

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

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 draft financial statements as at and for the year ended 31 December 2022 - 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 draft financial statements as at and for the year ended 31 December 2022 - 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 2022.

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 financial statements as at and for the year ended 31 December 2022, which we submit for your approval, show a profit for the year of € 20,886,568.99.

We recommend allocating the profit for the year as follows:

- a dividend of € 5,227,368.38;
- the remainder of € 15,659,200.61 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, 10 March 2023

On behalf of the Board of Directors

The Chairperson

Luitgard Spögler

The CEO

Gianluca Garbi

SEPARATE FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

(Amounts in Euros)

	Assets	31.12.2022	31.12.2021
10.	Cash and cash equivalents	124,174,855	168,901,542
20.	Financial assets measured at fair value through profit or loss	24,599,724	8,368,222
	c) other financial assets mandatorily measured at fair value through profit or loss	24,599,724	8,368,222
30.	Financial assets measured at fair value through other comprehensive income	558,383,831	451,261,178
40.	Financial assets measured at amortised cost	3,519,271,470	2,917,199,997
	a) loans and receivables with banks	34,824,671	33,141,128
	b) loans and receivables with customers	3,484,446,799	2,884,058,869
70.	Equity investments	45,250,000	45,250,000
80.	Property and equipment	3,035,010	4,498,696
90.	Intangible assets	3,957,290	3,979,831
	of which:		
	goodwill	3,919,700	3,919,700
100.	*Tax assets*	*23,239,118*	10,972,044
	a) current	2,060,302	746,523
	b) deferred	21,178,816	10,225,521
110.	Non-current assets held for sale and disposal groups	-	-
120.	Other assets	76,029,368	39,741,452
	Total Assets	**4,377,940,666**	**3,650,172,962**

	Liabilities and equity	31.12.2022	31.12.2021
10.	Financial liabilities measured at amortised cost	3,923,475,253	3,219,805,217
	a) due to banks	604,659,631	580,991,155
	b) due to customers	3,318,815,622	2,638,814,062
	c) securities issued	-	-
60.	Tax liabilities	15,493,012	14,172,528
	a) current	-	-
	b) deferred	15,493,012	14,172,528
80.	Other liabilities	154,238,734	127,425,600
90.	Post-employment benefits	3,249,865	3,359,656
100.	Provisions for risks and charges:	35,776,561	28,340,226
	a) commitments and guarantees issued	23,973	39,068
	c) other provisions for risks and charges	35,752,588	28,301,158
110.	Valuation reserves	(24,869,635)	(2,985,650)
130.	Equity instruments	45,500,000	45,500,000
140.	Reserves	155,998,213	142,661,850
150.	Share premium	39,100,168	39,100,168
160.	Share capital	9,650,526	9,650,526
170.	Treasury shares (-)	(558,600)	-
180.	Profit for the year	20,886,569	23,142,841
	Total liabilities and equity	**4,377,940,666**	**3,650,172,962**

INCOME STATEMENT

(Amounts in Euros)

		2022	2021
10.	Interest and similar income	91,151,677	90,422,722
	of which: interest income calculated with the effective interest method	91,151,677	89,980,541
20.	Interest and similar expense	(14,967,340)	(16,035,269)
30.	**Net interest income**	**76,184,337**	**74,387,453**
40.	Fee and commission income	23,080,565	19,092,499
50.	Fee and commission expense	(14,776,049)	(9,876,131)
60.	**Net fee and commission income (expense)**	**8,304,516**	**9,216,368**
70.	Dividends and similar income	226,667	226,667
80.	Net trading income (expense)	(1,517,569)	20,590
100.	Gain (loss) from sales or repurchases of:	5,077,427	10,088,881
	a) financial assets measured at amortised cost	3,990,912	5,999,250
	b) financial assets measured at fair value through other comprehensive income	1,086,515	4,089,631
	c) financial liabilities	-	-
110.	Net gain (loss) on other financial assets and liabilities measured at fair value through	2,195,577	1,855,893
	b) other financial assets mandatorily measured at fair value through profit or loss	2,195,577	1,855,893
120.	**Total income**	**90,470,955**	**95,795,852**
130.	Net impairment losses/gains on:	(8,476,471)	(10,715,169)
	a) financial assets measured at amortised cost	(8,333,072)	(10,743,126)
	b) financial assets measured at fair value through other comprehensive income	(143,399)	27,957
140.	Gains/losses from contract amendments without derecognition	69	(3,709)
150.	**Net financial income (expense)**	**81,994,553**	**85,076,974**
160.	Administrative expenses	(46,362,961)	(48,295,107)
	a) personnel expense	(20,816,955)	(23,100,390)
	b) other administrative expenses	(25,546,006)	(25,194,717)
170.	Net accruals to provisions for risks and charges	(4,461,042)	(1,705,300)
	a) commitments and guarantees issued	15,095	(13,145)
	b) other net accruals	(4,476,137)	(1,692,155)
180.	Net impairment losses on property and equipment	(1,501,191)	(1,575,219)
190.	Net impairment losses on intangible assets	(22,541)	(7,797)
200.	Other operating income (expense)	896,341	407,129
210.	**Operating costs**	**(51,451,394)**	**(51,176,294)**
260.	**Pre-tax profit (loss) from continuing operations**	**30,543,159**	**33,900,680**
270.	Income taxes	(9,656,590)	(10,757,839)
280.	**Post-tax profit from continuing operations**	**20,886,569**	**23,142,841**
300.	**Profit for the year**	**20,886,569**	**23,142,841**

STATEMENT OF COMPREHENSIVE INCOME

(Amounts in Euros)

		2022	2021
10.	**Profit (loss) for the year**	**20,886,569**	**23,142,841**
	Items, net of tax, that will not be reclassified subsequently to profit or loss	-	-
70.	Defined benefit plans	338,644	(29,697)
	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	(22,222,629)	(4,342,132)
170.	**Total other comprehensive income (expense), net of income tax**	**(21,883,985)**	**(4,371,829)**
180.	**Comprehensive income (Items 10+170)**	**(997,416)**	**18,771,012**

STATEMENT OF CHANGES IN EQUITY AS AT 31.12.2022

Amounts in Euros

	Balance at 31.12.2021	Change in opening balances	Balance at 1.1.2022	Allocation of prior year profit		Changes during the year									Equity at 31.12.2022
							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 2022	
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	**142,661,850**		142,661,850	17,374,262		(4,037,899)									**155,998,213**
a) income-related	**141,802,583**		141,802,583	17,374,262		(3,052,454)									**156,124,391**
b) other	**859,267**		859,267			(985,445)									**(126,178)**
Valuation reserves	**(2,985,650)**		(2,985,650)											(21,883,985)	**(24,869,635)**
Equity instruments	**45,500,000**		45,500,000												**45,500,000**
Treasury shares								(558,600)							**(558,600)**
Profit (loss) for the year	**23,142,841**		23,142,841	(17,374,262)	(5,768,579)									20,886,569	**20,886,569**
Equity	**257,069,735**		**257,069,735**		**(5,768,579)**	**(4,037,899)**		**(558,600)**						**(997,416)**	**245,707,241**

STATEMENT OF CHANGES IN EQUITY AS AT 31.12.2021

Amounts in Euros

				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
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 (loss) 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**

STATEMENT OF CASH FLOWS (INDIRECT METHOD)

Amounts in Euros

	Amount 31.12.2022	31.12.2021
A. OPERATING ACTIVITIES		
1. Operations	**38,933,145**	**43,340,137**
Profit (loss) for the year (+/-)	20,886,569	23,142,841
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/gains due to credit risk (+/-)	8,333,072	10,743,126
Net impairment losses/gains on property and equipment and intangible assets (+/-)	1,571,051	1,583,016
Net accruals to provisions for risks and charges and other costs/income (+/-)	4,461,042	1,705,300
Taxes, duties and tax assets not yet paid (+)	(1,090,419)	(1,656,174)
Other adjustments (+/-)	4,771,830	7,822,028
2. Cash flows generated by (used for) financial assets	**(782,614,680)**	**44,863,897**
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	(16,231,502)	(6,014,777)
Financial assets measured at fair value through other comprehensive income	(129,006,638)	(24,667,372)
Financial assets measured at amortised cost	(595,770,967)	93,735,111
Other assets	(41,605,573)	(18,189,065)
3. Cash flows generated by (used for) financial liabilities	**705,366,851**	**(8,845,409)**
Financial liabilities measured at amortised cost	690,292,264	2,119,396
Financial liabilities held for trading		
Financial liabilities designated at fair value through profit or loss		
Other liabilities	15,074,587	(10,964,805)
Net cash flows generated by (used for) operating activities	**(38,314,684)**	**79,358,625**
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	**(84,824)**	**(297,307)**
Purchases of equity investments		
Purchases of property and equipment	(84,824)	(61,565)
Purchases of intangible assets		(235,742)
Purchases of business units		
Net cash flows generated by (used in) investing activities	**(84,824)**	**(297,307)**
C. FINANCING ACTIVITIES		
Issues/repurchases of treasury shares	(558,600)	
Issues/repurchases of equity instruments		37,500,000
Dividend and other distributions	(5,768,579)	(13,912,842)
Net cash flows generated by (used in) financing activities	**(6,327,179)**	**23,587,158**
NET CASH FLOWS FOR THE PERIOD	**(44,726,687)**	**102,648,476**

Cash and cash equivalents at the beginning of the year	**168,901,542**	**66,253,066**
Total net cash flows for the year	(44,726,687)	102,648,476
Cash and cash equivalents: effect of change in exchange rates		
Cash and cash equivalents at the end of the year	**124,174,855**	**168,901,542**

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

PART A - ACCOUNTING POLICIES

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 2022 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.

In 2022, the following accounting standards or amendments to existing accounting standards came into force:

- Amendments to IFRS3 Business Combinations;
- IAS16 Property, Plant and Equipment
- IAS37 Provisions, Contingent Liabilities and Contingent Assets;
- Annual improvements (EU Reg. 2021/1080).

The above changes had no material impact on the statement of financial position and income statement.

At 31 December 2022, the following documents were Endorsed by the European Commission:

- amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies (EU Reg. 2022/357) effective for annual reporting periods beginning on or after 1 January 2023;
- amendments to IAS 8 Accounting Policies, Changes and Errors in Estimates: Disclosure of Estimates (EU Reg. 2022/357) effective for annual reporting periods beginning on or after 1 January 2023;
- amendments to IAS 12 Income Taxes: Deferred Taxes Relating to Assets and Liabilities Arising from a Single Transaction (EU Reg. 2022/1392) effective for annual reporting periods beginning on or after 1 January 2023;
- Amendments to IFRS 17 Insurance Contracts: First-time Application of IFRS 17 and IFRS 9 - Comparative Disclosures (EU Reg. 2022/1491) effective for annual reporting periods beginning on or after 1 January 2023.

The Bank does not expect any significant impact from the entry into force of these accounting standard amendments.

Finally, at 31 December 2022, the IASB had issued the following accounting standards, interpretations or amendments to existing accounting standards, the application of which is, however, subject to the finalisation of the endorsement process by the competent bodies of the European Union:

- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current and Classification of Liabilities as Current or Non-Current - Deferral of Effective Date (January and July 2020, respectively); and Non-Current Liabilities with Covenants (31 October 2022);
- Amendments to IFRS 16 Leases: Lease Liabilities in Sale and Leaseback Transactions (22 September 2022).

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.

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 Bank'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 period.

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 recoverable amounts 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 provisions for risks and charges, the amount or timing of which are uncertain;
- the recoverability of deferred tax assets;
- post-employment benefits and other employee benefits payable (including obligations under defined benefit plans);
- the fair value measurement of financial instruments not listed on active markets, with specific reference to the fair value measurement model of the junior security held in BS IVA SPV.

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 in the figures are due exclusively to rounding.

European Directive 2004/109/EC (the "Transparency Directive") and Delegated Regulation (EU) 2019/815 introduced the obligation for issuers of securities listed on regulated markets in the European Union to prepare their annual financial report using the XHTML language, based on the ESMA-approved European Single Electronic Format (ESEF).

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.

For a description of significant events occurring after the end of the financial year, please refer to the information below.

On 27 February 2023, the Bank of Italy initiated an inspection pursuant to Article 54, Legislative Decree 385/93, aimed at verifying the change in exposure to liquidity risk and the related operational controls. The inspection, which is still in progress, is being carried out in an orderly manner and no significant matters have been communicated to management.

Section 4 – Other aspects

Risks and uncertainties related to the conflict between Russia and Ukraine and the COVID-19 epidemic

The current market environment remains highly uncertain for both short-term and medium-term forecasts. The economic consequences of geopolitical tensions continue to manifest themselves and worsen the outlook for the economy of the Euro area, driving up inflationary pressures. In this regard, according to the ECB's macroeconomic projections updated in December 2022, the outlook for the Euro Area includes weak growth, persistently high inflation, high interest rates and an appreciating euro. The negative economic repercussions are expected to be partially mitigated by the energy-related fiscal measures that will support economic growth in 2023, but this is offset by the ending of previous fiscal support related to COVID-19. Also, high levels of natural gas stocks and ongoing efforts to reduce demand and replace Russian gas with alternative sources imply that the Euro Area should avoid the need for mandatory energy-related production cuts over the projection horizon, although the risks of energy supply disruptions remain high (for winter 2023-2024) with some negative economic implications. In the medium term, as the energy market comes back into balance, uncertainty is expected to decrease, and economic growth is expected to resume. Headline inflation is expected to remain extremely high in the short term and decline steadily through 2023.

