Annual Report
2021

illimity
BANCA OLTRE LA FORMA

Frame the cover photo to watch the
"Products, Partnership & Open Banking" video using the ARIA App

Life at illimity

We wanted to create a new paradigm bank, completely innovative, with no existing legacy and with the latest technologies, to go beyond the limits of the traditional systems.

We want to discover and develop the potential of businesses, people and families through a business model designed not only to make profits, but also to be useful to the community, of which we genuinely feel part.

Enthusiasm, collaboration, innovation, creativity, growth: illimity is all this and much more.

Watch the company tour of our offices and find out why we are a new-paradigm bank

Frame the image using the Aria App
to watch the "illimity Company Tour" video

Highlights

4.7
billion euros
of assets thanks to the growth of net loans to customers and investments

2.8
billion euros
including customer loans and investments

2.6
billion euros
direct funding from retail and corporate customers

725
illimiters
from 300 different countries, 20 business sectors and 25 countries

18.8%
CET1 ratio
confirming the bank's solidity to be invested in future growth

65.6
million euros
net profits in line with 2021 targets

All data as of 31.12.2021

2021 Financial Statements and Annual Report with multimedia insights available on Apple and Android systems using the ARIA App

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Annual Report 2021

Message from the Chairperson and Chief Executive Officer

Dear friends of illimity,

it is a real pleasure to present **the 2021 results**.

In just over three years, we have built a truly innovative bank with approximately 5 billion in assets, much of which is in a critical sector for Italy, namely **small and medium-sized enterprises**. In this sector, we provide loans to help growth, and to restructure and relaunch SMEs, while also holding NPLs and offering an ever growing range of ancillary services.

In 2021, we achieved the targets we set:
· substantial **growth** in net customer loans and investments (+25% year on year), reaching €2.8 billion;
· **operating profit** exceeding €110 million (+147%);
· **net profit** of €65.6 million, in line with the guidance provided;
· **ROE** at about 10%, one of the highest percentages in the industry;
· r**obust capital levels**, with ratios at the top end across the banking industry (CET1 ratio of 18.8%);
· **excellent portfolio quality**;
· **a solid cash position**, despite using substantial funds for new loans and investments.

We have also brought more female and male professionals into our team, which now numbers over **700 illimiters**. Such people have added enthusiasm and experience from over 300 businesses in 20 different industries. Such **diversity** helps drive high levels of **innovation and creativity**.

Our technological leadership has gone from strength to strength, with ever more widespread digitalisation.

We will continue to invest in this field because even though technological development has already brought about extensive change, we are still only at the beginning. On this front, we are especially proud of our growing partnership with the ION Group, which has started with a licence to use our IT platform, but is destined to go beyond.

Over the last two years, our investment has made possible three major initiatives that have decisively increased the "tech" component of our portfolio. We recently launched **b-ilty**, the first digital business store for financial and credit services designed specifically to help SMEs grow. In the near future, we'll also be leveraging our digital capabilities to launch a highly innovative **proptech** to bring innovation to the large real estate market. In early 2021, we also invested - through a joint venture with the Sella Group - in **HYPE**, a fintech leader in Italy that was able to really expand its product range and develop its technological platform during the year.

Our people, who come from three different generations, are tied together by our strong values and each of us sees social responsibility as an essential part of our overarching project. Our choices have a positive social and environmental impact and we are demonstrating ever increasing responsibility in adopting the **best governance practices**.

illimity is strongly committed to "**being useful**" and to fully implementing ESG principles in all of the Bank's activities, as is clearly illustrated in our Sustainability Report, which is published alongside our Annual Report. In this vein, I'd just like to mention fondazione illimity, which works to promote innovative projects in the **social regeneration** of real estate assets and in impact finance.

This Annual Report is being presented at an unusually complex time for our country and for the world as a

whole because of the consequences of two years of pandemic and the tension created by the Ukraine conflict, which is totally unjustified and poses a serious challenge for democracies.

At illimity, we want to play our part in overcoming these difficult times, which are really impacting our economic fabric, by drawing on our resilience while remaining firmly anchored to our values of **responsibility**, **innovation** and **freedom**. We really believe this is the right way to build long-term value for all our stakeholders and to deliver for those investors from right across the globe that have believed in us.

Rosalba Casiraghi
Chairperson of illimity

Corrado Passera
CEO of illimity

Composition of Corporate Bodies

Board of Directors

We are continuing our commitment to generate benefits for all our stakeholders, by making strategic, responsible, inclusive choices with strong values shared at all levels of the organisation.

The Board of Directors plays a key role in our corporate organisation. It is responsible for setting out strategic and organisational guidelines, as well as ensuring the existence of the necessary controls to monitor the progress of illimity and the Group companies.

The Board was appointed by the Shareholders' Meeting of 22 April 2021.

Rosalba Casiraghi - Chairperson

Elena Cialliè

Chief Executive Officer

Corrado Passera

Directors

Paola Elisabetta M. Galbiati

Massimo Brambilla

Patrizia Canziani

Giovanni Majnoni D'Intignano

Francesca Lanza(*)

Marcello Valenti

(*) Director appointed by the Shareholders' Meeting of 15 December 2021.

Board of Statutory Auditors

The Board of Statutory Auditors performs the control functions and duties provided for by the applicable supervisory and regulatory framework, and reports to the supervisory authorities pursuant to the regulations in force pro tempore. The Board, appointed by the Shareholders' Meeting of 18 January 2019, is composed of three Standing Auditors and two Substitute Auditors.

Chairperson	**Standing Auditors**	**Substitute Auditors**
Ernesto Riva	Stefano Caringi	Riccardo Foglia Taverna
	Nadia Fontana	Michela Zeme

Committees

illimity is composed of five committees whose function is to offer guidance, advice and suggestions.

Risks Committee
This Committee is tasked with supporting the assessments and decisions of the Board of Directors in relation to the internal control and risk management system and to the approval of the periodic financial reports.

Remuneration Committee
This Committee is primarily tasked with formulating suggestions to the Board of Directors in terms of remuneration and pay policies.

Nominating Committee
This Committee supports the Board of Directors in: the appointment or co-opting of Directors, the self-assessment of corporate bodies, the performance of checks on the conditions and prerequisites pursuant to the applicable law and regulations, the definition of guidelines concerning the qualitative-quantitative composition of corporate bodies and, lastly, the definition of succession plans for executive management positions.

Committee for Related Party Transactions
This Committee performs functions concerning related party transactions, in line with the relevant regulatory provisions, as issued by the Bank of Italy and Consob. illimity has also adopted the "Policy on transactions with entities covered by the illimity Bank Group's Single Perimeter".

Sustainability Committee
This Committee is tasked with assisting the Board of Directors, with guidance functions of a suggestion-making and advisory nature, in assessments and decisions relating to sustainability issues (ESG – Environmental, Social and Governance) and to the Business Plan of the Bank and the Group, as well as with regard to the relevant Corporate Governance matters.

Financial Reporting Officer

Sergio Fagioli

Independent Auditors

KPMG S.p.A.

illimity stages

2018

January

Establishment of **SPAXS**, the first Special Purpose Acquisition Company in Italy, to create a new operator in the banking sector

April

The Business Combination of SPAXS with Banca Interprovinciale is announced.

August

The SPAXS Shareholders' Meeting approves the Business Combination and **announces the name of the new bank: illimity**

December

illimity's **innovative headquarters** with smart spaces is inaugurated in Palazzo Aporti, Milan

2019

March

illimity Bank S.p.A. was born on 5 March with its listing on the MTA of the Italian stock exchange

April

illimity presents **neprix**, a servicer specialising in the management of distressed corporate loans

June

illimity signs a contract for the **acquisition of IT Auction** that, together with neprix, creates the first end-to-end servicer specialising in distressed corporate credit

September

Establishment of **illimitybank.com**, offering direct digital banking services to retail customers

2020

February

illimity SGR is authorised to establish and manage Alternative Investment Funds

May

illimity acquires 100% of **IT Auction**

June

illimity presents its **first Sustainability Profile** to report on the bank's commitment to ESG issues

September

- **illimity is admitted to the STAR segment of Borsa Italiana**
- An **agreement with Fabrick** (Sella Group) **is signed** for the joint venture in the Fintech HYPE

November

illimity and neprix **are given a rating by FITCH**

December

illimity successfully concludes its first bond issue

2021

March

illimity obtains the status of **Euronext Growth Advisor (Ex-Nomad)** on the Euronext Growth Milan market (ex-AIM Italy) by expanding its offer for SMEs

April

- illimity SGR completes the **first closing** of "**Credit & Corporate Turnaround**"
- illimity submits the **First Non-Financial Statement** on a Voluntary basis

May

illimity reaches **Carbon Neutrality** (Scope 1 and Scope 2)

June

- **fondazione illimity** has been created to promote innovative projects in the social regeneration of real estate assets and impact finance
- illimity approves the **2021-25 Strategic Plan**
- illimity, in the role of Nomad, accompanies its **first SME to the stock market**
- illimity concludes placement **of its first tier 2 subordinated bond**

November

- "**Basket Bond - Sustainable Energy**" was created in collaboration with Eni, Elite and illimity, as Arranger
- **My Sport e Salute** was born, the Sport e Salute S.p.A. app designed to connect Italians to their sports passions and developed with the technological platform and the most innovative services of illimity

December

- illimity endorses the **United Nations Global Compact**
- illimity SGR completes the **second closing of "Credit & Corporate Turnaround"**

The illimity Group

illimity is the parent company of the Group of the same name.