In addition, ESMA published a document ("European common enforcement priorities for 2022 Annual Financial Reports") indicating the most relevant areas for monitoring and assessing the application of the reporting requirements for the 2022 financial statements. In particular, ESMA notes the need to assess and reflect the effects of the current macroeconomic environment (pandemic, inflation, rising interest rates, deterioration in the economic environment, geopolitical risks and uncertainties about future prospects) in the financial statements and reaffirms what has been set out in previous documents (i.e. October 2021 and June 2022) with regard to the ability to continue as a going concern, impairment of assets, estimation uncertainties, significant judgments and financial statement presentation.

Given the environment of persistent uncertainty outlined above, and considering the previously mentioned ESMA communication, the Bank defined some deteriorating parameters used to test the sustainability of credit exposures, as part of the IFRS 9 measurement model. Sensitivity analyses were also prepared for valuing equity investments and goodwill.

Regarding the risks, uncertainties and impacts of the COVID-19 epidemic, no significant impacts have been noted to date.

The Bank's performance in 2023, like that of any other intermediary and, more generally, of any company, will be influenced by the outcome of the conflict, by monetary and fiscal policy decisions and by the ongoing COVID-19 health emergency.

Delegated Regulation (EU) 2019/815

European Directive 2004/109/EC (the "Transparency Directive") and Delegated Regulation (EU) 2019/815 introduced the obligation for issuers of securities listed on regulated markets in the European Union to prepare their separate financial statements using the XHTML language, based on the ESMA-approved European Single Electronic Format (ESEF).

Audit of the financial statements

The financial statements for the year ended 31 December 2022 have been audited by the independent auditors BDO Italia S.p.A. in accordance with Legislative Decree No. 39 of 27 January 2010 and in execution of the shareholders' resolution of 18 April 2019, which appointed them for the nine-year period 2019-2027.

A.2 – INFORMATION ON THE MAIN ITEMS OF THE 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.

Factoring receivables, after their recognition, are measured at amortised cost. This amortised cost is based on the present value of the receivable's expected cash flows. For some factoring receivables relating to the Public Administration and Healthcare entities, the Bank recognises the total receivable including the estimated default interest ("accrual"). This component is calculated over a limited perimeter that is composed of positions for which the conditions that set in motion a legal action for collection against the assigned debtor have not yet been met.

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

Equity interests fall under the definition of an equity instrument, and consequently a financial instrument, under IAS 32. Investments in equity instruments made with the intention of establishing or maintaining a long-term operating relationship in investee companies can be considered a "strategic investment". This item includes interests in subsidiaries, associates and joint ventures.

Subsidiaries

Subsidiary companies are those entities in which the Bank has direct or indirect control. Control over an entity is evidenced by the ability to exercise power to influence the variable returns to which one is exposed through one's relationship with it. Where the relevant activities are governed by voting rights, the existence of control is verified by considering the voting rights held, including potential voting rights, and the existence of any agreements or shareholders' agreements that confer the right to control the majority of the voting rights, to appoint the majority of the governing body or otherwise the power to determine the financial and operating policies of the entity.

Joint ventures

A joint venture is an entity over which the Bank has joint control and/or rights to the net assets of the entity. In particular, joint control exists where decisions relating to relevant activities require the unanimous consent of all parties sharing control.

Associates

An associate is an enterprise in which the investor exercises significant influence and which is neither an exclusively nor a jointly controlled subsidiary. Significant influence is presumed when the investor holds, directly or indirectly, at least 20% of the capital of another company; or the investor can, including through shareholders' agreements, exercise significant influence through:

- representation on the board of directors or equivalent governing body of the investee;

- participation in the policy-making process, including participation in decisions related to dividends or other distributions;
- the existence of material transactions between the investor and the investee;
- interchange of managerial personnel;
- provision of essential technical information.

It should be noted that only those entities whose governance is exercised through voting rights can be classified as associates.

Recognition criteria

Investments in subsidiaries, associates and joint ventures are recognised at acquisition cost, which is the sum of:

- the fair value at the acquisition date of the assets transferred, the liabilities assumed, and the equity instruments issued by the acquirer, in exchange for control of the acquired company; plus
- any cost directly attributable to the acquisition itself.

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.

If it is not possible to gather sufficient information, the value of the company's equity is considered the value in use.

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 “220. 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.

Under IAS 36, goodwill is not amortised, and an impairment test is conducted annually (or whenever there is evidence of impairment). For this purpose, goodwill must be allocated to cash-generating units ("CGUs"), in compliance with limits on aggregation which may not be larger than the "business segment" identified for management reporting purposes. The amount of any impairment is determined based on the difference between the carrying amount of the CGU and its recoverable amount, being the higher of 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.

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

At the reporting date, the Group did not hold any “Financial liabilities designated at fair value through profit or loss”.

Financial liabilities designated at fair value through profit or loss

At the reporting date, the Group 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 Bank'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.

Other assets and liabilities

Other assets and liabilities include all values that cannot be reclassified to other financial statement items.

Treasury shares

Treasury shares are recognised as a reduction of equity based on their acquisition cost. Gains or losses arising from their subsequent sale are always recognised directly to equity.

Recognition of revenues and costs

The recognition of revenue under IFRS 15 occurs when control over the goods or services subject to the contract is transferred, at an amount that reflects the consideration the enterprise receives or expects to receive from the sale.

For revenue recognition purposes, the standard requires:

- identification of the contract: contract for the sale of goods or services (or combination of contracts);

- identification of the performance obligations in the contract: identification of the obligations to perform under the contract;
- determination of the transaction price: definition of the transaction price for the contract, considering all its components;
- allocation of the transaction price to the performance obligations of the contract;
- recognition of revenue when (or to the extent to which) the performance obligation is satisfied.

Revenue arising from contractual obligations with customers is recognised in profit or loss when it is probable that the entity will receive the consideration to which it is entitled in exchange for the goods or services transferred to the customer. This consideration must be allocated to the individual obligations under the contract and recognised as revenue in profit or loss depending on the timing of performance of the obligation. If the entity receives consideration from the customer that it expects to refund to the customer, in whole or in part, for the revenue recognised in the profit or loss, it shall recognise a liability, which is to be estimated based on expected future refunds ("refund liability"). The estimated refund liability is updated at each annual or interim reporting date and is measured based on the portion of the consideration that the entity expects not to be entitled to.

Costs related to obtaining and fulfilling contracts with customers are recognised in the profit or loss in the periods in which the corresponding revenues are recognised in accordance with the matching of costs and revenues principle; costs that are not directly associated with revenues are immediately recognised in the profit or loss.

Costs directly attributable to financial instruments measured at amortised cost and which can be determined from the beginning, regardless of when they are settled, are charged to the profit or loss by applying the effective interest rate.

Dividends

Dividends are recognised in the profit or loss when their distribution is approved.

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:

- 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;
- of the recent transaction prices observable in the markets;
- of the price indications deducible from infoproviders (e.g., Bloomberg, Reuters);
- 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;
- 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);
- 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	31.12.2022			31.12.2021		
	L1	L2	L3	L1	L2	L3
1. Financial assets measured at fair value through profit or loss			24,600			8,368
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			24,600			8,368
2. Financial assets measured at fair value through other comprehensive income	553,384		5,000	446,261		5,000
3. Hedging derivatives						
4. Property and equipment						
5. Intangible assets						
Total	**553,384**		**29,600**	**446,261**		**13,368**
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	31.12.2022				31.12.2021			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets measured at amortised cost	3,519,272	672,384		2,851,146	2,917,200	185,666		2,777,129
2. Investment property								
3. Non-current assets held for sale and disposal groups								
Total	**3,519,272**	**672,384**		**2,851,146**	**2,917,200**	**185,666**		**2,777,129**
1. Financial liabilities measured at amortised cost	3,923,476			3,923,476	3,219,805			3,219,805
2. Liabilities associated with disposal groups								
Total	**3,923,476**			**3,923,476**	**3,219,805**			**3,219,805**

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

	31.12.2022	31.12.2021
a) Cash	57	134
b) current accounts and demand deposits with Central Banks	66,133	108,966
c) Current and deposit accounts with banks	57,985	59,802
Total	**124,175**	**168,902**

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

	31/12/2022			31/12/2021		
	L1	L2	L3	L1	L2	L3
1. Debt instruments			**24,600**			**8,368**
1.1 Structured instruments						
1.2 Other debt instruments			24,600			8,368
2. Equity instruments						
3. OEIC units						
4. Financing						
4.1 Reverse repurchase agreements						
4.2 Other						
Total			**24,600**			**8,368**

The item includes the valuation of the junior security issued by BS IVA SPV and held by Banca Sistema.

In 2020, the Bank finalised a transaction for the sale of VAT receivables to BS IVA SPV in several steps (ramp-up transaction). To finance the purchase of these receivables, the SPV issued two different classes of securities (Notes): Senior Notes (Class A Notes) and Junior Notes (Class B Notes). The Bank holds 5% of the Senior Notes (minimum retention value required by the regulations) and 100% of the Junior Notes.

From an accounting perspective, the value of the Junior Notes is recognised in the Bank's separate financial statements under “Financial assets mandatorily measured at fair value", while the value of the Senior Notes is recognised under "Financial assets measured at amortised cost". The transaction is then fully consolidated in the financial statements of the Banca Sistema Group.

The change with respect to 31 December 2021 relates to new sales made to the vehicle in 2022.

As of 31 December 2022, there were no impairment events attributable specifically to the receivables underlying the securitisation, and therefore, the portfolio's expected cash flows were confirmed.

2.6 Other financial assets mandatorily measured at fair value through profit or loss: breakdown by debtor/issuer

	31.12.2022	31.12.2021
1. Equity instruments		
of which: banks		
of which: other financial corporations		
of which: non-financial corporations		
2. Debt instruments	**24,600**	**8,368**
a) Central Banks		
b) General governments		
c) Banks		
d) Other financial corporations	24,600	8,368
of which: insurance companies		
e) Non-financial corporations		
3. OEIC units		
4. Financing		
a) Central Banks		
b) General governments		
c) Banks		
d) Other financial corporations		
of which: insurance companies		
e) Non-financial corporations		
f) Households		
Total	**24,600**	**8,368**

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

	31.12.2022			31.12.2021		
	L1	L2	L3	L1	L2	L3
1. Debt instruments	**553,046**			**445,804**		
1.1 Structured instruments						
1.2 Other debt instruments	553,046			445,804		
2. Equity instruments	**338**		**5,000**	**457**		**5,000**
3. Financing						
Total	**553,384**		**5,000**	**446,261**		**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

	31.12.2022	31.12.2021
1. Debt instruments	**553,046**	**445,804**
a) Central Banks		
b) General governments	553,046	445,804
c) Banks		
d) Other financial corporations		
of which: insurance companies		
e) Non-financial corporations		
2. Equity instruments	**5,338**	**5,457**
a) Banks	5,000	5,000
b) Other issuers:	338	457
- other financial corporations	338	457
of which: insurance companies		
- non-financial corporations		
- other		
4. Financing		
a) Central Banks		
b) General governments		
c) Banks		
d) Other financial corporations		
of which: insurance companies		
e) Non-financial corporations		
f) Households		
Total	**558,384**	**451,261**

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 securities	553,368	553,368				322				
Financing										
Totale 31.12.2022	**553,368**	**553,368**				**322**				
Totale 31.12.2021	**445,982**	**445,982**				**178**				

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

	31.12.2022						31.12.2021					
	Carrying amount			Fair value			Carrying amount			Fair value		
	First and second stage	Third stage	of which: purchased or originated credit-impaired	L1	L2	L3	First and second stage	Third stage	of which: purchased or originated credit-impaired	L1	L2	L3
A. Loans and receivables with Central Banks	**17,617**					**17,617**	**18,319**					**18,319**
1. Term deposits				X	X	X				X	X	X
2. Minimum reserve	16,308			X	X	X	18,319			X	X	X
3. Reverse repurchase agreements				X	X	X				X	X	X
4. Other	1,309			X	X	X				X	X	X
B. Loans and receivables with banks	**17,197**	**11**				**17,208**	**14,823**					**14,823**
1. Financing	**17,197**	**11**				**17,208**	**14,823**					**14,823**
1.1 Current accounts and demand deposits				X	X	X				X	X	X
1.2. Term deposits	15,000			X	X	X				X	X	X
1.3. Other financing:	2,197	11		X	X	X	14,823			X	X	X
- Reverse repurchase agreements				X	X	X				X	X	X
- Finance leases				X	X	X				X	X	X
- Other	2,197	11		X	X	X	14,823			X	X	X
2. Debt instruments												
2.1 Structured instruments												
2.2 Other debt instruments												
Total	**34,814**	**11**				**34,825**	**33,141**					**33,141**

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

	31.12.2022						31.12.2021					
	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
Financing	**2,574,198**	**222,589**	**84**			**2,809,783**	**2,442,047**	**255,190**				**2,741,207**
1.1. Current accounts	160,814	153		X	X	X	156,981	47		X	X	X
1.2. Reverse repurchase agreements				X	X	X				X	X	X
1.3. Loans	195,790	1,966		X	X	X	160,363	425		X	X	X
1.4. Credit cards, personal loans and salary- and pension-backed	899,411	15,411		X	X	X	909,921	11,068		X	X	X
1.5. Finance leases				X	X	X				X	X	X
1.6. Factoring	1,083,395	190,501	84	X	X	X	995,912	230,177		X	X	X
1.7. Other financing	234,788	14,558		X	X	X	218,870	13,473		X	X	X
Debt instruments	**687,576**			**672,384**		**6,538**	**186,822**			**185,666**		**2,781**
1.1. Structured instruments												
1.2. Other debt instruments	687,576			672,384		6,538	186,822			185,666		2,781
Total	**3,261,774**	**222,589**	**84**	**672,384**		**2,816,321**	**2,628,869**	**255,190**		**185,666**		**2,743,988**

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

Loans and receivables with customers, recognised under financial assets measured at amortised cost at 31 December 2022, amounted to €3,496 million, or about 80% of the Group's Total Assets. Salary- and pension-backed loans (included in line items 1.4 and 1.5 of the table) amounted to €933 million, while factoring receivables, including tax receivables recognised under Other loans, amounted to €1,501 million; these include €56 million relating to the stock of default interest pursuant to Legislative Decree No. 231 of 9 October 2002, accrued as of 31 December 2022, which is pertinent to the allocation model.