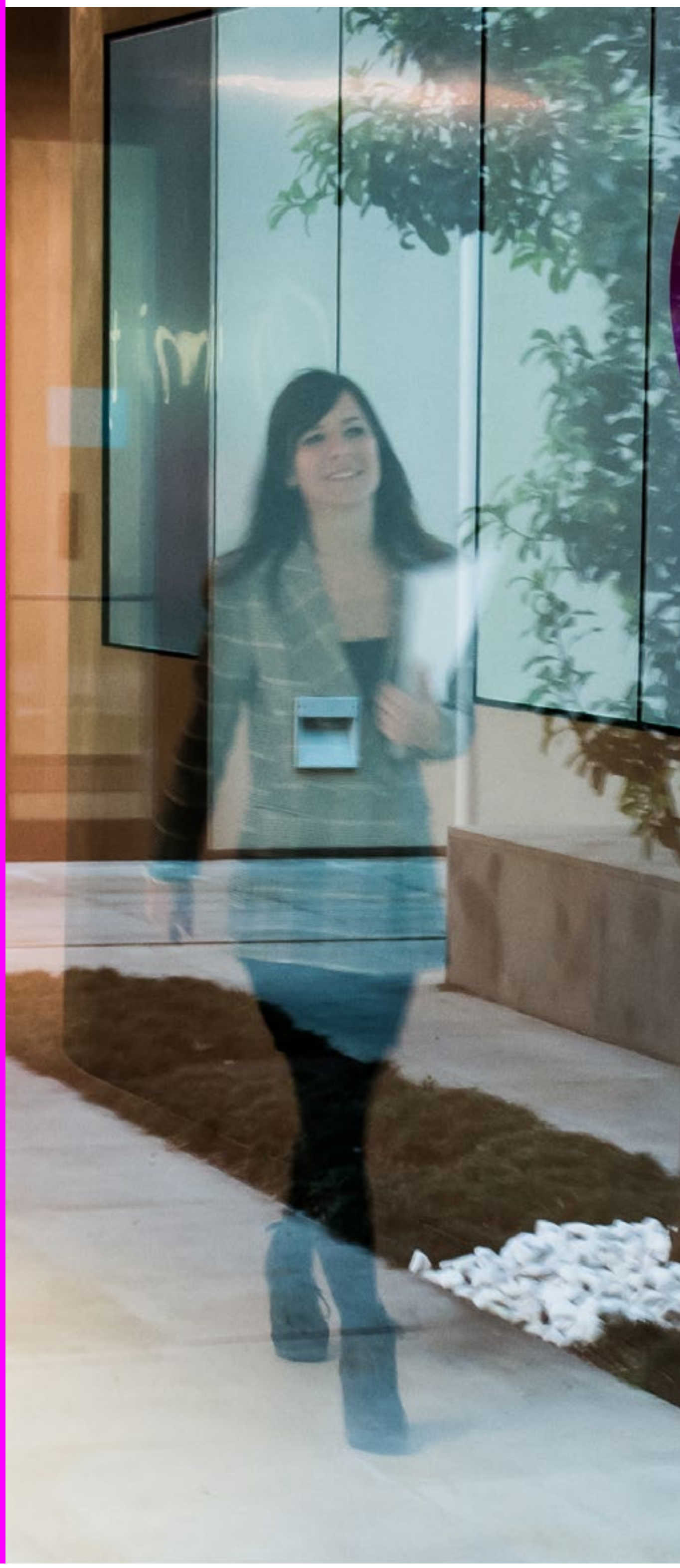
The story begins in January 2018 with the launch of SPAXS, Italy's largest SPAC (special purpose acquisition company) and one of the largest in Europe, with the aim of acquiring and capitalising a company in the banking industry, closing with funding of EUR 600 million.

With the 2018 acquisition of Banca Interprovinciale and the completion of the merger with SPAXS, illimity Bank was formed. On 5 March 2019 it was listed on the MTA of the Italian stock exchange, and in the STAR segment from 10 September 2020.

illimity is a new-paradigm bank specialising in credit for SMEs. It has a high-innovation, high-technology business model.

illimity provides credit to businesses that have great potential but as yet a low rating or no rating, and also covers the segment of non-performing (Unlikely-to-Pay) SMEs and offers various solutions for accessing capital markets via the creation of made-to-measure solutions aimed at development, organic and non-organic growth and financial structure optimisation. illimity acquires distressed corporate credit with or without guarantees, with the aim of managing these accounts through its proprietary platform, neprix.

Lastly, it offers direct digital banking services for retail customers through illimitybank.com, which in September 2020 announced a Joint Venture with Fabrick in the fintech HYPE, and for SMEs through the Digital Business Store b-ilty.



The illimity Group is formed of the following main companies:

neprix

Launched in April 2019, neprix is a servicer specialising in the management of distressed corporate loans, and has an innovative, multidisciplinary, technological servicing model. It is the primary end-to-end operator specialising in distressed corporate loans and the management and sale of business assets and real estate, with the capacity to cover the entire value chain in a distinctive way.

illimity SGR

illimity SGR S.p.A. is the Asset Management Company of the illimity Group which manages the assets of closed-end alternative investment funds, established with own funds and the funds of third-party institutional investors. Since 1 April 2021 it has promoted its first fund, “illimity Credit & Corporate Turnaround”, which saw new closings in December 2021.

The Group also includes a series of securitisation vehicles, which are used for the acquisition of portfolios of distressed loans.

Management Team

At illimity, it's the people who make the difference: our men and women are motivated, determined and open to change. Each day, they work to multiply the potential of our customers, by going beyond the established models and practices.

Corrado Passera
Chief Executive Officer

Enrico Fagioli
Head of Growth Credit

Isabella Falautano
Head of Communication
& Stakeholder Engagement

Marco Russomando
Head of Human Resources
& Organization

Francesco Mele
Chief Financial Officer
and Head of Central Functions

Claudio Nordio
Chief Risk Officer

Francesco Martiniello
Head of Compliance & AML

Massimo Di Carlo
Chief Lending Officer

Andrea Clamer
Head of Distressed Credit

Giovanni Lombardi
General Counsel

Carlo Panella
Head of Direct Banking

Silvia Benzi
Head of Investor Relations
& Strategic Planning

Fabio Marchesi
Head of Internal Audit
(Permanent Guest)

Filipe Teixeira
Chief Information Officer

Fabiano Lionetti
Head of Investment Banking

Andrea Battisti
Head of Servicing Distressed Credit
& CEO of neprix

The illimiters

We are more than **700** illimiters

from more than **300** companies

from **20** industrial sectors

and **25** different countries

We have different skills and experiences, but we are all brought together by strong values that guide us every day: entrepreneurship, independence, innovation, responsibility and sustainability.

illimity w.o.w.

illimity offers an innovative, free and responsible way of working.

illimity way of working is a hybrid work model designed jointly with the illimiters, which includes the option to work remotely for 10 days a month. What matters is the “how”, not the “where” or the “when”.

Alongside a complete revamp of our spaces, we have developed an app that employees can use to book their workstation in the office.

Great Place to Work and plans of action

Great Place To Work® is the certification that identifies and highlights companies with a high-quality working environment: in 2021 the illimity Group obtained this recognition for the third year running, and was included for the first time on the Best Workplaces in Europe™ list.

The results of the survey prompted numerous improvement initiatives, some of which were directly proposed and designed by the illimiters.

illimity academy

The illimity academy was set up to create cutting-edge programmes aimed at consolidating crossover competencies typical of future professions, with high-level training courses combining learning and on-the-job training. The academy's first initiative, in collaboration with MIP Politecnico di Milano, was the Master's in Credit Management, designed to consolidate the expertise of the asset managers of the future.

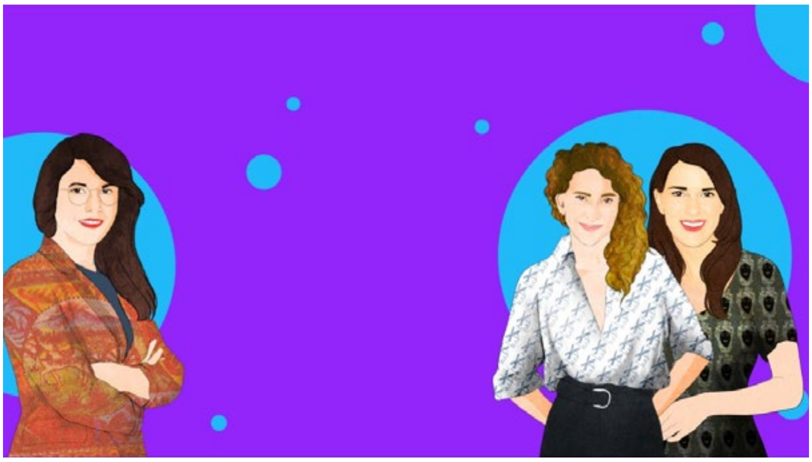
The programme's key ingredients are suitability, multi-disciplinarity and applicability. Discover the Master:

Frame the image using the Aria App to watch the "illimity academy" video

illimitHER

This is illimity's diversity & inclusion programme, aimed at empowering the potential of young women in STEM disciplines. Its aim is to break down the cultural stereotypes that discourage girls from studying technical and scientific subjects.

This "edutorial" programme is where we give voice to young role models, inspirational women who have managed to "go beyond" by reshaping the future thanks to their talent.



Frame the image using the Aria App to watch the "illimitHER South Marathon" video

Growth Credit Division

Enrico Fagioli
Head of Growth Credit

1,434 net customer loans
million euros

+76%
YoY

We work alongside Italy's small and medium-sized enterprises with a single goal: working together to support their potential.

"We are a key partner for Italian SMEs, offering a complete range of tailor-made solutions that support the growth of businesses with potential. 2021 has been a year of great results, with all business areas in the division enjoying strong growth. A significant part of our new business origination comes from loans covered by public guarantees. This has also been a successful year for the new Capital Markets unit, which has carried out three IPOs and launched the new "Basket Bond - Sustainable Energy" offer, which sees illimity in the role of Arranger to support companies involved in the energy transition. We are very proud and can look ahead to a significant pipeline of operations throughout 2022."

The portfolio consists of:

628 million euros
Crossover and Acquisition Finance

438 million euros
Turnaround

368 million euros
Factoring

As of 31 December 2021

illimity stories

For illimity, support for SMEs means a relationship that goes beyond financing. Together with some of the companies we supported, we told the stories of their development and growth.

The story of Alessi: the design that is reshaping its future

The relaunch of Alessi is not only a story of beauty, but it is also about a historic entrepreneurial family's responsibility for an Italian design brand that is one the world's most well known. Today the company is 100 years old, and is beginning a new century of development and research in the applied arts.

Frame the image using the Aria App
to watch the "Alessi" video

ph.: 150UP

The story of Mondial Suole: digitalisation and innovation in the name of sustainability

Can we profitably produce soles in Porto Recanati in the midst of globalisation? The story of Mondial Suole is one of manufacturing, tradition and quality, as well as the ability to evolve over time, becoming both innovative and sustainable.

Find out more:
Read the story of Mondial Suole

The story of Frette: from Monza to virtual reality

The story of Frette is one of elegance and luxury that began in France but soon moved to Lombardy, becoming a "Made in Italy" icon. Frette produces luxury bed linen, high-quality fabrics and unique products, born out of passion, innovation and research. To that end, it is now aiming to go digital, developing its e-commerce channel and creating virtual showrooms.

Find out more:
Read the story of Frette

The story of Navigazione Montanari: over 130 years on the seas

NavMont is a historic player in Italian shipping. Founded in 1889, it has successfully navigated several crises and wars over the years. Today, the company has a new objective: to renew its fleet to make it more efficient and safe, so that it can continue to guarantee its customers the service it has offered for over 130 years.

Find out more:
Read the story of NavMont

The story of Macha: the food of the future

A company that has combined Italian tradition with foreign cuisine, all whilst focusing on healthy food. Founded in Milan, Macha quickly became a destination for innovative, on-trend products inspired by international cuisine, first of all the pokè. The company focuses on sustainability in three ways: recyclable packaging, high-quality ingredients and strong corporate-customer relations.

Frame the image using the Aria App to watch the “Macha” video

GPACK: relaunching packaging

The story of GPACK tells of the relaunch of one of the leading companies in the manufacture of cardboard boxes and cases, table and free-standing display units and prints for advertising posters.

FIS: suppliers to the pharmaceutical industry

Vicenza-based company FIS is one of Italy’s leading producer of active substances for the pharmaceutical industry, which needed support across its entire chain, with regard to both clients and suppliers.

DEMA: the aerostructures sector

DEMA is a company that designs, manufactures and assembles aeronautical structures for the key players in the sector and wishes to implement a restructuring plan following the COVID-19 pandemic.

Capital Markets

illimity is an accelerator of growth and consolidation for SMEs and Mid-Caps with great potential. The Capital Markets Team offers tailor-made solutions to support the development, organic and non-organic growth and financial structure optimisation of businesses through access to the capital market and support in corporate transactions. illimity offers **Equity and Debt Solutions services**, acting as Euronext Growth Advisor (formerly Nomad) and Global Coordinator in **IPOs** and as Arranger in **debt instrument issues**.

In 2021 illimity supported 3 companies with their listing on the Euronext Growth Milan (formerly AIM Italy) market

Over the course of the past year, illimity has supported three companies with their listing on the Euronext Growth Milan (formerly AIM Italy) market: Meglio Questo, Compagnia dei Caraibi and SVAS Biosana. illimity has also been involved, in the role of Arranger, in the creation of the first "Basket Bond - Sustainable Energy" programme, which issues mini-bonds designed by Eni and Elite aimed at all companies in the energy sector, with a special focus on SMEs and Mid-Caps. They are the first innovative financial instrument whose aim is to accelerate growth and sustainable development of the supply chain.

January 2022 saw the creation of the **Investment Banking division**, which incorporates **Capital Markets**, **Corporate Solutions** and **Structuring** activities with the aim of meeting businesses' growth and value creation needs through the creation of products and services (IPOs, debt issues, securitisation of receivables, hedging instruments, M&A advisory, etc.) that are complementary to those already offered by illimity through its **Growth Credit**, **Distressed Credit** and **Direct Banking Divisions**.

Distressed Credit Division

Andrea Clamer
Head of Distressed Credit

“ We are a specialist player in Corporate Distressed Loans, focusing on: investments dedicated to the acquisition of non-performing loans, senior loans that provide financial solutions to NPE investors and servicing through the neprix platform.

2021 has been a year of strong value creation, confirming the positive trend in our results. Furthermore, we entered the market of ‘technical reserves’ related to public procurement. Lastly, 2022 will see the launch of our extremely innovative proptech, which will enter the vast property brokerage market. We are delighted with our excellent performance and we are ready to further stand out in the market thanks to the creation of new business related to profitable market niches.”

Frame the image using the Aria App
to watch the “Distressed Credit Division” video

1.3 billion euros customer loans and investments	**923** million euros in investments	**336** million euros in senior financing	**8.5** billion euros assets under management including goods and receivables

As of 31 December 2021

Some of the division's transactions:

The Joint Venture with Apollo

An equal partnership to invest in single name distressed loans related to real estate in Italy, with neprix acting as exclusive special servicer for the management of the investments.

Franco Barberis

A real estate firm that has evolved over time thanks to its passion and commitment. During the pandemic it sought support from illimity, which immediately saw the potential of the "Vistamare" project in Albenga: a new district, now part of the works to be carried out by 2026 under the National Recovery and Resilience Plan (PNRR), which will help to revitalise the entire area.

Find out more:
Read the story of Barberis

Hotels in Venice

In late 2021, illimity signed a loan agreement for the acquisition of secured UTP receivables for a gross total nominal value of approximately EUR 50 million, relating to loans disbursed to the companies that own two well-known four-star luxury hotels in Venice, "Ai Cavalieri" and "Ai Reali". The transaction saw neprix in the role of special servicer and resulted from the widespread network of contacts that illimity has forged throughout the region, thanks not only to its expertise, but also to its capacity to listen and build long-term strategic relations with entrepreneurs.

Grancasa: the digitalisation of retail

The Grancasa Group, a retailer specialising in home furniture and accessories, is set to undertake a new strategic and business direction, with support from illimity, in order to tackle the changes linked to digitalisation.

TRE Holding

TRE Holding is a Florence-based property company owned by the Targetti family which, thanks to the capital raised from the sale of property assets, will be able to pay the creditor banks that sold their receivables to illimity a small earn-out. The reasons behind its success? Its expertise, its knowledge of the property market and the strong local relationships that enable it to find the right lessee.

neprix

"Today neprix is a consolidated servicer specialising in corporate credit that relies on the ongoing commitment of asset managers and real estate professionals. neprix is looking to focus more attention on big real estate tickets, aiming to become the leading manager of distressed corporate credit in this asset class. In 2022 the platform will launch a new service: Italy's most innovative proptech to date."