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

	31.12.2022			31.12.2021		
	First and second stage	Third stage	Purchased or originated credit-impaired	First and second stage	Third stage	Purchased or originated credit-impaired
1. Debt securities	687,576			186,822		
a) General governments	681,032			184,041		
b) Other financial corporations	6,544			2,781		
of which: insurance companies						
c) Non-financial corporations						
2. Financing to:	2,574,198	222,589	84	2,442,047	255,190	
a) General governments	953,054	172,132	84	834,290	208,864	
b) Other financial corporations	217,296	2,225		155,257	1	
of which: insurance companies	256	2,223		9		
c) Non-financial corporations	479,142	31,264		497,779	32,825	
d) Households	924,706	16,968		954,721	13,500	
Total	**3,261,774**	**222,589**	**84**	**2,628,869**	**255,190**	

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

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

	Gross amount					Total impairment losses				
	First stage		Second stage	Third stage	Purchased or originated credit-impaired	First stage	Second stage	Third stage	Purchased or originated credit-impaired	Overall partial write-offs (*)
		of which instruments with low credit risk								
Debt securities	687,944	681,399				367				
Financing	2,502,651	953,641	112,795	284,054	84	4,442	1,993	61,454		
Totale 31.12.2022	**3,190,595**	**1,635,040**	**112,795**	**284,054**	**84**	**4,809**	**1,993**	**61,454**	**-**	**-**
Totale 31.12.2021	**2,566,024**	**1,021,333**	**102,858**	**314,390**	**1**	**6,312**	**560**	**59,201**		

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	Third stage	Purchased or originated credit-impaired	
1. Forborne loans in compliance with the EBA Guidelines	133		2,537	246		4	1,273	47		
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	150,901			515		360		1		
Totale 31.12.2022	**151,034**		**2,537**	**761**		**364**	**1,273**	**48**		
Totale 31.12.2021	**157,666**		**2,507**	**5,761**		**413**	**12**	**1,325**		

Section 7 - Equity investments - item 70

7.1 Equity investments: information on investment relationships

	Registered office	Interest %	% of votes available
A. Fully-controlled companies			
S.F. Trust Holdings Ltd	London	100%	100%
Largo Augusto Servizi e Sviluppo S.r.l.	Milan	100%	100%
Kruso Kapital S.p.A.	Milan	75%	75%
B. Joint ventures			
EBNSISTEMA Finance S.L.	Madrid	50%	50%

As at 31 December 2022, the Bank held the following equity investments, which were unchanged from the previous year:

- S.F. Trust Holding Ltd, a company incorporated under English law, which was put into liquidation on 17 December 2021 and whose liquidation process has not yet been completed. The investment was already completely written down in previous years;
- Largo Augusto Servizi e Sviluppo S.r.l., a real estate company whose main business activity is carried out for Banca Sistema Group;
- Kruso Kapital S.p.A. (formerly Pronto Pegno S.p.A.) is a company operating in the collateralised lending sector and is listed in the Bank of Italy's register of Financial Intermediaries pursuant to Article 106 of the Consolidated Law on Banking no. 19493. The Company is 75% owned by Banca Sistema S.p.A. and 25% owned by three Foundations (Pisa, CR Alessandria and Cuneo);
- EBN Sistema Finance S.L. is a company established under Spanish law with registered office in Madrid operating in the Public Administration factoring segment in the Iberian Peninsula (Spain and Portugal). Its main activity is the origination of healthcare receivables with simultaneous sale to the two majority shareholders. The investment recognised in the financial statements relates to the 50/50 joint venture with EBN Banco de Negocios S.A. in EBNSISTEMA completed on 29 December 2020 through the subscription of a capital increase of € 1 million. At the end of 2022, EBN Sistema Finance originated € 275 million in loans and receivables, an increase compared to the 120 million reported in 2021.

7.2 Significant equity investments: carrying amount

	31.12.2022	31.12.2021
A. Fully-controlled companies		
Kruso Kapital S.p.A.	29,250	29,250
Largo Augusto Servizi e Sviluppo S.r.l.	15,000	15,000
S.F. Trust Holdings Ltd		
ProntoPegno Grecia		
B. Joint ventures		
EBNSistema Finance Sl	1,000	1,000

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	Net impairment gains and loss	Pre-tax profit (loss) from conti	Post-tax profit (loss) from cont	Post-tax profit (loss) from disc	Profit (loss) for the year	Other comprehensive income	Comprehensive income (expe
A. Fully-controlled companies														
1. S.F. Trust Holdings Ltd										(23)	(23)	(23)		(23)
2. Largo Augusto Servizi e Sviluppo S.r.l.			36,861	21,634	425	1,811	(219)	(834)	(188)	(124)		(124)		(124)
3. Kruso Kapital S.p.A.	4,884	106,867	38,755	100,633	9,844	16,421	7,088	(1,325)	3,387	2,322		2,322		1,105

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 loss	Pre-tax profit (loss) from conti	Post-tax profit (loss) from con	Post-tax profit (loss) from disc	Profit (loss) for the year	Other comprehensive income	Comprehensive income (expe
B. Joint ventures														
1. EBN SISTEMA FINANCE SL	#####	12			10,509		501		(83)	(63)	-	(63)		(63)

7.5 Equity investments: changes

	31.12.2022	31.12.2021
A. Opening balance	**45,250**	**45,250**
B. Increases		
B.1 Purchases		
B.2 Impairment gains		
B.3 Revaluations		
B.4 Other increases		
C. Decreases		
C.1 Sales		
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		

Impairment test on equity investments

As required by IAS/IFRS standards, equity investments are subjected to an impairment test to verify whether there is objective evidence that the carrying value of the assets in question is not fully recoverable.

For equity investments in associates, joint control, and joint ventures, the process of recognising any impairment includes verifying the existence of impairment indicators and determining any write-down. For these unlisted equity investments, the impairment indicators used include:

- qualitative indicators, such as the posting losses or, otherwise, material differences with respect to budget targets, the announcement of restructuring plans or the commencement of bankruptcy proceedings;
- quantitative indicators represented by a carrying amount of the investment in the separate financial statements that is significantly, and for a prolonged period, higher than the carrying amount in the net assets and goodwill in the consolidated financial statements of the investee company.

When impairment indicators exist, the recoverable value, which is the higher of the fair value less costs to sell and its value in use, is determined, and if the latter is lower than the carrying value, an impairment loss is recognised.

In this regard, it should be noted that the valuation carried out for EBN Sistema Finance confirmed that the recognised values were appropriate. The Company posted a loss for the year that was not significant, but in line with the Budget. The increase in assets, as described above, is evidence of the Company's growth.

Controlling equity investments recognised in the separate financial statements of Banca Sistema are tested for impairment, whenever the prerequisites for such a test exist, maintaining consistency between the valuations made in the separate financial statements and those made in the consolidated financial statements for the goodwill implicit in the CGUs to which they belong. In this regard, reference should be made to Section 10 – Intangible assets – Item 100 of the notes to the consolidated financial statements of the Banca Sistema Group.

This same process of recognising any qualitative and quantitative impairment described for associates, joint ventures and joint control companies was also carried out for Largo Augusto Servizi e Sviluppo S.r.l., which has no goodwill at the consolidated financial statements level.

In this regard, it should be noted that the valuation carried out for Largo Augusto Servizi e Sviluppo confirmed that the recognised values were appropriate. The Company reported a loss for the year but positive EBITDA, which should closely mirror the Group's due to the services it provides to it.

Section 8 – Property and equipment – Item 80

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

	31.12.2022	31.12.2021
1 Owned	**328**	**323**
a) land		
b) buildings		
c) furniture	161	141
d) electronic equipment	167	182
e) other	-	-
2 Right-of-use assets acquired under finance lease	**2,707**	**4,176**
a) land		
b) buildings	2,129	3,465
c) furniture		
d) electronic equipment		
e) other	578	711
Total	**3,035**	**4,499**
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%

8.6 Operating assets: changes

	Land	Buildings	Furniture	Electronic equipment	Other	Total
A. Gross opening balances		**7,274**	**1,272**	**2,277**	**1,901**	**12,724**
A.1 Total net impairment losses		3,809	1,131	2,095	1,190	8,225
A.2 Net opening balances		**3,465**	**141**	**182**	**711**	**4,499**
B. Increases:			**32**	**53**	**233**	**318**
B.1 Purchases			32	53	233	318
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			X	X	X	
B.7 Other increases						
C. Decreases:		**1,336**	**12**	**67**	**366**	**1,781**
C.1 Sales						
C.2 Depreciation		1,071	12	67	351	1,501
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			X	X	X	
b) non-current assets held for sale and disposal groups						
C.7 Other decreases		265			15	280
D. Net closing balance		**2,129**	**161**	**168**	**578**	**3,036**
D.1 Total net impairment losses		5,145	1,143	2,162	1,556	10,006
D.2 Gross closing balance		**7,274**	**1,304**	**2,330**	**2,134**	**13,042**
E. Measurement at cost		2,129	161	168	578	3,036

Section 9 – Intangible assets – Item 90

9.1 Intangible assets: breakdown by type of asset

	31.12.2022		31.12.2021	
	Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life
A.1 Goodwill		**3,920**	**x**	**3,920**
A.2 Other intangible assets	**37**		**60**	
of which software	37		60	
A.2.1 Assets measured at cost:	37		60	
a) Internally developed assets				
b) Other	37		60	
A.2.2 Assets measured at fair value:				
a) Internally developed assets				
b) Other				
Total	**37**	**3,920**	**60**	**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.

Intangible assets included goodwill with an indefinite useful life 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.

Goodwill impairment tests

When preparing the 2022 Financial Statements, the goodwill recognised in the separate financial statements of Banca Sistema was subject to impairment testing, the outcome of which confirmed that the values recognised were appropriate. In this regard, 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**			**3,172**		**7,092**
A.1 Total net impairment losses				3,112		3,112
A.2 Net opening balances	**3,920**	**-**	**-**	**60**	**-**	**3,980**
B. Increases						
B.1 Purchases						
B.2 Increases in internally developed assets	X					
B.3 Impairment gains	X					
B.4 Fair value gains recognised in:						
- equity	X					
- profit or loss	X					
B.5 Exchange rate gains						
B.6 Other increases						
C. Decreases				**23**		**23**
C.1 Sales						
C.2 Impairment losses				23		23
- Amortisation	X			23		23
- Impairment losses:						
- equity	X					
- profit or loss						
C.3 Fair value losses recognised in:						
- equity	X					
- profit or loss	X					
C.4 Transfers to disposal groups						
C.5 Exchange rate losses						
C.6 Other decreases						
D. Net closing balance	**3,920**			**37**		**3,957**
D.1 Total net impairment losses				3,135		3,135
E. Gross closing balance	**3,920**			**3,172**		**7,092**
F. Measurement at cost	**3,920**			**37**		**3,957**

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

	31.12.2022	31.12.2021
Current tax assets	**10,979**	**12,487**
IRES prepayments	**8,321**	**9,829**
IRAP prepayments	2,426	2,585
Other	232	73
Current tax liabilities	**(8,919)**	**(11,740)**
Provision for IRES	(5,931)	(8,693)
Provision for IRAP	(2,284)	(2,575)
Provision for substitute tax	(704)	(472)
Total	**2,060**	**747**

10.1 Deferred tax assets: breakdown

	31.12.2022	31.12.2021
Deferred tax assets through profit or loss:	**8,442**	**8,487**
Impairment losses on loans	**1,733**	**1,996**
Non-recurring transactions	348	381
Other	6,361	6,110
Deferred tax assets through equity:	**12,737**	**1,739**
Non-recurring transactions	200	219
HTCS securities	12,483	1,432
Other	54	88
Total	**21,179**	**10,226**

10.2 Deferred tax liabilities: breakdown

	31.12.2022	31.12.2021
Deferred tax liabilities through profit or loss:	**15,493**	**14,173**
Uncollected default interest income	**15,493**	**14,173**
Other	-	-
Deferred tax liabilities through equity:	**-**	**-**
HTCS securities	**-**	**-**
Total	**15,493**	**14,173**

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

	31.12.2022	31.12.2021
1. Opening balance	**8,487**	**8,334**
2. Increases	**2,406**	**2,606**
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	2,382	2,606
e) business combination transactions	-	-
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	24	-
3. Decreases	**2,451**	**2,453**
3.1 Deferred tax assets derecognised in the year	-	-
a) reversals	-	-
b) impairment due to non-recoverability	-	-
c) changes in accounting policies	-	-
d) other	2,451	2,453
3.2 Tax rate reductions	-	-
3.3 Other decreases	-	-
a) conversion into tax assets pursuant to Law 214/2011	-	-
b) other	-	-
4. Closing balance	**8,442**	**8,487**