Andrea Battisti
Chief Executive Officer
neprix

A team of over **290** professionals

neprix, the illimity Group's servicing company, **is Italy's leading operator specialising in the management of corporate distressed credit and the sale of property and capital assets**. It focuses on Italian and international players that invest in distressed loans, supporting them in the acquisition and management process, and on banks seeking a specialist partner.

February 2021 saw the agreement for the merger with IT Auction, resulting in the creation of the first corporate NPE operator with a distinctive end-to-end logic, based on human talent and technological innovation, **with the ability to cover the entire value chain in the management of non-performing loans**: from acquisition to management and sale on the market of assets guaranteeing these loans.

The ability to integrate, analyse and manage data originating from the entire credit value chain enables neprix to work on predictive models and anticipate market trends, thereby managing to identify the best strategies for managing the loan in question and the underlying asset, including advanced property valuation (including remotely), advisory and development services.

Developing the potential of its people is a priority for neprix: in October 2020 it launched the first Master's in Credit Management, which is now being joined by a second edition. Run by the illimity academy, this course imparts professional expertise with the aim of training the asset managers on the neprix team.

8.5	582	26
billion euros of assets under management	million euros of collections	million visits to the portals

As of 31 December 2021

Frame the image using the Aria App to watch the “neprix” video

neprix’s business areas are:

neprixDCManagement

For the valuation and **management of difficult credit**, dedicated to secured and unsecured corporate asset classes, with a turnkey professional service.

neprixSales

For the **sale of property and capital assets** originating from insolvency and foreclosure proceedings, leasing companies and voluntary sales, thanks to the network of vertical portals and the network of agents located throughout the country.

neprixRealEstate

For the **analysis of the property portfolio**, from big data analytics, data enrichment and location intelligence to property management, the adoption of the best remarketing strategies and reporting services.

neprixTech

For identifying the best **digital and technological solutions**, supporting all the business areas.

April 2021 saw the launch of the neprix blog, a space to talk about innovation, technology and credit with colleagues and industry experts.

Find out more:
Read the articles

Direct Banking Division

Carlo Panella
Head of Direct Banking

"The Direct Banking Division continues to be a crucial partner for individuals, families and businesses that need support in managing their finances and carrying out projects. 2021 was an important year for illimitybank.com, Italian banking's leading retail funding channel, confirming high customer loyalty and a customer experience rating well above any benchmark for the banking sector. During the year, we activated new partnerships aimed at pursuing our innovation and sustainability initiatives, with more scheduled for the coming months. Lastly, the biggest innovation was the introduction of b-ilty, a Digital Business Store dedicated to SMEs that offers a totally new way to use a bank."

1.4
billion euros
direct funding through illimitybank.com

2.6
billion euros
direct total funding from retail and corporate

55
thousand
retail customers, of which **88%** are active (1 February 2022)

46
Net Promoter Score
Indicator of strong customer focus

As of 31 December 2021

b-ilty

Combining the strong skills developed by the Bank in SME credit and Open Banking, illimity launched b-ilty: the first digital business store for financial and credit services developed to help small and medium-sized enterprises to grow. b-ilty was created entirely digital, but is also made up of people: every b-ilty customer will have a dedicated Relationship Manager, as well as a professional call centre - Smart Care - available seven days a week.

Frame the image using the Aria App to watch the "illimity presents b-ilty" video

HYPE

HYPE is the leading fintech platform on the market, which, on 1 January 2021, left the Banca Sella Group following the completion of the Joint Venture with illimity.
The platform confirmed its performance and execution capacities, ending 2021 with the highest level of awareness it had ever achieved and recording, in the first half of 2021, growth of 67% in digital payments via HYPE (card, online or app) and an increase of 80% in the number of transactions, which totalled more than 76 million (in+out).
Thanks to its flexible DNA and ability as a tech company to read and anticipate its customers' needs, HYPE is becoming a Money Management Hub that, due to the expertise and technology of illimity in Open Banking and new credit and investment products, is enriching its range of services to give customers greater awareness of the financial resources available: illimity deposit accounts, Banca Sella personal loans, Banca Sella mortgages, AcomeA investments, upgrading of savings function, radar function for monitoring spending and HYPE BUSINESS.
As of February 2022 the team consists of 129 highly skilled individuals, who continue to guarantee the highest standards of customer experience.

1.5 million retail customers of which **+180,000** in **2021**

Developing quality partnerships

“Accelera con Amazon”, for the digitalisation of SMEs

“Accelera con Amazon” is the free training programme dedicated to Italian SMEs, promoted by Amazon and a small group of companies that provides support with digital transition, with the aim of **giving entrepreneurs the necessary tools and expertise** to **launch** or **further develop** their online **activities at the national and international level**. illimity is the first bank to act as a partner in the scheme and, drawing on its experience as both a bank and a digital company, it will help to enrich the programme through a **training offer focused on banking and credit matters,** thus pursuing its **support for the growth of Italian businesses**.

Frame the image using the Aria App
to watch the “Introduction to Factoring” video

“Accelera con Amazon” offers a series of **webinars dedicated to “doing business”**, reserved for those enrolled on the training programme, in which some of illimity’s managers will appear as instructors. Training video clips will also **be produced focusing on specific issues**, such as the new variables of creditworthiness, digital reputation and sustainability. The training content is characterised by **simple, immediate language,** so as to guarantee **maximum usability to a wide audience**.
Considerable space will also be given to **listening to entrepreneurs’ needs** by promoting **surveys** aimed at identifying their training requirements.

Open-es, the platform that measures ESG performance

illimity is the first bank to join Open-es, the digital platform launched by Eni, in collaboration with Boston Consulting Group (BCG) and Google Cloud, and open to all businesses to support the sustainable development of their production chains. Open-es, through an innovative, inclusive tool, aims to forge an alliance of businesses committed to involving their value chains (suppliers, customers and stakeholders in general) in an effort to improve their sustainability performance. Through the platform, all businesses, from SMEs to major players, can measure their ESG performance, analyse and share data and experiences, obtain customised development plans and identify solutions they can implement to improve. With a model based on the 4 Pillars of the Stakeholder Capitalism Metrics issued by the World Economic Forum, Open-es supports businesses in terms of awareness and improvement, including through collaboration and the sharing of data and best practices. The platform promotes open and inclusive processes, allowing companies to collaborate with their own supply chain, access detailed reports and statistics, and thereby improve their Sustainable Procurement processes. In 2022 illimity will offer a complete range of banking products and services, as well as solutions to incentivise and support businesses with their energy transition and sustainable growth plans. Loans will also be made available, incorporating ESG metrics, and rewarding, with a modular approach, companies that are more sustainable or more committed to concrete improvement programmes and targets. The bank intends to support and promote this solution through its own customers and, prospectively, those of b-ilty, the digital banking platform dedicated to small and medium-sized businesses, launched by the illimity Group at the beginning of 2022.

Find out more:
Open-es

My Sport e Salute, the platform that connects Italians with sport

My Sport e Salute is the app run by Sport e Salute S.p.A. for the promotion of basic sports and healthy lifestyles, designed and developed in collaboration with illimity. The app is available free of charge from digital stores and aims to **connect Italians with their sporting passions**.
illimity is the technological partner in this project and was chosen because of its expertise in developing digital platforms and in Open Innovation.
My Sport e Salute is a virtual ecosystem that **brings together the entire sporting world** (federations, sports promotional bodies, associated sports federations, not-for-profit sporting associations, civilian and military sporting groups, over 100 thousand amateur sporting associations and societies and 14 million members) and the banking world, benefiting from the PSD2 regulation. The platform covers 7,903 Italian municipalities and 77 thousand existing sports facilities and enables, on the one hand, **sporting organisations** to have a **visible space** for promoting their activities and attracting new users, and, on the other, **sports enthusiasts** to **keep up to date** with their favourite disciplines, places of interest and managing their day-to-day movement at the individual and family level.
The key functions of the app will include **geolocation** and a **planner** with a calendar for scheduling sporting appointments or commitments, as well as a market place offering special deals on **products and services related to the world of sport, from technology to finance and insurance**.

Corporate Center

The Corporate Center provides cross-sector support for all Business activities, from the IT architecture through to control systems, finance, HR management, communications and sustainability.

CRO

Risk Management, Risk Strategy and Risk Analytics deal with the management of risk, and the development of new strategies using advanced, constantly evolving quantitative models.

CFO & Central Functions

Administration & Accounting, Budget & Control, General Counsel, IR & Strategic Planning, Human Resources & Organisation, Spend & Procurement Management, Finance and Facility Management provide support services for the business divisions.

CLO

The Credit Machine unit (assessment of creditworthiness in loan transactions) and Operations, Credit Monitoring & NPE unit (monitoring credit and managing "organic" non-performing loans) report directly to the CLO.

Chief Information Officer

IT architecture is the facilitator for many of the bank's results: it is a full-cloud architecture based on API and developed using the best fintech solutions.

Compliance & AML Department

This division identifies, responds to and eliminates inherent and residual risks relating to money laundering, terrorism financing and fraud.

Communication & Stakeholder Engagement Department

From media through to digital and sustainability projects, this division positions illimity on the market with its external and internal stakeholders, based on the Bank's founding values.

Internal Audit

Provides assurance services for the whole of the internal control system, and also provides advice to Management.

With effect from 1 January 2022, the Investment Banking Division was created, reporting directly to the Chief Executive Officer (formerly Finance Department - excluding treasury management).

illimity SGR

illimity SGR is the Asset Management Company of the illimity Group which manages the assets of closed-end alternative investment funds, established with own funds and the funds of third-party institutional investors.

In spring 2021 illimity SGR promoted its first fund, the “illimity Credit & Corporate Turnaround Fund”, which saw new closings in December. The Fund is dedicated to investments in receivables classified as UTP (Unlikely-To-Pay) from SMEs operating in a wide range of sectors seeking to turn themselves around and relaunch.

The creditor banks can therefore benefit from professional management of the receivables without necessarily having to sell them, making it possible to maximise their value following the company's business and financial turnaround. The Fund has some highly innovative characteristics, including the possibility to acquire and manage fully operational short-term credit lines and, through the securitisation unit, receivables and ongoing lease contracts. The Fund’s structure also allows banks to sell their financial exposure completely, regardless of the technical forms used, whilst also benefiting from the companies’ restructuring process.

illimity SGR seeks to adopt a different method, taking a consultancy-based approach and offering instruments that can optimise corporate governance. In this way, companies can tackle the complexities of the markets in which they compete in a more structured manner.

In line with the strategic guidelines of the SGR and the illimity Group, the SGR will undertake activities aimed at pursuing and diversifying its business opportunities, consistent with its status and organisational structure and in accordance with the applicable regulations. To that end, in accordance with the prospects outlined in the 2021-25 Strategic Plan, the SGR has launched a series of project activities aimed at extending its operations:

- in the UTP receivables sector, by making use, through the creation of a new contribution alternative investment fund (AIF), of the skills and experience of the UTP & Turnaround Funds Area in the management of problematic receivables secured by real estate assets;
- in the performing loans sector, through the creation of a Private Capital AIF in the context of the Private Capital Area.

fondazione illimity

For illimity generating value does not simply mean making profits, but being useful. This mission, deeply rooted in illimity, is confirmed by the establishment of **fondazione illimity**, which aims to **recognise the potential of real estate assets** to be transformed into **new spaces** that can **recreate value for the community**.

The combination of interests, the identification of common needs and the development of new networks and relations to incorporate into the regenerated space will guide the creation of synergies that can be used to serve the community.

fondazione illimity was created in the first half of 2021 and acts as a hub to catalyse & facilitate a **synergistic ecosystem of social businesses, not-for-profit organisations and public and private parties** interested in supporting projects related to the **creation of new spaces for inclusion, cohesion and shared wellbeing**.

Through collaboration with experienced professionals in social planning and impact finance initiatives, as well as educational centres, institutions and universities, the foundation will promote the development of a partnership-based ecosystem to launch projects and initiatives with a particular social impact, paying **close attention to sustainability (ESG) issues**.

illimity's personnel will also contribute to the project, providing technical, administrative and operational support and supplying the necessary tools to carry out the foundation's activities. Furthermore, the Bank will provide financial support for the activities carried out by the foundation, which may also benefit from private contributions.

To support the foundation's **first project**, which involves **tourism** and **hospitality** with a strong social impact and is due to be presented in 2022, the Group and all the illimiters have contributed to **the purchase of a minibus** to help those with mobility issues.

fondazione illimity

Frame the image using the Aria App
to watch the "fondazione illimity" video

Sustainability Highlights

illimity is a “Sustainable Native Company” and, since its creation, has innately sought to incorporate sustainability into its strategies, processes and governance. To that end, in 2021 it published its first Consolidated Non-Financial Statement pursuant to Legislative Decree 254/2016, on a voluntary basis, relating to the 2020 financial year, in order to report events and commitments relating to environmental, social and governance issues.

The key data relating to environmental and personnel management aspects, as detailed in the 2021 Sustainability Report, represent a positive framework for the Group's sustainability.

The realisation of the strategic ESG objectives, as identified in illimity's 2021-25 Strategic Plan, is ongoing and a number of results were achieved in 2021:

- ESG aspects were integrated into the risk management processes, with the aim of including them in the Risk Appetite Framework (RAF);
- the Bank adopted appropriate credit policies and procedures that take into consideration ESG factors for the selection and assessment of the solidity of counterparties;
- the Group maintained its carbon neutrality (direct and indirect emissions, Scope 1 and Scope 2) and launched activities for the measurement and guidance of its financed emissions (Scope 3);
- the Group continued its interventions aimed at reactivating renewable energy facilities, thanks to the Energy Desk (Distressed Credit division);
- ESG targets were integrated into the short- and long-term incentive plans, in line with the provisions of the Strategic Plan. The Group also incorporated an assessment of the conduct of all the illimiters, highlighting skills related to Digital Mindset and ESG issues;
- the long-term incentive plan, aimed at the Group's Top Management and key people, incorporated the target of doubling the number of women in managerial roles within the plan's time horizon, with progress on this front in 2021 being positive and in line with expectations;
- the balance between men and women in the talent pool was maintained along with the pay range, with a maximum gender pay gap of less than 5% in 2021;
- the Group maintained its employee engagement rate, which reached 82% in 2021;
- the Group launched real estate projects with a social impact via fondazione illimity, with the first completion expected in 2022;
- the Bank obtained upgrades in some of the key ESG ratings, including the ISS ESG Governance Quality Score, the Standard Ethics Solicited Sustainability Rating and the Refinitiv ESG Score.

Find out more:
illimity is Carbon Neutral

COVID-19 context

Since February 2019, following the spread of the COVID-19 pandemic in Italy, the Bank has promptly put in place a number of initiatives to protect the health of everyone working at and with illimity, as well as engagement activities and guidelines to help all illimiters to live as well as possible at such a hard time.

During the health emergency, a **COVID-19 Managerial Committee** was set up, meeting twice a week (or more often depending on developments in the health situation), with management sharing updates and taking prompt decisions on the company's response to the emergency.

Another decision taken was to continue the transparency and sharing policy, holding staff meetings monthly, rather than the usual every three months, to share company results as well as thoughts and feelings.

To safeguard the health of its staff and associates, illimity promptly adopted **smart working** as a standard way of working from the onset of the emergency. For those who needed to go into the office, a track and trace process was activated, notifying their presence to the HR & Organisation Department and their Manager, and an app was used to "check in" to the office.

To promote the health of staff and associates, a **preventive screening campaign** was launched. Staff could go into the office if they had a negative COVID test result, with the costs paid by the company. Protection devices were handed out at the entrances to offices, where people's temperatures were also measured using a heat scanner. **Specific COVID-19 insurance** was also taken out for all employees, staff, associates, internees, directors and auditors of Group companies.

Employees with children or elder family members had the chance to take **two hours of paid leave** a day to look after family members who could not look after themselves.

The Bank also expanded its **e-learning offering**, launching online courses and webinars on specific issues such as resilience, parenthood, health & wellbeing, and work-life balance. Engagement and internal communication **projects were also promoted** (the "Good News" Newsletter) to encourage communication among colleagues and "decrease distances".

Lastly, to make working from home and the daily tasks of employees easier, additional personal equipment was provided, including a PC, headset, mouse and chargers, as well as a keyboard and second PC monitor.

To limit movement and ease the pressure on hospitals, health services for the direct bank's customers were stepped up, including **remote healthcare**, **remote diagnostics** and **remote tests**, thanks to the partnership with AON and its network of leading healthcare facilities.

In the most critical weeks of the pandemic, dedicated **communication initiatives were launched for illimitybank.com customers**, through emails and social media, informing them about the various digital functions of accounts, which are even more useful when social distancing is in place.

During the 2020-2021 period, the Bank also **supported its customer businesses through this difficult health, economic and social context** by helping them, where necessary, to survive the crisis with government tools (secured loans and legal moratoria), whether by reorganising their existing loans or streamlining their debt structure, to facilitate their recovery.

With regard to the distressed credit portfolio, the Distressed Credit Division assessed investment opportunities particularly prudently and the pricing was approved through the application of stress scenarios, in order to tackle this kind of situation.

As regards servicing, illimity continued to have direct contact with the debtor and, in cases in which the debtor showed a deterioration in their capacity to repay the debt due to the economic difficulties caused by COVID-19, the best solutions were shared in order to address this need. Some companies have already received support (working for example in the catering, hotel or beauty industries) reformulating previously agreed debt recovery plans.