10.3 bis Change in deferred tax assets pursuant to Law 214/2011

	31.12.2022	31.12.2021
1. Opening balance	**2,596**	**3,029**
2. Increases	**-**	**-**
3. Decreases	**315**	**433**
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	315	433
4. Closing balance	**2,281**	**2,596**

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

	31.12.2022	31.12.2021
1. Opening balance	**14,173**	**13,775**
2. Increases	**1,320**	**398**
2.1 Deferred tax liabilities recognised in the year	1,320	398
a) related to previous years	-	-
b) due to changes in accounting policies	-	-
c) other	1,320	398
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**-**	**-**
3.1 Deferred tax liabilities derecognised in the year		
a) reversals	-	-
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Tax rate reductions	-	-
3.3 Other decreases	-	-
4. Closing balance	**15,493**	**14,173**

10.5 Change in deferred tax assets (through equity)

	31.12.2022	31.12.2021
1. Opening balance	**1,739**	**501**
2. Increases	**12,483**	**1,442**
2.1 Deferred tax assets recognised in the year	12,483	1,442
a) related to previous years	-	-
b) due to changes in accounting policies	-	-
c) other	12,483	1,442
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**1,485**	**204**
3.1 Deferred tax assets derecognised in the year	1,461	29
a) reversals	-	-
b) impairment due to non-recoverability	-	-
c) due to changes in accounting policies	-	-
d) other	1,461	29
3.2 Tax rate reductions	-	-
3.3 Other decreases	24	175
4. Closing balance	**12,737**	**1,739**

10.6 Change in deferred tax liabilities (through equity)

	31.12.2022	31.12.2021
1. Opening balance		**875**
2. Increases		
2.1 Deferred tax liabilities recognised in the year		
a) related to previous years		
b) due to changes in accounting policies		
c) other		
2.2 New taxes or tax rate increases		
2.3 Other increases		
3. Decreases		**875**
3.1 Deferred tax liabilities derecognised in the year		875
a) reversals		
b) due to changes in accounting policies		
c) other		875
3.2 Tax rate reductions		
3.3 Other decreases		
4. Closing balance		

Section 12 - Other assets - Item 120

12.1 Other assets: breakdown

	31.12.2022	31.12.2021
Ecobonus 110% tax assets	54,914	16,462
Tax advances	7,525	7,945
Work in progress	5,976	5,431
Prepayments not related to a specific item	4,717	3,773
Trade receivables	1,649	1,486
Other	938	4,296
Leasehold improvements	149	196
Security deposits	161	152
Total	**76,029**	**39,741**

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

	31.12.2022				31.12.2021			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Due to Central banks	**537,883**	**X**	**X**	**X**	**540,095**	**X**	**X**	**X**
2. Due to banks	**66,777**	**X**	**X**	**X**	**40,896**	**X**	**X**	**X**
2.1 Current accounts and demand deposits	1,645	X	X	X	40,896	X	X	X
2.2 Term deposits	65,084	X	X	X		X	X	X
2.3 Financing		X	X	X		X	X	X
2.3.1 Repurchase agreements		X	X	X		X	X	X
2.3.2 Other		X	X	X		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	48	X	X	X		X	X	X
Total	**604,660**			**604,660**	**580,991**			**580,991**

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

	31.12.2022				31.12.2021			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	794,796	X	X	X	805,689	X	X	X
2. Term deposits	1,431,436	X	X	X	1,387,255	X	X	X
3. Financing	978,636	X	X	X	305,268	X	X	X
3.1 Repurchase agreements	865,878	X	X	X	249,256	X	X	X
3.2 Other	112,758	X	X	X	56,012	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	113,948	X	X	X	140,602	X	X	X
Total	**3,318,816**			**3,318,816**	**2,638,814**			**2,638,814**

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

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

	31.12.2022	31.12.2021
Payments received in the reconciliation phase	103,512	84,177
Accrued expenses	17,527	15,774
Work in progress	12,806	9,014
Trade payables	6,122	6,538
Tax liabilities with the Tax Authority and other tax authorities	8,934	5,508
Finance lease liabilities	2,761	4,246
Due to employees	1,616	890
Pension repayments	694	768
Other	66	367
Due to group companies	201	144
Total	**154,239**	**127,427**

Section 9 - Post-employment benefits - Item 90

9.1 Post-employment benefits: changes

	31.12.2022	31.12.2021
A. Opening balance	**3,360**	**3,374**
B. Increases	**843**	**125**
B.1 Accruals	843	24
B.2 Other increases		101
C. Decreases	**953**	**139**
C.1 Payments	208	101
C.2 Other decreases	745	38
D. Closing balance	**3,250**	**3,360**

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 3.77%

Annual inflation rate 2.30%

Annual post-employment benefits increase rate 3.225%

Annual real 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

	31.12.2022	31.12.2021
1. Provisions for credit risk related to commitments and financial guarantees issued	24	39
2. Provisions for other commitments and other guarantees issued		
3. Internal pension funds		
4. Other provisions for risks and charges	35,753	28,301
4.1 legal and tax disputes	12,818	3,699
4.2 personnel expense	5,036	7,402
4.3 other	17,899	17,200
Total	**35,777**	**28,340**

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	**39**	**-**	**28,301**	**28,340**
B. Increases	**-**	**-**	**16,770**	**16,770**
B.1 Accruals			15,058	15,058
B.2 Discounting				-
B.3 Changes due to discount rate changes				-
B.4 Other increases			1,712	1,712
C. Decreases	**15**	**-**	**9,318**	**9,333**
C.1 Utilisations	-	-	5,571	5,571
C.2 Changes due to discount rate changes				-
C.3 Other decreases	15	-	3,747	3,762
D. Closing balance	**24**	**-**	**35,753**	**35,777**

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	24			24
Total	**24**	**-**	**-**	**24**

10.5 Internal defined benefit pension funds

Nothing to report.

10.6 Provisions for risks and charges - other provisions

	31.12.2022	31.12.2021
Legal and tax disputes	12,818	3,699
Personnel expense	5,036	7,402
Other	17,899	17,200
Total	**35,753**	**28,301**

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, as at 31 December 2022 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:

Person at the top of the chain of ownership	Shareholder	No. of shares	% of the voting capital
	SGBS S.r.l.	18,577,263	23.10%
Gianluca Garbi	Garbifin S.r.l.	434,274	0.54%
	Gianluca Garbi	731,832	0.91%
	Fondazione Cassa di Risparmio di Alessandria	6,288,926	7.82%
	Chandler	6,015,495	7.48%
	Fondazione Sicilia	5,951,158	7.40%
	Moneta Micro Entreprises	4,117,558	5.12%
	Fondazione Cassa di Risparmio di Cuneo	4,029,095	5.01%
	Treasury shares	281,474	0.35%
MARKET		33,993,979	42.27%
TOTAL SHARES		**80,421,052**	**100.00%**

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

	Amount 31.12.2022	Amount 31.12.2021
1. Share capital	9,651	9,651
2. Share premium	39,100	39,100
3. Reserves	155,998	142,662
4. Equity instruments	(559)	-
5. (Treasury shares)	(24,870)	(2,986)
6. Valuation reserves	45,500	45,500
8. Profit	20,887	23,143
Total	**245,707**	**257,070**

The Bank holds a total of 280,919 treasury shares corresponding to 0.349% of the share capital valued at € 558,600.

12.2 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 (-)		
A.2 Outstanding shares: opening balance	**80,421,052**	
B. Increases	**412,081**	
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	412,081	
B.3 Other increases		
C. Decreases	**693,000**	
C.1 Cancellation		
C.2 Repurchase of treasury shares	693,000	
C.3 Disposal of equity investments		
C.4 Other decreases		
D. Outstanding shares: closing balance	**80,140,133**	
D.1 Treasury shares (+)		
D.2 Closing balance		
- 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.

	Valore al 31.12.2022	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:	**131,254**		
Legal reserve	1,930	B	
Valuation reserve	(24,870)		
Negative goodwill	1,774	A,B,C	
Retained earnings	152,420	A,B,C	
Reserve for treasury shares			
Reserve for future capital increase			
D) Other reserves	(126)		
E) Equity instruments	45,500		
F) Treasury shares	(559)		
Total	**224,820**		
Profit for the year	20,887		
Total equity	**245,707**		
Undistributable portion			
Distributable portion			

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

12.5 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% From 18 June 2023, 6-month Euribor +5% variable rate	Perpetual	8,000	8,018
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**	**45,576**

The breakdown of bonds issued at 31 December 2022, 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.

Other information

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

	Nominal amount of commitments and financial guarantees issued					
	First stage	Second stage	Third stage	Purchased or originated credit-impaired	31.12.2022	31.12.2021
Commitments to disburse funds	**899,908**	**6,763**	**44,261**		**950,932**	**338,070**
a) Central Banks						
b) General governments	251,900		31,052		282,952	
c) Banks						
d) Other financial corporations	450,899				450,899	189,967
e) Non-financial corporations	196,379	6,763	13,200		216,342	146,244
f) Households	730		9		739	1,859
Financial guarantees issued	**9,707**				**9,707**	**11,084**
a) Central Banks						
b) General governments	60				60	20
c) Banks	2,446				2,446	2,446
d) Other financial corporations	122				122	67
e) Non-financial corporations	7,027				7,027	8,463
f) Households	52				52	88

3. Assets pledged as collateral for liabilities and commitments

	Amount	
	31.12.2022	31.12.2021
1. Financial assets measured at fair value through profit or loss		
2. Financial assets measured at fair value through other comprehensive income	553,046	94,958
3. Financial assets measured at amortised cost	540,472	363,122
4. Property and equipment		
of which: Property and equipment included among inventories		

4. Management and trading on behalf of third parties

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	**1,887,499**
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	32,127
1. securities issued by the reporting entity	3,775
2. other securities	28,352
c) third-party securities deposited with third parties	32,127
d) securities owned by the bank deposited with third parties	1,855,372
4. Other transactions	

PART C - INFORMATION ON THE INCOME STATEMENT

Section 1 – Interest - Items 10 and 20

1.1 Interest and similar income: breakdown

Items/Technical forms	Debt instrument	Financing	Other transaction	2022	2021
1. Financial assets measured at fair value through profit or loss:	94			94	
1.1 Financial assets held for trading	17			17	
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	77			77	
2. Financial assets measured at fair value through other comprehensive income	723		X	723	
3. Financial assets measured at amortised cost:	4,621	83,501		88,122	86,901
3.1 Loans and receivables with banks		363	X	363	113
3.2 Loans and receivables with customers	4,621	83,138	X	87,759	86,788
4. Hedging derivatives					
5. Other assets					
6. Financial liabilities	X	X	X	2,212	3,522
Total	**5,438**	**83,501**		**91,151**	**90,423**
of which: interest income on impaired assets					
of which: interest income on finance leases	X		X		

The total contribution of the Factoring Division to interest income was 75% of the entire loans and receivables portfolio (in line with 31 December 2021), to which the commission component associated with the factoring business and the revenue generated by the assignment of receivables from the factoring portfolio need to be added.

The component linked to default interest from legal action at 31 December 2022 was € 15.2 million (€ 21.5 million at 31 December 2021):

- of which € 1.6 million resulting from the updated recovery estimates and expected collection times (€ -0.3 million in 2021);
- of which € 7.5 million resulting from the current recovery estimates (€ 11.7 million in 2021);
- of which € 6.1 million (€ 10.1 million in 2021) coming from the difference between the amount collected during the period, equal to € 10.4 million (€ 17.5 million in 2021), and that recognised on an accruals basis in previous years. In 2021, this item included gross collections of € 0.7 million from transfers to third parties, whereas in 2022, gross collections were € 1.1 million.

Interest income from the salary-/pension-backed loan portfolios amounted to € 20.6 million, down slightly from the previous year as a result of the increased impact of prepayments on the portfolios, which is expected to decrease in the coming years due to rising market rates.

The interest component from government-backed loans, a support measure in response to the COVID-19 pandemic, also had a positive and significant impact.

The item “financial liabilities”, which account for a total of € 2.2 million, mainly includes the effects arising from the financing activity of the securities portfolio in repurchase agreements and ECB loans, which were significantly positive until the first half of the year due to negative interest rates, as well as non-recurring positive interest from the additional rate applied to TLTRO loans, and a one-off positive effect of € 1.1 million recognised in the fourth quarter of 2022.