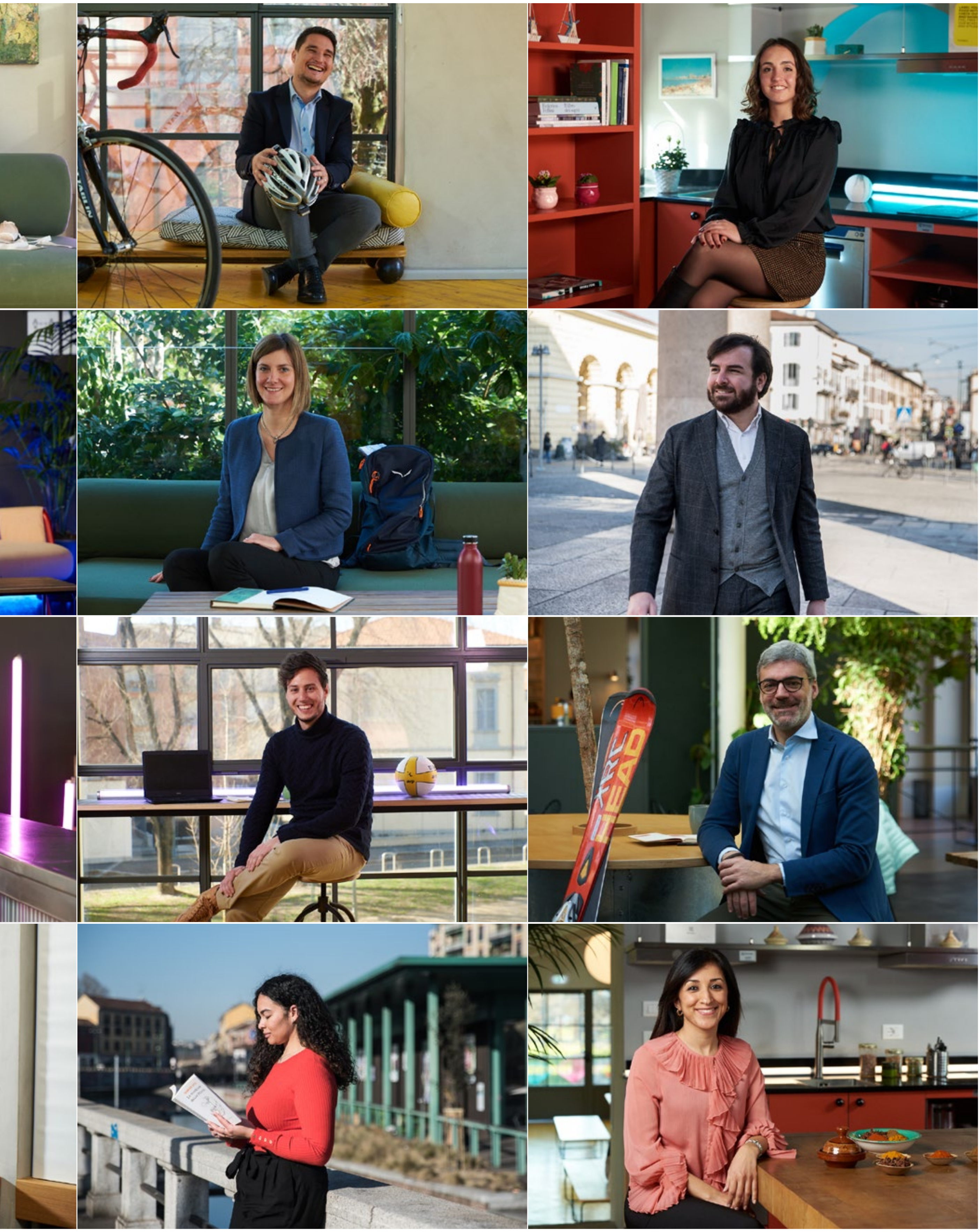
The Bank also intervened to help procure the necessary medical equipment to tackle the emergency, providing a total of **EUR 270 thousand** to various hospitals for the purchase of medical and health equipment. These purchases were possible also thanks to generous contributions from employees, who raised **over EUR 18 thousand** through a dedicated current account.

This year, once again, the design of the Report focuses on the work and values of illimity through the testimonies and faces of the illimiters, our greatest resource.

Thanks to the “Life at illimity” project, we have been able to tell the story of our activities, skills and passions in an outdoor shoot aimed at transmitting the concepts of **recovery** and **restart.**

Although we are still distancing at this key moment, we are beginning to live, go out, travel and collaborate with our colleagues again.

Despite the distance, we are back, more united than ever.

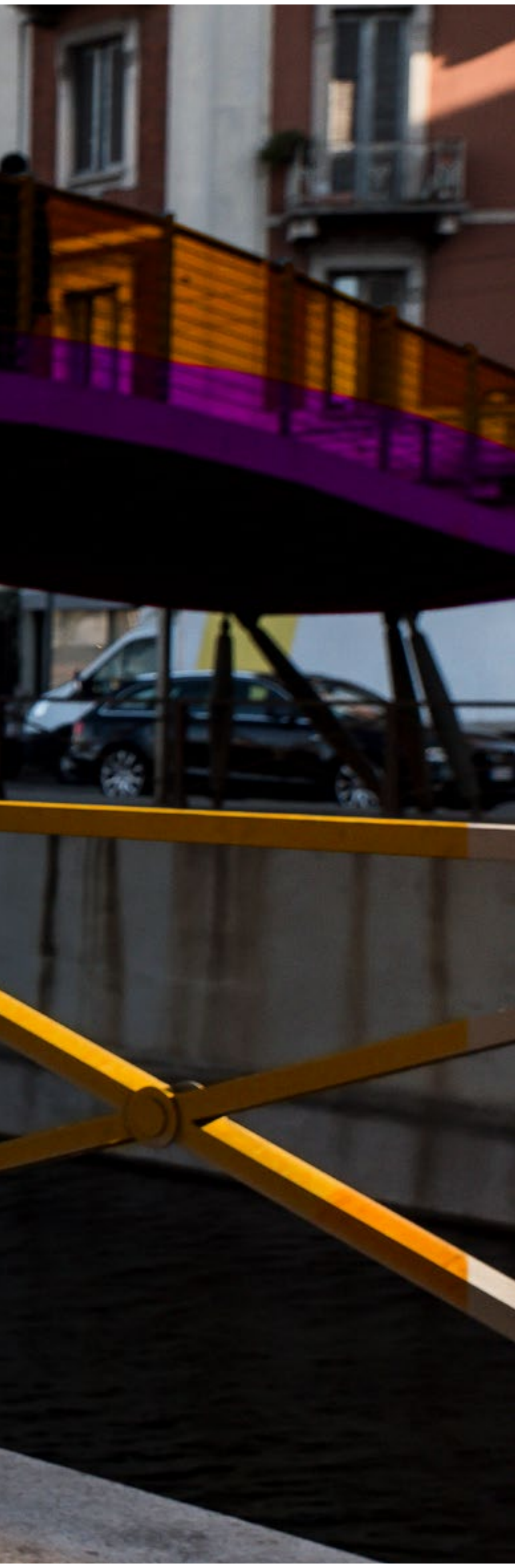


Frame the image using the Aria App to watch the
“Human Resources & Organization” video

Report and Consolidated Financial Statements of the illimity Group

illimity

Frame the image using the Aria App to watch the
“Marketing, Commercial Communication & Design” video