1.3 Interest and similar expense: breakdown

Items/Technical forms	Liabilities	Securities	Other transactions	2022	2021
1. Financial liabilities measured at amortised cost	14,099	863		14,962	14,993
1.1 Due to Central banks		X			
1.2 Due to banks	527	X		527	460
1.3 Due to customers	13,572	X		13,572	12,661
1.4 Securities issued	X	863		863	1,872
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	5	1,042
Total	**14,099**	**863**		**14,967**	**16,035**
of which: interest expense related to lease liabilities	39	X	X	39	54

Section 2 - Net fee and commission income - Items 40 and 50

2.1 Fee and commission income: breakdown

	2022	2021
a) Financial instruments	137	166
1. Placement of securities	86	95
1.1 Underwritten and/or on a firm commitment basis	86	95
2. Order collection and transmission, and execution of orders on behalf of customers	40	59
2.1 Order collection and transmission for one or more financial instruments	40	59
3. Other fees associated with activities related to financial instruments	11	12
of which: individual asset management	11	12
b) Corporate Finance		
c) Investment advisory activities		
d) Clearing and settlement		
e) Custody and administration		1
2. Other fees related to custody and administration activities		1
f) Central administrative services for collective asset management		
g) Fiduciary activities		
h) Payment services	141	131
1. Current accounts	74	70
2. Credit cards		
3. Debit and other payment cards	22	18
4. Bank transfers and other payment orders		
5. Other fees related to payment services	45	43
i) Distribution of third party services	2	
2. Insurance products	2	
j) Structured finance		
k) Servicing of securitisations		
l) Commitments to disburse funds		
m) Financial guarantees issued	37	46
n) Financing transactions	11,380	12,970
of which: factoring transactions	11,380	12,970
o) Foreign currency transactions		
p) Commodities		
q) Other fee and commission income	11,384	5,778
Total	**23,081**	**19,092**

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

Channels/Amounts	2022	2021
a) at its branches:	**99**	**107**
1. asset management	11	12
2. placement of securities	86	95
3. third-party services and products	2	
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

Services/Amounts	2022	2021
a) Financial instruments	72	53
of which: trading in financial instruments	72	53
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	216	218
of which: credit cards, debit cards and other payment cards	216	218
e) Servicing of securitisations		
f) Commitments to receive funds		
g) Financial guarantees received	1,032	385
of which: credit derivatives		
h) Off-premises distribution of securities, products and services	13,383	9,147
i) Foreign currency transactions		
j) Other fee and commission expense	73	73
Total	**14,776**	**9,876**

Net fees and commissions benefitted from a change in the method of accounting for the rappels to be paid to the agent network, which, in order to better reflect and to improve the correlation between costs and revenues, have been deferred over the expected life of the loans, resulting in a decrease in the amount of the item Fees - off-premises; without this change in accounting method, fee and commission expense would have been higher by € 2 million.

Section 3 – DIVIDENDS AND SIMILAR INCOME – ITEM 70

3.1 Dividends and similar income: breakdown

Items/Income	2022		2021	
	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 (EXPENSE) - ITEM 80

4.1 Net trading income (expense): breakdown

	Gains (A)	Trading income (B)	Losses (C)	Trading losses (D)	Net trading income (expense) [(A+B) - (C+D)]
1. Financial assets held for trading		**125**		**(1,643)**	**(1,518)**
1.1 Debt instruments		123		(1,643)	(1,520)
1.2 Equity instruments					
1.3 OEIC units					
1.4 Financing					
1.5 Other		2			2
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		**125**		**(1,643)**	**(1,518)**

Section 6 - Gain from sales or repurchases - Item 100

6.1 Gain from sales or repurchases: breakdown

	2022			2021		
	Gain	Loss	Net gain	Gain	Loss	Net gain
A. Financial assets						
1. Financial assets measured at amortised cost:	3,990		3,990	6,196	(197)	5,999
1.1 Loans and receivables with banks						
1.2 Loans and receivables with customers	3,990		3,990	6,196	(197)	5,999
2. Financial assets measured at fair value through other comprehensive income	3,292	(2,205)	1,087	4,607	(517)	4,090
2.1 Debt instruments	3,292	(2,205)	1,087	4,607	(517)	4,090
2.2 Financing						
Total assets (A)	**7,282**	**(2,205)**	**5,077**	**10,803**	**(714)**	**10,089**
B. Financial liabilities measured at amortised cost						
1. Due to banks						
2. Due to customers						
3. Securities issued						
Total liabilities						

Section 7 – Net gain (loss) on other financial assets and liabilities measured at fair value through profit or loss – Item 110

7.1 Change in the net value of other financial assets and liabilities measured at fair value through profit or loss: breakdown of financial assets and liabilities designated at fair value through profit or loss

	Gains (A)	Trading income (B)	Losses (C)	Trading losses (D)	Net trading income (expense) [(A+B) - (C+D)]
1. Financial assets					
1.1 Debt instruments					
1.2 Financing					
2. Financial liabilities	**2,196**				**2,196**
2.1 Securities issued	2,196				2,196
2.2 Due to banks					
2.3 Due to customers					
3. Foreign currency financial assets and liabilities: exchange rate gains (losses)	**X**	**X**	**X**	**X**	
Total	**2,196**				**2,196**

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: break-down

	Impairment losses (1)						Impairment gains (2)				2022	2021
	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							**46**				**(46)**	**33**
- financing							46				(46)	33
- debt instruments											-	
B. Loans and receivables with customers:	**494**			**8,478**			**593**				**8,379**	**10,710**
- financing	199			8,478			593				8,084	10,856
- debt instruments	295										295	(146)
C. Total	**494**			**8,478**			**639**				**8,333**	**10,743**

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						2022	2021
	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	1,244	(12)		(1,278)			(46)	411
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	(20)			1			(19)	165
Total	**1,224**	**(12)**		**(1,277)**			**(65)**	**576**

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)				2022	2021
	First stage	Second stage	Third stage		Purchased or originated credit-impaired		First stage	Second stage	Third stage	originated credit-impaired		
			Write-offs	Other	Write-offs	Other						
A. Debt instruments	**143**										**143**	**(28)**
B. Financing												
- To customers											-	
- To banks											-	
Total	**143**										**143**	**(28)**

Section 9 – Gains/losses from contract amendments without derecognition – Item 140

9.1 Gains (losses) from contract amendments: breakdown

	2022	2021
9.1 Gains (losses) from contract amendments: breakdown		(4)

Section 10 – Administrative expenses – Item 160

10.1 Personnel expense: breakdown

	2022	2021
1) Employees	18,699	21,381
a) wages and salaries	12,496	12,406
b) social security charges	3,381	3,288
c) post-employment benefits		
d) pension costs		
e) accrual for post-employment benefits	799	819
f) accrual for pension and similar provisions:	-	-
- defined contribution plans		
- defined benefit plans		
g) payments to external supplementary pension funds:	197	203
- defined contribution plans	197	203
- defined benefit plans		
h) costs of share-based payment plans		
i) other employee benefits	1,826	4,665
2) Other personnel	460	445
3) Directors and statutory auditors	1,314	1,236
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	344	38
Total	**20,817**	**23,100**

10.2 Average number of employees by category

Employees

a) Senior managers 23

b) Middle managers (Q4 – Q3) 51

c) Remaining employees 126

10.5 Other administrative expenses: breakdown

Other administrative expenses	2022	2021
Consultancy	(5,220)	(5,059)
IT expenses	(5,136)	(5,311)
Servicing and collection activities	(2,206)	(3,070)
Indirect taxes and duties	(3,133)	(2,518)
Insurance	(951)	(464)
Other	(898)	(639)
Expenses related to management of the SPVs	(454)	(467)
Outsourcing and consultancy expenses	(281)	(391)
Car hire and related fees	(575)	(716)
Advertising and communications	(993)	(1,225)
Expenses related to property management and logistics	(1,470)	(1,022)
Personnel-related expenses	(33)	(121)
Entertainment and expense reimbursement	(513)	(355)
Infoprovider expenses	(624)	(701)
Membership fees	(310)	(337)
Audit fees	(343)	(235)
Telephone and postage expenses	(460)	(258)
Stationery and printing	(26)	(22)
Total operating expenses	**(23,626)**	**(22,911)**
Resolution Fund	(1,920)	(2,284)
Total	**(25,546)**	**(25,195)**

Section 11 – Net accruals to provisions for risks and charges – Item 170

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

	2022	2021
Net accruals for other commitments and other guarantees	15	(13)
Total	**15**	**(13)**

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

	2022	2021
Provisions for risks and charges - other provisions and risks	(4,476)	(1,692)
Release of provisions for risks and charges		
Total	**(4,476)**	**(1,692)**

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	1,501			1,501
- owned	79			79
- right-of-use assets acquired under a lease	1,422			1,422
2. Investment property				
- owned				
- right-of-use assets acquired under a lease				
3. Inventories	X			
Total	**1,501**			**1,501**

Section 13 – Net impairment losses on intangible assets – Item 190

13.1 Net impairment losses on intangible assets: breakdown

	Depreciation (a)	Impairment losses (b)	Impairment gains (c)	Net gain Carrying amount (a + b - c)
A. Intangible assets				
of which: software				
A.1 Owned	**23**			**23**
- Developed internally				
- Other	23			23
A.2 Right-of-use assets acquired under a lease				
Total	**23**			**23**

Section 14 – Other operating income (expense) – Item 200

14.1 Other operating expense: breakdown

	2022	2021
Amortisation of leasehold improvements	47	28
Other operating expense	2,153	2,603
Total	**2,200**	**2,631**

14.2 Other operating income: breakdown

	2022	2021
Recoveries of expenses on current accounts and deposits for sundry taxes	1,100	633
Recoveries of sundry expenses	53	280
Other income	1,944	2,125
Total	**3,097**	**3,038**

Section 19 – Income taxes – Item 270

19.1 Income taxes: breakdown

	2022	2021
1. Current taxes (-)	(8,396)	(10,536)
2. Changes in current taxes of previous years (+/-)	-	25
3. Decrease in current taxes for the year (+)	-	-
3bis. Decrease in current taxes for the year due to tax assets pursuant to Law no. 214/2011 (+)	-	-
4. Changes in deferred tax assets (+/-)	59	151
5. Changes in deferred tax liabilities (+/-)	(1,320)	(398)
6. Tax expense for the year (-) (-1+/-2+3+/-4+/-5)	(9,657)	(10,758)

19.2 Reconciliation between theoretical and effective tax expense

IRES (CORPORATE INCOME TAX)	Taxable income	IRES (Corporate income tax)	%
Theoretical IRES expense	**30,543**	**(8,399)**	**27.50%**
Permanent increases	1,263	(347)	1.14%
Temporary increases	7,636	(2,100)	6.87%
Permanent decreases	(4,563)	1,255	-4.11%
Temporary decreases	(11,959)	3,289	-10.77%
Effective IRES expense	**22,919**	**(6,303)**	**20.64%**
IRAP (REGIONAL BUSINESS TAX)	**Taxable income**	**IRAP**	**%**
Theoretical IRAP expense	**30,543**	**(1,701)**	**5.57%**
Permanent increases	62,314	(3,471)	11.36%
Temporary increases	4,960	(276)	0.90%
Permanent decreases	(56,947)	3,172	-10.39%
Temporary decreases	(3,314)	184	-0.60%
Effective IRAP expense	**37,556**	**(2,093)**	**6.85%**
Total effective IRES and IRAP expense - current taxes	**60,475**	**(8,396)**	**27.49%**
- deferred tax liabilities	4,807	(1,322)	4.33%
- deferred tax assets	(1,095)	61	-0.20%
Total effective tax expense		**(9,657)**	**-31.62%**

Section 21 - Other Information

Nothing to report.

Section 22 – Earnings per share

Earnings per share (EPS)	2022	2021
Profit for the year (thousands of Euro)	20,887	23,143
Average number of outstanding shares	80,113,775	80,391,577
Basic earnings per share (basic EPS) (in Euro)	0.261	0.288
Diluted earnings per share (diluted EPS) (in Euro)	0.261	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 COMPREHENSIVE INCOME

		31.12.2022	31.12.2021
10.	**Profit (loss) for the year**	**20,887**	**23,143**
	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:		
30.	Financial liabilities designated at fair value through profit or loss (changes in own credit rating):		
40.	Hedging of equity instruments designated at fair value through other comprehensive income:		
50.	Property and equipment		
60.	Intangible assets		
70.	Defined benefit plans	339	(30)
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:		
120.	Exchange rate gains (losses):		
130.	Cash flow hedges:		
140.	Hedging instruments (non-designated elements):		
150.	Financial assets (other than equity instruments) measured at fair value through other comprehensive income:	(22,223)	(4,342)
	a) fair value gains (losses)	(23,462)	(2,543)
	b) reclassification to profit or loss		
	- impairment losses due to credit risk	143	(28)
	- gains/losses on sales	1,096	(1,771)
	c) other changes		
160.	Non-current assets held for sale and disposal groups:		
170.	Share of valuation reserves of equity-accounted investments:		
180.	Income taxes on items that will be reclassified subsequently to profit or loss		
190.	**Total other comprehensive income (expense)**	**(21,884)**	**(4,372)**
200.	**Comprehensive income (expense) (10+190)**	**(996)**	**18,771**

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, including with regard to default interest.

2.3 Methods for 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.

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	Performing past due exposures	Other performing exposures	Total
1. Financial assets measured at amortised cost	123,290	18,832	80,562	317,982	2,978,605	3,519,271
2. Financial assets measured at fair value through other comprehensive income					553,046	553,046
3. Financial assets designated at fair value through profit or loss						
4. Other financial assets mandatorily measured at fair value through profit or loss					24,600	24,600
5. Financial assets held for sale						
Total 31.12.2022	**123,290**	**18,832**	**80,562**	**317,982**	**3,556,251**	**4,096,917**
Total 31.12.2021	**121,545**	**25,638**	**108,010**	**320,265**	**2,795,915**	**3,371,372**

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

	Non-performing				Performing			Total (carrying amount)
	Gross amount	Total impairment losses	Net exposure	overall partial write-offs (*)	Gross amount	Total impairment losses	Net exposure	
1. Financial assets measured at amortised cost	284,139	61,454	222,685		3,303,389	6,802	3,296,587	3,519,272
2. Financial assets measured at fair value through other comprehensive income					553,367	322	553,045	553,045
3. Financial assets designated at fair value through profit or loss								
4. Other financial assets mandatorily measured at fair value through profit or loss							24,600	24,600
5. Financial assets held for sale								
Total 31.12.2022	**284,139**	**61,454**	**222,685**		**3,856,756**	**7,124**	**3,874,232**	**4,096,917**
Total 31.12.2021	**314,394**	**59,201**	**255,193**		**3,114,861**	**7,050**	**3,116,179**	**3,371,372**

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	15,236	19,315	282,726	87	226	393	728	2,362	175,476			84
2. Financial assets measured at fair value through other comprehensive income												
3. Financial assets held for sale												
Total 31.12.2022	**15,236**	**19,315**	**282,726**	**87**	**226**	**393**	**728**	**2,362**	**175,476**			**84**
Total 31.12.2021	**29,827**	**12,845**	**276,169**	**38**	**888**	**500**	**1,296**	**3,504**	**187,195**			

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	**7**	**6,313**	**178**			**6,498**		**560**				**560**		**59,202**				**59,202**						**39**				**66,299**
Increases in purchased or originated financial assets		1,915	9			1,925		122				122		2,746				2,746						7				4,799
Derecognition other than write-offs	1	218				219		22				22		337				337										578
Net impairment losses/gains due to credit risk (+/-)	(3)	(3,201)	134			(3,070)		1,333				1,333		(157)				(157)						(22)				(1,916)
Contract amendments without derecognition																												
Changes in estimation method																												
Write-offs not recognised directly through profit or loss																												
Other changes																												
Closing total impairment losses	**3**	**4,809**	**321**			**5,134**		**1,993**				**1,993**		**61,454**				**61,454**						**24**				**68,604**
Recoveries from collection on financial assets that have been written																												
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	42,796	4,270	2,988	251	29,561	34,916
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	6,763				9,425	14,388
Totale 31.12.2022	**49,559**	**4,270**	**2,988**	**251**	**38,986**	**49,304**
Totale 31.12.2021	**52,774**	**70,568**	**6,543**	**211**	**54,857**	**56,098**

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					**93**	
A.1 forborne in compliance with the EBA Guidelines						
A.2 subject to existing moratoria no longer in compliance with the EBA Guidelines and not considered forborne					93	
A.3 subject to other forbearance measures						
A.4 new loans						
B. Loans measured at fair value through other comprehensive income					**515**	
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					515	
Totale 31.12.2022					**608**	
Totale 31.12.2021						**50**

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				Net exposure	Overall partial write-offs *
		First stage	Second stage	Third stage Purchased or originated credit-		First stage	Second stage	Third stage Purchased or originated credit-		
A. ON-STATEMENT OF FINANCIAL POSITION LOANS AND RECEIVABLES										
A.1 ON DEMAND	**124,121**	**124,121**			**4**	**4**			**124,117**	
a) Non-performing		**X**				**X**				
b) Performing	**124,121**	**124,121**		**X**	**4**	**4**		**X**	**124,117**	
A.2 OTHER	**34,828**	**34,817**		**11**	**3**	**3**			**34,825**	
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	11	X				X			11	
- of which: forborne exposures		X				X				
d) Performing past due exposures	1,310	1,310		X	1	1		X	1,309	
- of which: forborne exposures				X				X		
e) Other performing exposures	33,507	33,507		X	2	2		X	33,505	
- of which: forborne exposures				X				X		
TOTAL A	**158,949**	**158,938**		**11**	**7**	**7**			**158,942**	
B. OFF-STATEMENT OF FINANCIAL POSITIC										
a) Non-performing		X				X				
b) Performing	2,446	2,446		X	2	2		X	2,444	
TOTAL B	**2,446**	**2,446**			**2**	**2**			**2,444**	
TOTAL (A+B)	**161,395**	**161,384**		**11**	**9**	**9**			**161,386**	

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					Net exposure	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	170,369	X		170,285	84	47,079	X		47,079		123,290	
- of which: forborne exposures	503	X		503		48	X		48		455	
b) Unlikely to pay	32,309	X		32,309		13,477	X		13,477		18,832	
- of which: forborne exposures	293	X		293		176	X		176		117	
c) Non-performing past due exposures	81,449	X		81,449		898	X		898		80,551	
- of which: forborne exposures	2,673	X		2,673		34	X		34		2,639	
d) Performing past due exposures	318,398	317,686	712	X		1,725	1,719	7	X		316,673	
- of which: forborne exposures				X					X			
e) Other performing exposures	3,528,142	3,391,459	112,083	X		5,396	3,409	1,986	X		3,522,746	
- of which: forborne exposures	206	206		X					X		206	
TOTAL A	**4,130,667**	**3,709,145**	**112,795**	**284,043**	**84**	**68,575**	**5,128**	**1,993**	**61,454**		**4,062,092**	
B. OFF-STATEMENT OF FINANCIAL POSITIC												
a) Non-performing	44,261	X		44,261			X				44,261	
b) Performing	913,933	907,169	6,763	X		22	22		X		913,911	
TOTAL B	**958,194**	**907,169**	**6,763**	**44,261**		**22**	**22**				**958,172**	
TOTAL (A+B)	**5,088,861**	**4,616,314**	**119,558**	**328,304**	**84**	**68,597**	**5,150**	**1,993**	**61,454**		**5,020,264**	

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

	Gross amount					Total impairment and allowances					Net exposure	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	**153**			**153**		**44**			**44**		**109**	
a) Forborne in compliance with the EBA Guidelines	153			153		44			44		109	
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	**608**			**608**		**4**			**4**		**604**	
a) Forborne in compliance with the EBA Guidelines	93			93		3			3		90	
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	515			515		1			1		514	
D) PERFORMING 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												
E) OTHER PERFORMING LOANS	**153,571**	**151,034**	**2,537**			**1,637**	**364**	**1,273**			**151,934**	
a) Forborne in compliance with the EBA Guidelines	2,670	133	2,537			1,277	4	1,273			1,393	
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	150,901	150,901				360	360				150,541	
TOTAL (A+B+C+D+E)	**154,332**	**151,034**	**2,537**	**761**		**1,685**	**364**	**1,273**	**48**		**152,647**	

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			**3**
- of which: positions transferred but not derecognised			1
B. Increases			**8**
B.1 transfers from performing loans			1
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			6
C. Decreases			
C.1 transfers to performing loans			
C.2 write-offs			
C.3 collections			
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			**11**
- of which: positions transferred but not derecognised			3

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
A. Opening gross balance	**169,100**	**36,693**	**108,598**
- of which: positions transferred but not derecognised	25	1,546	5,375
B. Increases	**13,362**	**18,778**	**130,966**
B.1 transfers from performing loans	8,062	12,887	53,775
B.2 transfers from purchased or originated credit-impaired financial assets			
B.3 transfers from other categories of non-performing exposures	3,344	19	
B.4 contract amendments without derecognition			
B.5 other increases	1,956	5,872	77,191
C. Decreases	**12,094**	**23,162**	**158,115**
C.1 transfers to performing loans	1,842	113	63,173
C.2 write-offs		434	
C.3 collections	10,252	20,174	94,019
C.4 gains on sales			
C.5 losses on sales			
C.6 transfers to other categories of non-performing exposures		2,441	923
C.7 contract amendments without derecognition			
C.8 other decreases			
D. Closing gross balance	**170,368**	**32,309**	**81,449**
- of which: positions transferred but not derecognised	29	3,022	9,362

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	**1,822**	**1,062**
- of which: positions transferred but not derecognised		
B. Increases	**2,676**	**238**
B.1 transfers from performing exposures without forbearance measures	1,612	
B.2 transfers from forborne performing exposures	1,062	X
B.3 transfers from non-performing exposures with forbearance measures	X	236
B.4 transfers from non-performing exposures without forbearance measures		
B.5 other increases	2	2
C. Decreases	**1,028**	**1,094**
C.1 transfers to performing exposures without forbearance measures	X	
C.2 transfers to forborne performing exposures	236	X
C.3 transfers to non-performing exposures with forbearance measures	X	1,062
C.4 write-offs		
C.5 collections	735	32
C.6 gains on sales		
C.7 losses on sales		
C.8 other decreases	57	
D. Closing gross balance	**3,470**	**206**
- of which: positions transferred but not derecognised		

A.1.10 On-statement of financial position non-performing loans and receivables with banks: 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					**15**	
- of which: positions transferred but not derecognised						
B. Increases					**24**	
B.1 impairment losses on purchased or originated credit-impaired financial assets	X		X		X	
B.2 other impairment losses					24	
B.3 losses on sales						
B.4 transfers from other categories of non-performing exposures						
B.5 contract amendments without derecognition						
B.6 other increases						
C. Decreases					**15**	
C.1 impairment gains					15	
C.2 impairment gains due to collections						
C.3 gains on sales						
C.4 write-offs						
C.5 transfers to other categories of non-performing exposures						
C.6 contract amendments without derecognition						
C.7 other decreases						
D. Closing total impairment losses					**24**	
- 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	**47,555**	**499**	**11,055**	**140**	**591**	**1**
- of which: positions transferred but not derecognised			202		6	
B. Increases	**9,369**		**5,160**	**57**	**643**	**34**
B.1 impairment losses on purchased or originated credit-impaired financial assets		X		X		X
B.2 other impairment losses	8,729		5,158	57	604	24
B.3 losses on sales						
B.4 transfers from other categories of non-performing exposures	623					
B.5 contract amendments without derecognition						
B.6 other increases	17		2		39	10
C. Decreases	**9,844**	**451**	**2,738**	**22**	**335**	**1**
C.1 impairment gains	9,356	81	2,065		198	
C.2 impairment gains due to collections	327		66	5	14	
C.3 gains on sales						
C.4 write-offs						
C.5 transfers to other categories of non-performing exposures		369	607	17	15	1
C.6 contract amendments without derecognition						
C.7 other decreases	161	1			108	
D. Closing total impairment losses	**47,080**	**48**	**13,477**	**175**	**899**	**34**
- of which: positions transferred but not derecognised			413		11	

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.

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” and Standard & Poor’s, for exposures to companies and other parties.

Exposures	External rating class						Without rating	Total
	class 1	class 2	class 3	class 4	class 5	class 6		
A. Financial assets measured at amortised cost			**681,399**				**2,906,128**	**3,587,527**
- First stage			681,399				2,509,195	3,190,594
- Second stage							112,795	112,795
- Third stage							284,054	284,054
- Purchased or originated credit-impaired							84	84
B. Financial assets measured at fair value through other comprehensive income			**553,367**					**553,367**
- First stage			553,367					553,367
- 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)			**1,234,766**				**2,906,128**	**4,140,894**
D. Commitments to disburse funds and financial guarantees issued							**960,640**	**960,640**
- First stage							909,616	909,616
- Second stage							6,763	6,763
- Third stage							44,261	44,261
- Purchased or originated credit-impaired								
Total D							**960,640**	**960,640**
Total (A + B + C + D)			**1,234,766**				**3,866,768**	**5,101,534**

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

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

No positions to report.

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

	Gross amount	Net exposure	Collateral (1)				Personal guarantees (2)									Total (1)+(2)
							Credit derivatives					Endorsement credits				
								Other derivatives								
			Mortgaged estate	Properties under finance lease	Securities	Other collateral	CLN	Central Counterparties	Banks	Other financial corporations	Other	General governments	Banks	Other financial corporations	Other	
1. Guaranteed on-statement of financial position loans:	**1,214,085**	**1,204,832**	**2,270**		**117**	**913,373**						**172,704**	**37,612**	**23,427**	**13,157**	**1,162,660**
1.1 fully guaranteed	1,020,307	1,013,895	2,270		117	913,373						53,504	8,765	23,427	12,440	1,013,896
- of which non-performing	21,381	16,671				15,411						64		10	1,186	16,671
1.2 partially guaranteed	193,778	190,937										119,200	28,847		717	148,764
- of which non-performing	4,785	2,385										2,158				2,158
2. Guaranteed off-statement of financial position loans:	**21,525**	**21,525**			**36**	**233**							**518**	**12,674**	**2,627**	**16,088**
2.1 fully guaranteed	15,070	15,070			36	233								12,674	2,127	15,070
- of which non-performing	404	404													404	404
2.2 partially guaranteed	6,455	6,455											518		500	1,018
- of which non-performing																

B. Breakdown and concentration of credit exposures

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

	General governments		Financial corporations		Financial corporations (of which: insurance companies)		Non-financial corporations		Households	
	Net exposure	Total impairment	Net exposure	Total impairment	Net exposure	Total impairment	Net exposure	Total impairment	Net exposure	Total impairment
A. On-statement of financial position loans and receivables										
A.1 Bad exposures	118,947	15,379					4,311	30,940	32	759
- of which: forborne exposures	455	48								
A.2 Unlikely to pay	156	13					15,987	9,900	2,690	3,565
- of which: forborne exposures							117	176		
A.3 Non-performing past due exposures	53,113	97	2,225	7	2,223	7	10,966	615	14,247	179
- of which: forborne exposures							2,640	34		
A.4 Performing exposures	2,187,131	2,790	248,440	30	256		479,142	2,785	924,706	1,515
- of which: forborne exposures	206									
Total (A)	**2,359,347**	**18,279**	**250,665**	**37**	**2,479**	**7**	**510,406**	**44,240**	**941,675**	**6,018**
B. Off-statement of financial position loans and receivables										
B.1 Non-performing exposures	31,052						13,200		9	
B.2 Performing exposures	251,960		451,021				210,147	22	782	
Total (B)	**283,012**		**451,021**				**223,347**	**22**	**791**	
Total (A+B) 31.12.2022	**2,642,359**	**18,279**	**701,686**	**37**	**2,479**	**7**	**733,753**	**44,262**	**942,466**	**6,018**
Total (A+B) 31.12.2021	**1,673,020**	**16,019**	**356,441**	**59**	**9**		**685,272**	**46,039**	**970,167**	**4,128**

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	
	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment
A. On-statement of financial position loans and receivables										
A.1 Bad exposures	123,290	46,999		80						
A.2 Unlikely to pay	18,832	13,477								
A.3 Non-performing past due exposure	80,551	898								
A.4 Performing exposures	3,677,493	6,895	157,619	209	3,836	15	472	2		
Total (A)	**3,900,166**	**68,269**	**157,619**	**289**	**3,836**	**15**	**472**	**2**		
B. Off-statement of financial position loans and receivables										
B.1 Non-performing exposures	44,261									
B.2 Performing exposures	879,820	14	31,984				2,106	8		
Total (B)	**924,081**	**14**	**31,984**				**2,106**	**8**		
Total (A+B) 31.12.2022	**4,824,247**	**68,283**	**189,603**	**289**	**3,836**	**15**	**2,578**	**10**		
Total (A+B) 31.12.2021	**3,576,371**	**65,804**	**101,549**	**408**	**4,251**	**20**	**2,606**	**12**	**124**	**1**

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	
	Net exposure	Total impairment losses	Net exposure	Total impairment losses	Net exposure	Total impairment losses	Net exposure	Total impairment losses	Net exposure	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	11									
A.4 Performing exposures	158,890	7	41							
Total (A)	**158,901**	**7**	**41**							
B. Off-statement of financial position loans and receivables										
B.1 Non-performing exposures										
B.2 Performing exposures	2,445	2								
Total (B)	**2,445**	**2**								
Total (A+B) 31.12.2022	**161,346**	**9**	**41**							
Total (A+B) 31.12.2021	**204,354**	**53**								

As at 31 December 2022, the Bank's large exposures are as follows:

a) Carrying amount € 4,020,584 thousand

b) Weighted amount € 356,178 thousand

c) No. of positions 22.