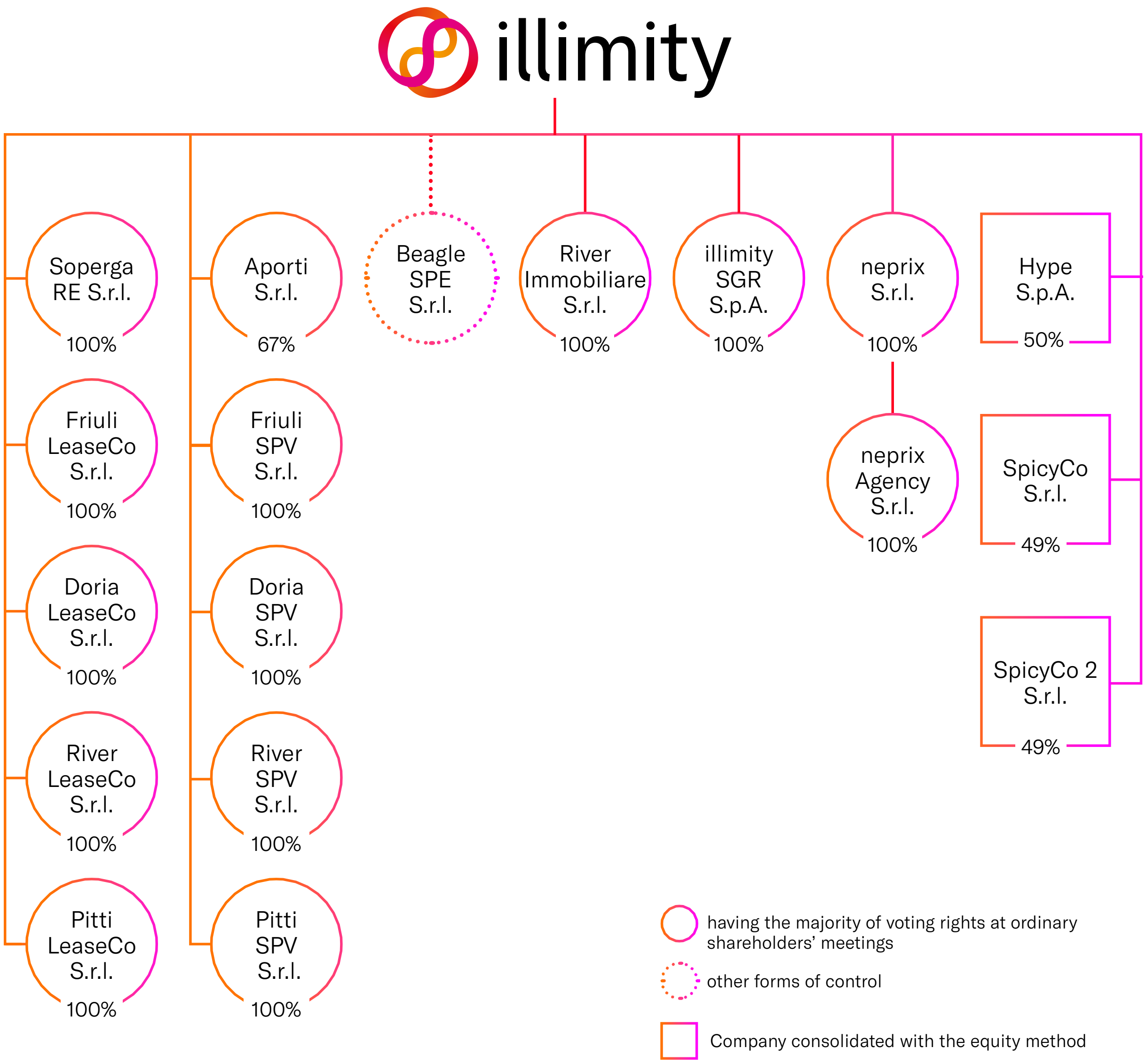
Report on Consolidated Operations

as of 31 December 2021

illimity

The illimity Group

This Report on Consolidated Operations illustrates the performance and the related data and results for the 2021 financial year of illimity Bank S.p.A. ("illimity" or the "Bank") and of the entities included in the scope of consolidation (together with the Bank, the "illimity Group" or the "Group"). illimity performs management and coordination functions for the Group and has its registered office in Milan, at via Soperga, 9[1].



The illimity Group is engaged in the provision and management of credit through the Growth Credit, Distressed Credit and Direct Banking Divisions. Specifically, illimity provides credit to high-potential SMEs, purchases distressed corporate credit and manages it through its own platform – neprix – and offers direct digital banking services through illimitybank.com. The Group also includes illimity SGR, which sets up and manages Alternative Investment Funds.
illimity Bank's business also make use of the operations of other Group companies. The scope of the Group includes the LeaseCos, which support the bank in the management of lease operations, the ReoCos, which are active in the management of the properties linked to the acquired portfolios, and the Special Purpose Vehicles (SPVs) established to undertake securitisation operations.

1 The Bank also operates a branch office located in Modena at Via Emilia Est 107.

Alternative performance measures as of 31 December 2021

The Group's main consolidated measures are set out below.

The figures presented, although not covered by IFRS/IAS, are provided in compliance with indications in CONSOB Communication No. 6064293 of 28 July 2006 and the ESMA Recommendation on alternative performance measures.

(amounts in thousands of euros)

PERFORMANCE MEASURES	31 December 2021	31 December 2020	Chg.	Chg. (%)
Total net operating income	271,184	174,095	97,089	56%
Operating expenses	(160,609)	(129,253)	(31,356)	24%
Operating profit (loss)	110,575	44,842	65,733	>100%
Total net losses/recoveries	(16,662)	(3,354)	(13,308)	>100%
Profit (loss) from operations before taxes	80,848	38,692	42,156	>100%
Profit (loss) for the year	65,591	31,086	34,505	>100%

(amounts in thousands of euros)

BALANCE SHEET MEASURES	31 December 2021	31 December 2020	Chg.	Chg. (%)
Net non-performing loans - organic[2]	**21,025**	**19,055**	**1,970**	**10%**
of which: Bad loans	*4,987*	*6,108*	*(1,121)*	*(19%)*
of which: Unlikely-to-pay	*15,902*	*12,521*	*3,381*	*27%*
of which: Past-due positions	*136*	*426*	*(290)*	*(7%)*
Net non-performing loans - inorganic (POCI)[3]	**1,048,358**	**1,054,778**	**(6,420)**	**(1%)**
of which: Bad loans	*699,429*	*744,260*	*(44,831)*	*(6%)*
of which: Unlikely-to-pay	*348,929*	*310,439*	*38,490*	*12%*
of which: Past-due positions	*-*	*79*	*(79)*	*(100%)*
Net non-performing securities - inorganic (POCI)	**10,037**	**-**	**10,037**	**n.a**
of which: Unlikely-to-pay	*10,037*	*-*	*10,037*	*n.a*
Net performing HTC securities	**242,019**	**249,913**	**(7,894)**	**(3%)**
of which: Growth Credit securities	*24,229*	*4,154*	*20,075*	*>100%*
of which: Distressed Credit securities	*217,790*	*245,759*	*(27,969)*	*(10%)*
Loans to financial entities	**199,857**	**109,993**	**89,864**	**82%**
Net performing loans to customers	**1,440,501**	**881,162**	**559,339**	**63%**
Financial instruments (HTCS + FV)	**376,187**	**109,877**	**266,310**	**>100%**
Direct funding from customers	**3,317,934**	**2,853,141**	**464,793**	**16%**
Total Assets	**4,660,590**	**4,126,289**	**534,301**	**13%**
Shareholders' equity	**772,820**	**583,122**	**189,698**	**33%**

2 The definition of organic receivables and securities (performing and non-performing) includes loans to customers in the crossover and acquisition finance segments, factoring, disbursement of senior financing, high-yield securities, turnaround and the stock of receivables from customers of the former Banca Interprovinciale.

3 POCI = Purchased or Originated Credit Impaired

RISK RATIOS	31 December 2021	31 December 2020
Gross Organic NPE Ratio[4]	2.3%	3.2%
Net Organic NPE Ratio[5]	1.2%	1.7%
Coverage ratio for organic non-performing loans[6]	46.8%	49.1%
Coverage ratio for organic bad-debt positions[7]	73.8%	69.4%
Coverage ratio for performing loans[8]	0.6%	1.2%
Cost of organic credit risk (BPS)[9]	4	52

STRUCTURAL RATIOS	31 December 2021	31 December 2020
Shareholders' equity/Total Liability	16.6%	14.1%
Interbank Funding/Total Funding	11.0%	15.8%
Liquidity coverage ratio	~180%	>700%
Net Stable Funding Ratio	>100%	>100%
Net loans with customers/Total assets[10]	59.3%	53.4%
Direct customer funding/Total Liability	71.2%	69.1%

CAPITAL RATIOS	31 December 2021	31 December 2020
Tier I capital ratio (Tier I capital/Total weighted assets)	18.83%	17.86%
Total capital ratio [(Tier I + Tier II)/Total weighted assets]	24.71%	17.86%
Own Funds	842,899	509,127
of which: Tier I capital	642,467	509,127
Risk-weighted assets	3,411,468	2,850,572

4 Ratio of non-performing organic gross loans to total organic gross loans, plus gross performing client loans (net of exposure to financial entities), senior financing instruments and high-yield instruments.

5 Ratio of non-performing organic net loans to total organic net loans plus net performing client loans (net of exposure to financial entities), senior financing instruments and high-yield instruments.

6 Ratio between losses on organic non-performing loans and gross exposure of non-performing organic loans.

7 Ratio between losses on organic bad loans and gross exposure of organic bad loans.

8 Ratio between losses on performing client loans and gross exposure of performing client loans.

9 Ratio between the sum of annualised losses on performing client loans (net of investments with financial entities), organic non-performing loans and HTC securities and net exposures of same at the end of the period.

10 Ratio of customer loans and Distressed Credit and Growth Credit securities at amortised cost to total assets.

Composition and organisational structure

illimity operates in the banking sector and is authorised to provide banking, investment and trading services. illimity has three Business Divisions:

- Growth Credit
- Distressed Credit
- Direct Banking.

There is also the Asset Management Company (“SGR”), which manages the assets of closed-end alternative investment funds, established with own funds and the funds of third-party institutional investors.

The Bank’s organisational structure also comprises other units supporting the Business and monitoring risks.

Below is a description of the Bank's organisational structure as of 31 December 2021.