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 € 60.9 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	6,544				24,600								60,852					

E. 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).

E.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: non-performing	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 securities				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 securities							
2. Equity instruments				X			
3. Financing							
C. Financial assets designated at fair value through profit or loss							
1. Debt securities							
2. Financing							
D. Financial assets measured at fair value through other comprehensive income	**553,046**		**553,046**		**553,307**		**553,307**
1. Debt securities	553,046		553,046		553,307		553,307
2. Equity instruments				X			
3. Financing							
E. Financial assets measured at amortised cost	**507,142**	**175,626**	**331,516**	**2,731**	**426,171**	**113,560**	**312,611**
1. Debt securities	331,516		331,516		312,611		312,611
2. Financing	175,626	175,626		2,731	113,560	113,560	
Total 31.12.2022	**1,060,188**	**175,626**	**884,562**	**2,731**	**979,478**	**113,560**	**865,918**
Total 31.12.2021	**458,066**	**210,195**	**247,871**	**1,999**	**389,616**	**140,360**	**249,256**

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 (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	**1,374,359**	**390,805**	**599,094**	**80,225**	**1,184,414**	**505,452**	**67**	
1.1 Debt instruments	6		568,817	13,994	601,259	81,146		
- with early repayment option								
- other	6		568,817	13,994	601,259	81,146		
1.2 Financing to banks	127,001	31,325						
1.3 Financing to customers	1,247,352	359,480	30,277	66,231	583,155	424,306	67	
- current accounts	160,968							
- other financing	1,086,384	359,480	30,277	66,231	583,155	424,306	67	
- with early repayment option		217,271	30,113	65,704	498,839	302,380	67	
- other	1,086,384	142,209	164	527	84,316	121,926		
2. Liabilities	**924,328**	**1,350,858**	**149,216**	**412,756**	**1,053,624**	**32,111**	**1**	
2.1 Due to customers	922,551	1,285,858	149,216	412,756	515,741	32,111	1	
- current accounts	807,339	408,132	147,850	407,190	430,275	24,862	1	
- other payables	115,212	877,726	1,366	5,566	85,466	7,249		
- with early repayment option								
- other	115,212	877,726	1,366	5,566	85,466	7,249		
2.2 Due to banks	1,777	65,000			537,883			
- current accounts	1,567							
- other payables	210	65,000			537,883			
2.3 Debt instruments								
2.4 Other liabilities								
3. Financial derivatives		**15,691**	**52**	**603**	**13,789**	**1,223**	**24**	
3.1 With underlying security								
- Options								
- Other derivatives								
3.2 Without underlying security		15,691	52	603	13,789	1,223	24	
- Options		15,691	52	603	13,789	1,223	24	
+ long positions			52	603	13,789	1,223	24	
+ short positions		15,691						
- Other derivatives								
4. Other off-statement of financial position transactions	**261,167**	**261,167**						
+ long positions	233,025	28,142						
+ short positions	28,142	233,025						

1. Banking book: Breakdown by residual term (by repricing date) of financial assets and liabilities (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	**617**							
1.1 Debt instruments								
- with early repayment option								
- other								
1.2 Financing to banks	617							
1.3 Financing to customers								
- current accounts								
- other financing								
- with early repayment option								
- other								
2. Liabilities	**582**							
2.1 Due to customers	582							
- current accounts	582							
- other payables								
2.2 Due to banks								
2.3 Debt instruments								
2.4 Other liabilities								
3. Financial derivatives								
3.1 With underlying security								
- Options								
- Other derivatives								
3.2 Without underlying security								
- Options								
- Other derivatives								
4. Other off-statement of financial position transactions								
+ long positions								
+ short positions								

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	**608**	**2**	**1**	**1**	**2**	**4**
A.1 Debt instruments						
A.2 Equity instruments						
A.3 Financing to banks	608	2	1	1	2	4
A.4 Financing to customers						
A.5 Other financial assets						
B. Other assets						
C. Financial liabilities	**582**					
C.1 Due to banks						
C.2 Due to customers	582					
C.3 Debt instruments						
C.4 Other financial liabilities						
D. Other liabilities						
E. Financial derivatives						
- Options						
- Other derivatives						
Total assets	**608**	**2**	**1**	**1**	**2**	**4**
Total liabilities	**582**					
Difference (+/-)	**26**	**2**	**1**	**1**	**2**	**4**

Section 3 - Derivatives and hedging policies

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.

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 (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	More than 5 years	Open term
Assets	**1,502,583**	**264**	**542**	**28,059**	**71,539**	**126,426**	**162,512**	**1,264,189**	**1,041,930**	**16,308**
A.1 Government securities			409		853	8,663	23,925	647,352	625,000	
A.2 Other debt instruments				663		663	1,326		31,133	
A.3 OEIC units										
A.4 Financing	1,502,583	264	133	27,396	70,686	117,100	137,261	616,837	385,797	16,308
- banks	127,006			17	15,000					16,308
- customers	1,375,577	264	133	27,379	55,686	117,100	137,261	616,837	385,797	
Liabilities	**918,312**	**871,192**	**31,033**	**77,199**	**372,355**	**150,878**	**418,798**	**1,053,495**	**32,112**	
B.1 Deposits and current accounts	803,052	23,214	31,012	77,057	342,770	148,464	412,301	430,275	24,863	
- banks	1,729	10,000		15,000	40,000					
- customers	801,323	13,214	31,012	62,057	302,770	148,464	412,301	430,275	24,863	
B.2 Debt instruments										
B.3 Other liabilities	115,260	847,978	21	142	29,585	2,414	6,497	623,220	7,249	
Off-statement of financial position transactions	**580,383**	**233,025**			**27**			**5,075**		
C.1 Financial derivatives with exchange of principal										
C.2 Financial derivatives without exchange of principal										
C.3 Deposits and financing to be received	233,025	233,025								
- long positions	233,025									
- short positions		233,025								
C.4 Commitments to disburse funds	344,912									
- long positions	172,456									
- short positions	172,456									
C.5 Financial guarantees issued	2,446				27			5,075		
C.6 Financial guarantees received										
C.7 Credit derivatives with exchange of principal										
C.8 Credit derivatives without exchange of principal										

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	More than 5 years	Open term
Assets	**617**									
A.1 Government securities										
A.2 Other debt instruments										
A.3 OEIC units										
A.4 Financing	617									
- banks	617									
- customers										
Liabilities	**582**									
B.1 Deposits and current accounts	582									
- banks										
- customers	582									
B.2 Debt instruments										
B.3 Other liabilities										
Off-statement of financial position transactions										
C.1 Financial derivatives with exchange of principal										
C.2 Financial derivatives without exchange of principal										
C.3 Deposits and financing to be received										
C.4 Commitments to disburse funds										
C.5 Financial guarantees issued										
C.6 Financial guarantees received										
C.7 Credit derivatives with exchange of principal										
C.8 Credit derivatives without exchange of principal										

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 BANK EQUITY

Section 1 - Bank equity

A. Qualitative disclosure

The objectives pursued in the management of bank equity 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

	31.12.2022	31.12.2021
1. Share capital	9,651	9,651
2. Share premium	39,100	39,100
3. Reserves	155,998	142,661
- income-related	156,124	141,802
a) legal	1,930	1,930
b) established under the Articles of Association		
c) treasury shares		200
d) other	154,194	139,672
- other	(126)	859
4. Equity instruments	45,500	45,500
3.5 Interim dividends (-)		
5. (Treasury shares)	(559)	
6. Valuation reserves	(24,870)	(2,985)
- Equity instruments designated at fair value through other comprehensive income	(543)	(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	(24,400)	(2,257)
- 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 gains (losses) on defined benefit pension plans	73	(265)
- Shares of valuation reserves of equity-accounted investees		
- Special revaluation laws		
7. Profit (loss) for the year	20,887	23,143
Total	**245,707**	**257,070**

B.2 Valuation reserves for financial assets measured at fair value through other comprehensive income: breakdown

	31.12.2022		31.12.2021	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities		24,400		2,257
2. Equity instruments		543		463
3. Financing				
Total		**24,943**		**2,720**

B.3 Valuation reserves for financial assets measured at fair value through other comprehensive income: changes

	Debt instruments	Equity instruments	Financing
1. Opening balance	**(2,257)**	**(463)**	
2. Increases	**12,793**	**268**	
2.1 Fair value gains			
2.2 Impairment losses due to credit risk	144	X	
2.3 Reclassifications of negative reserves to profit or loss on sale	1,637	X	
2.4 Transfers to other equity items (equity instruments)			
2.5 Other increases	11,012	268	
3. Decreases	**34,936**	**348**	
3.1 Fair value losses		119	
3.2 Impairment gains due to credit risk			
3.3 Reclassifications of positive reserves to profit or loss: on sale		X	
3.4 Transfers to other equity items (equity instruments)			
3.5 Other decreases	34,936	229	
4. Closing balance	**(24,400)**	**(543)**	

B.4 Valuation reserves related to defined benefit plans: changes

	31.12.2022
A. Opening balance	**(265)**
B. Increases	**467**
B.1 Actuarial gains	
B.2 Other increases	467
C. Decreases	**128**
C.1 Actuarial losses	
C.2 Other decreases	128
D. Closing balance	**74**
Total	**74**

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 2022 were determined based on the provisions 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 on Bank of Italy Circulars no. 285 and no. 286 (enacted in 2013).

Starting in the second quarter of 2022, the Banca Sistema Group decided to use the mitigating parameter (equal to 40%), to determine the allowable portion of the FVOCI reserve for exposures to central governments, in line with the provisions of Article 468 CRR. This temporary treatment was valid until the end of 2022. It should be noted that the neutralisation of all or part of the reserve (HTCS) on government bonds will be the topic of discussion in the European Trilogue, on which Ecofin has already proposed a 100% neutralisation. This change, if approved, would enter into force with its publication in the Official Journal in autumn 2023.

Reconciliation of Group equity and Own Funds

	31.12.2022	31.12.2021
Equity	245,707	257,070
Dividends distributed and other foreseeable expenses	(5,227)	(5,786)
Equity assuming dividends are distributed to shareholders	**240,480**	**251,284**
Regulatory adjustments	**3,202**	**(8,146)**
- Commitment to repurchase treasury shares	(735)	(1,745)
- Deduction of intangible assets	(3,957)	(3,980)
- Prudent valuation adjustment (1)	(583)	(458)
- Prudential filter for insufficient coverage of NPEs	(1,186)	(1,908)
- Prudential filter pursuant to art. 468	9,760	
- Other adjustments	(97)	(55)
Equity instruments not eligible for inclusion in CET1	(45,500)	(45,500)
Common Equity Tier 1 (CET1)	**198,182**	**197,638**
Equity instruments eligible for inclusion in AT1	45,500	45,500
Additional Tier 1 (AT1) capital	**243,682**	**243,138**
Tier 2 Capital		
Total Own Funds	**243,682**	**243,138**

(1) Regulatory filter for additional valuation adjustments (AVA) to the prudential valuation under the provisions of Regulation 2016/101

A. Quantitative disclosure

	31.12.2022	31.12.2021
A. Common Equity Tier 1 (CET1) before application of prudential filters	200,614	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)	**200,614**	**210,272**
D. Items to be deducted from CET1	12,192	12,638
E. Transitional regime - Impact on CET (+/-)	9,760	-
F. Total Common Equity Tier 1 (CET1) (C-D+/-E)	**198,182**	**197,634**
G. Additional Tier 1 (AT1) including items to be deducted and the effects of the transitional regime	45,500	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**	**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)	**243,682**	**243,134**

2.2 Capital adequacy

A. Qualitative disclosure

Total own funds were € 244 million at 31 December 2022 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 2022, the Bank had a CET1 capital ratio equal to 14.6%, a Tier 1 capital ratio equal to 18.0% and a Total capital ratio of 18.0%.

	Unweighted amounts		Weighted amounts/requirements	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021
A. EXPOSURES				
A.1 Credit and counterparty risk	6,420,146	4,483,757	1,186,648	1,332,507
1. Standardised approach	6,420,146	4,483,757	1,186,648	1,332,507
2. Internal ratings based approach				
2.1 Basic				
2.2 Advanced				
3. Securitisations				
B. CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			94,932	106,601
B.2 Credit valuation adjustment risk			157	
B.3 Settlement risk				
B.4 Market risk				
1. Standard approach				
2. Internal models				
3. Concentration risk				
B.5 Operational risk			13,307	13,745
1. Standard approach			13,307	13,745
2. Internal models				
3. Concentration risk				
B.6 Other calculation elements				
B.7 Total prudential requirements			108,396	120,346
C. EXPOSURES AND CAPITAL RATIOS			**1,354,950**	**1,504,323**
C.1 Risk-weighted assets			1,354,950	1,504,323
C.2 CET1 capital/risk-weighted assets (CET1 Capital Ratio)			14.6%	13.1%
C.3 Tier 1 capital/risk-weighted assets (Tier 1 Capital Ratio)			18.0%	16.2%
C.4 Total Own Funds/risk-weighted assets (Total Capital Ratio)			18.0%	16.2%

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 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, 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 art. 136 of the Consolidated Law on Banking, they are included in the Executive Committee resolution, specifically authorised by the Board of Directors and with the approval of the 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.

1. 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	31.12.2022
Remuneration to Board of Directors and Board of Statutory Auditors	1,978	178		2,156
Short-term benefits for employees	-		3,024	3,024
Post-employment benefits	133		216	349
Other long-term benefits	388		401	789
Termination benefits				-
Share-based payments	331		307	638
Total	**2,830**	**178**	**3,948**	**6,956**

2. Disclosure on related party transactions

The following table shows the assets, liabilities, guarantees and commitments as at 31 December 2022, 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	98,968	501	61,822	4.6%
Due to customers	2,647	2,326	155,860	4.8%
Other assets	888			1.2%
Other liabilities	207			0.1%

The following table indicates the costs and income for 2022, 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	1,956	2	0	2.1%
Interest expense		30	28	0.4%
Other administrative expenses	878			3.4%

Details are provided below for each of the following related parties that are shareholders exceeding the 5% stake threshold in individual Group companies.

In thousands of Euro	Amount (Thousands of Euro)	Percentage (%)
ASSETS	**98,968**	**2.3%**
Loans and receivables with customers		
Kruso Kapital S.p.A.	76,286	2.2%
Largo Augusto Servizi E Sviluppo Srl	21,634	0.6%
ProntoPegno Greece	930	0.6%
Art-Rite	118	0.0%
LIABILITIES	**4,259**	**0.1%**
Due to customers		
Kruso Kapital S.p.A.	2,647	0.1%
Shareholders - SGBS	320	0.0%
Shareholders - Fondazione CR Alessandria	42	0.0%
Shareholders - Fondazione Sicilia	57	0.0%
Other liabilities		
Kruso Kapital S.p.A.	98	0.1%
Largo Augusto Servizi E Sviluppo Srl	110	0.1%

In thousands of Euro	Amount (Thousands of Euro)	Percentage (%)
INCOME	**1.956**	**2,1%**
Interest income		
Kruso Kapital S.p.A.	1.409	1,5%
Largo Augusto Servizi E Sviluppo Srl	545	0,6%
ProntoPegno Greece	3	0,0%
COSTS	**878**	**2,2%**
Other administrative expenses		
Kruso Kapital	414	1,6%
Largo Augusto Servizi E Sviluppo Srl	464	1,8%

PART I - SHARE-BASED PAYMENT PLANS

Qualitative disclosure

As indicated in the 2022 Policies Document, Banca Sistema, having a four-year average of total assets of less than € 5 billion and not belonging to a group with assets worth more than € 30 billion, is considered to be a ''smaller and less complex bank''.

Therefore, the Bank shall apply the provisions relating to key personnel subject to percentages and to deferral and retention periods that may be defined in proportion to their characteristics, thereby ensuring a proportional alignment criterion also in relation to the provisions of the Corporate Governance Code, for longer deferral in the case of members of the Board of Directors and key management personnel (they are thus extended to all Key Personnel).

The Bank indicates 25% of average total remuneration of Italian high earners, as indicated in the latest EBA report (published in August 2021) and relating to data processed at the end of 2019, as being a particularly high level of variable remuneration. The variable remuneration for "key personnel" relating to the performance of the year 2022 will be paid as follows, after the approval of the financial statements, subject to verification of compliance with the gates and the actual availability of the bonus pool according to the following methods:

- amounts equal to or lower than € 50,000 of variable remuneration, provided that this does not represent more than one third of the beneficiary's total annual remuneration: entirely up-front and in cash;
- amounts greater than € 50,000 and up to € 435,000 or where the condition referred to in the previous point is not met:
  - up-front and in cash for 70%;
  - for the remaining 30%: deferred in the first and second subsequent year, with payment according to the pro-rata criterion equal to 15%;
- for amounts greater than € 435,000:
  - up-front and in cash for 60%;
  - for the remaining 40%: deferred in the first and second subsequent year, with payment according to the pro-rata criterion equal to 20%.

Given the new provisions of the Bank of Italy Circular, which allow banks with assets of less than € 5 billion (as an average of the last four years) to neutralise the provisions relating to the disbursement of variable remuneration in financial instruments and to solely apply an "appropriate" deferral period, Banca Sistema intends to make use of this simplification and apply the abovementioned cash payment schemes for the payment of variable remuneration starting from 2022 (without prejudice to any regulatory updates and/or the achievement of the size thresholds indicated by Circular 285).

Disclosure of the fees paid to the independent auditors

Reference should be made to the corresponding section of the Notes to the Banca Sistema Group's consolidated financial statements, which is deemed to be fully reported here.

PART L - 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 as at 31 December 2022

Income statement (€,000)	Factoring Division	CQ Division	Corporate Centre	Group Total
Net interest income	56,930	19,017	237	76,184
Net fee and commission income (expense)	8,883	(1,073)	495	8,305
Dividends and similar income	149	78	-	227
Net trading income (expense)	(994)	(524)	-	(1,518)
Gain from sales or repurchases of financial assets/liabilities	3,087	1,990	-	5,077
Net gain (loss) on other financial assets and liabilities measured at fair value through profit or loss	2,196	-	-	2,196
Total income	**70,251**	**19,488**	**732**	**90,471**
Net impairment losses on loans and receivables	(7,602)	(781)	(93)	(8,476)
Net financial income (expense)	**62,649**	**18,707**	**639**	**81,995**

Statement of Financial Position (€,000)	Factoring Division	CQ Division	Corporate Centre	Group Total
Cash and cash equivalents	81,339	42,836	-	124,175
Financial assets (HTS and HTCS)	381,873	201,111	-	582,984
Loans and receivables with banks	24,003	10,822	-	34,825
Loans and receivables with customers	2,233,129	1,249,897	1,421	3,484,447
loans and receivables with customers - loans	1,787,032	1,014,962	1,421	2,803,415
loans and receivables with customers - debt instruments	446,097	234,935	-	681,032
Due to banks	-	-	604,660	604,660
Due to customers	226,512	-	3,092,304	3,318,816

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:

1. Property used for business and personal purposes;

2. Cars.

At 31 December 2022, there were 42 leases, 6 of which were property leases for a total right of use value of € 2.1 million, while 36 were for cars, for a total right of use value of € 0.6 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	2,128,848	2,172,653
Long-term car lease	578,159	587,989
Total	**2,707,007**	**2,760,642**

(*) 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	31,914	1,070,628
Long-term car lease	7,245	351,233
Total	**39,159**	**1,421,861**

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 2022.

2. Reference model

The suitability of the administrative and accounting procedures for the drafting of the separate financial statements at 31 December 2022 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 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.

3.2 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, 10 March 2023

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 2022

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 2022, 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 2022 (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 € 20,886,568.99.

After approving the draft financial statements on 10 March 2023, 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 16 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 and the Sustainability 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 2022 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, in training courses 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 2022, we note:

- 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;
- on 8 March 2022, the Board of Statutory Auditors was heard by Consob and provided the information requested by the same pursuant to article 115 of Legislative Decree no. 58/1998;
- on 9 March 2022, an inspection was started at the subsidiary Kruso Kapital (formerly Pronto Pegno) and the Bank by the Financial Information Unit of the Bank of Italy pursuant to Article 6, paragraph 5, letter a) of Legislative Decree No. 231 of 21 November 2007, which concluded on 25 May and 20 July respectively. This was followed by requests for clarification and notification of the start of a formal notice of assessment for the Bank;
- on 26 April 2022 one of the directors (Marco Giovannini) resigned and on 20 May 2022 the Board of Directors co-opted Mr. Pier Angelo Taverna;

- on 13 July 2022, the Bank was notified of the outcome of a sanctioning proceeding initiated by the Bank of Italy pursuant to Article 144 of the Consolidated Law on Banking and was imposed a penalty amounting to € 100,000;
- on 2 September 2022, the Bank securitised a new € 400 million portfolio of salary- and pension-backed loans through Quinto Sistema Sec. 2017. With the sale of the new portfolio, the securitisation increased to € 534 million (€ 480 million in terms of outstanding debt) with Senior class securities increased from € 35 million to € 423 million (with DBRS Morningstar and Moody's ratings of AA low/ Aa3 respectively) and Mezzanine class securities (rating of A/ Baa1) of € 50 million. Both classes of securities are listed on the Luxemburg Stock Exchange;
- on 20 October 2022, the Extraordinary Shareholders' Meeting of the subsidiary ProntoPegno S.p.A. approved the change of the company name from ProntoPegno S.p.A. to Kruso Kapital S.p.A.;
- on 27 October 2022, the Banca Sistema Group, through its subsidiary Kruso Kapital S.p.A., finalised the acquisition of 100% of the share capital of the auction house Art-Rite S.r.l.;
- on 25 November 2022, 29 retention bonus agreements were entered into to replace the same number of non-compete agreements intended for key personnel.

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 examination 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 has issued the following opinions pursuant to law:

- opinions for the approval of services different to an audit, requested by the Independent Auditors relating to:
  - a pool audit, that shall be carried out on the entire eligible portfolio of the Originator, including the loans already transferred as part of the previous securitisations Quinto Sec 2017 and Quinto Sec 2019;
  - an audit of the Servicer Report relating to the Quinto Sec 2019 transaction;

- a voluntary audit of the reporting package of the Company Art Rite Srl arranged for the consolidation of the parent Banca Sistema S.p.A.

On 19 April 2022, the Board of Statutory Auditors issued 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 2022, 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 18 January 2023, the Bank of Italy, following the measure of 5 May 2022, by which the Bank was notified of additional capital requirements with respect to the minimum capital ratios required by current regulations, informed that it did not adopt a new decision on the bank's capital as a result of the 2022 SREP (Supervisory Review and Evaluation Process) cycle;
- the Board of Directors of Kruso Kapital (in which Banca Sistema holds a 75% equity interest) approved the start of the process to list the company on the Euronext Growth Market of Borsa Italiana S.p.A.;
- on 27 February 2023, the Bank of Italy started an inspection at the Bank relating to the "Evolution of Liquidity Risk Exposure and Related Operational Safeguards", the results of which are not yet known.

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 2022.

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 2022 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 2022 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 2022 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 and Sustainability 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, but does not meet 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 and Risk Management Committee, Sustainability 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.
- 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 347-348 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 2022. 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 Kruso Kapital 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 347 and 348 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 2022, 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:

▪ *a dividend of € 5,227,368.38;*

▪ *the remainder of € 15,659,200.61 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 2022 as prepared by the Board of Directors, and the proposed allocation of the profit for the year.

Milan, 28 March 2023

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, 2022

AMZ/PPL/fbs - RC043882022BD1054

BDO

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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, 2022, 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, 2022 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.

Bari, Bologna, Brescia, Cagliari, Firenze, Genova, Milano, Napoli, Padova, Palermo, Roma, Torino, Verona

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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, 2022, are equal to Euro 3.484 million and represent the 80% 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") represents the Company's main activities.

Factoring credits and CQS/CQP credits as of December 31, 2022, are equal to, respectively, Euro 1.274 million and Euro 914 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 impairment, 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 our audit.

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.

The credits recognized on an accrual basis and reported in the individual balance sheet as at December 31, 2022 amount to Euro 56 million. The default interest recognized on an accrual basis as at December 31, 2022, equals to Euro 15,2 million and will be collected in the forthcoming years. This amount includes Euro 7,5 million recognized on an accrual basis from current estimates, Euro 1,6 million due to the update on the recovery estimates and Euro 6,1 million represented by collections in excess with respect to the revenues already recorded on an accrual basis in the previous years.

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.

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.

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 our audit.

VALUATION OF EQUITY INVESTMENT HELD IN THE CONTROLLED COMPANY KRUSO KAPITAL S.P.A. (EX PRONTOPEGNO S.P.A.)

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 investment held in the controlled company Kruso Kapital S.p.A. (ex ProntoPegno S.p.A.) as of December 31, 2022.

The impairment test performed by the Company according to and using the DDM methodology with the variant "excess of capital", has highlighted an overestimate of the "value in use" of the CGU if compared to its net accounting value, confirming the recoverability of the goodwill accounted for in the 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 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 kruso Kapital S.p.A. (ex ProntoPegno S.p.A.), 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, actions taken to eliminate relevant risks or the safeguards measures applied.

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 at December 31,2022 to the requirements of the Delegated Regulation.

In our opinion, the financial statements at December 31, 2022 have been prepared in XHTML format in compliance to the requirements of 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, 2022, 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, 2022 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, 2022 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 28, 2023

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.