With effect from 1 January 2022, some changes were made to the Bank's organisational structure; these changes, in short, concerned:

- the creation of the Investment Banking Division, reporting to the Chief Executive Officer;
- changes relating to the internal structures of the Distressed Credit and Direct Banking Divisions.

Growth Credit Division

The objective of the Growth Credit Division is to serve businesses, usually medium-sized, with a credit standing that is not necessarily high, but that have a good industrial potential and which, due to the complex nature of operations to finance, or their financial difficulties, require a specialist approach to supporting business development programmes or plans to rebalance and relaunch industrial activities.

Therefore the Division mainly focuses on structuring detailed funding operations that meet the complex needs of its clients, directly supporting companies and, if considered appropriate, acquiring credit positions with third-party banks, mainly at a discount, for *turnaround* operations.

The Growth Credit Division is active in the following segments:

- Factoring: financing of the supply chain of the operators of Italian chains and industrial districts through the activity of recourse and non-recourse purchasing of customers' trade receivables, through a dedicated digital channel;
- Crossover & Acquisition Finance: financing to high-potential businesses with a suboptimal financial structure and/or with a low rating or no rating; the crossover segment also includes financing solutions dedicated to acquisition activities (so-called acquisition finance);
- Turnaround: the purchase of loans classified as unlikely-to-pay (UTP) and disbursement of new performing loans, with the aim of recovering and restoring them to performing status by identifying optimal financial solutions, which may include new loans or the purchase of existing loans.

The Growth Credit Division is organised by specialised business areas, on the basis of the segments and products defined above, each of which is responsible for managing activities for its own customers. Each Area is tasked with analysing the customers and sector within its portfolio to design the optimal financing solution, assess the risk level of each position, define product pricing or transaction specifications, interface with customers to monitor the risk profiles of counterparties and intervene promptly, where necessary, in the event of problems, in coordination with the Bank unit responsible for monitoring loans.

These areas, specialised by Business segment, are flanked by dedicated units, supporting business activities: the Legal SME area supports the business areas regarding legal and contractual aspects; the Business Operations & Credit Support area manages the annual reporting of the Division, monitors relations with tutors, manages the Modena branch and oversees the portfolio of the former Banca Interprovinciale regarding progressive divestment.

Distressed Credit Division

The Distressed Credit Division is the business area operating in the following segments:

- purchase of secured and unsecured corporate distressed loans in competitive processes or off-market purchases, on both the primary and secondary markets;
- financing services, mainly in the form of senior financing, to investors in distressed loans.
- management (servicing) of corporate NPL portfolios and underlying assets, through a specialised servicing platform developed internally or under commercial agreements with specialised operators.

The Distressed Credit Division has the following structure:

1) Portfolios, Senior Financing, Special Situations – Real Estate and Special Situations – Energy Areas, responsible for the origination of the investment opportunities in NPL portfolios and Senior Financing, as well as the coordination of the entire negotiation and bidding process, until the final closing phase;
2) The Servicing Area, responsible for performing due diligence procedures and for adapting, implementing and monitoring recovery strategies through the coordination of internal and external servicers. The Servicing Unit neprix, tasked with debt recovery, reports to the Area;
3) The Portfolio Optimisation Area, which is responsible for optimising portfolio and single name management by identifying market opportunities for their sale, in accordance with the thresholds set by the Bank, while coordinating the entire process, from the initial analysis phase to post-sales;
4) The Pricing Area, responsible, under the supervision of the Risk Management Function, for developing, implementing and maintaining the pricing models of portfolios/single name (special situations)/ senior financing and the capital structure of all investments, as well as the activities of Due Diligence Coordination;
5) The Business Operations Area, tasked with coordinating and monitoring the Division's activities, overseeing relations with other Bank units and decision-making bodies, providing legal advice related to individual investment opportunities and initiatives, and monitoring the Division's performance;
6) The Data Architecture & Analytics Area, responsible for governing and managing the process of acquiring, transforming and using the data originated and used by the Distressed Credit Division in business processes; it is also responsible for managing the onboarding process.

In more detail, the "Investments" perimeter, which includes the organisational units Portfolios, Special Situations – Real Estate and Special Situations – Energy, is responsible for overseeing the market for opportunities to acquire distressed credit assets (financial receivables classified as bad loans or UTPs) from corporate counterparties, partly backed by first-degree mortgage guarantees or leased assets ("secured") and partly devoid of underlying real estate or secured by second-degree mortgages ("unsecured"). Credits are acquired both in the so-called "primary" market, i.e. directly from the credit intermediaries that originally granted the credit to the counterparties, and in the "secondary" market, i.e. from other investors who in turn purchased the credits from the aforementioned credit intermediaries.

The Investments perimeter is divided into three organisational units, described below:

a) Portfolios, aimed at investments in distressed credit portfolios, mainly or totally represented by the corporate type (any retail receivables purchased are destined for sale on the secondary market);
b) Special Situations – Real Estate, aimed at investment opportunities in so-called "single name" receivables, meaning exposures to a single borrower or, at most, a cluster of corporate counterparties, both secured and unsecured;
c) Special Situations – Energy, aimed at investment opportunities in single name loans involving corporate counterparties operating in the renewable energy sector.

On the other hand, the Senior Financing Area is responsible for overseeing, both at the commercial and product level, the market of asset-backed financing opportunities to third-party investors who purchase or have purchased non-performing loans (bad loans/UTPs) and for monitoring the related operations in their structuring and throughout all phases until finalisation of the contractual documentation and disbursement.

At the organisational level, the aforementioned areas report to the Head of the Distressed Credit Division and interact with the other areas of the Division (Pricing, Business Operations, Servicing, Data Architecture & Analytics) and the Bank's structures (General Counsel, Administration & Accounting, Finance, Risk, Budget & Control, Compliance & AML), acting as an interface between internal units and investors.

In line with illimity's business model of internalising the entire value chain, the Bank is supported by neprix for the management of distressed loans, and forms commercial agreements with servicers selected from time to time on the basis of the characteristics of the assets acquired.

neprix, the company where servicing activities for NPLs acquired by illimity, are centralised, relies on the services of professionals with specific experience and know how in due diligence and in managing non-performing loans. Following the merger with IT Auction (the company acquired by the Group in 2020 and merged into neprix with legal effect from 1 February 2021), the neprix Sales Area was created, for managing and selling property and capital goods originating from insolvency proceedings and foreclosure, through its own network of platforms/online auctions and a network of professionals operating nationwide.

To carry out its operations concerning distressed credit, illimity works with the vehicles Aporti, Friuli SPV, Doria SPV, River SPV, Pitti SPV and Beagle SPE and with the companies Soperga RE, Friuli LeaseCo, Doria LeaseCo, River LeaseCo, Pitti LeaseCo, River Immobiliare, SpicyCo and SpicyCo 2.

Direct Banking Division

Through its Direct Banking Division, illimity offers digital banking products and services to Retail and Corporate customers. The Division aims to develop a range of products and services that can fulfil the needs of the market and to manage the online and app channels. It is responsible for designing the value proposition and its relative commercial and pricing characteristics, and for formulating the characteristics of the front-end and the overall user experience for the customer. In addition, it formulates the Bank's communications plan and brand development strategy to ensure positioning, customer acquisition results and optimal customer management. This is achieved through a platform supported by the most innovative technologies available. The optimisation of the service is also supported by the Contact Center, Back Office and design of processes, as well as by dedicated data management oversight.

The Direct Banking Value Proposition currently extends to the following products and services categories:

1) Deposits accounts with competitive rates and a simple, customisable product structure;
2) Spending projects, to simply and automatically save to achieve goals;
3) Current accounts, offered through an innovative, digital User Experience, with associated credit, debit and prepaid cards managed in collaboration with nexi;
4) Account Aggregator and Payment Initiation Service, i.e. features that enable the aggregation in each customer's home banking of accounts held with other banks, providing an overview of the customer's financial situation within a single screen, and bank credit transfers from the accounts of participating banks directly from the customer's illimity personal area;
5) A complete range of other products, including personal loans, American Express credit cards and insurance products, made available to customers through partnerships with selected market operators.

The Division's product range is completed with Digital Factoring, aimed at small and medium enterprises with a turnover in the range of EUR 2 million and EUR 10 million, with the aim of improving own financial management, and with B-ILTY, the first complete digital bank for small businesses, which aims to disburse EUR 3 billion of loans by 2025.

Asset Management Company

illimity SG S.p.A. is the Asset Management Company of the illimity Bank Group which manages the assets of closed-end alternative investment funds, established with own funds and the funds of third-party institutional investors.

The SGR was set up with the aim of operating and developing activities in the strategic areas indicated by its parent company illimity Bank S.p.A. and the Banking Group of which the latter is the parent, and is a professional operator for establishing, administering, managing, organising, promoting and selling alternative investment funds.

To pursue its business objectives in an effective and consistent manner, the SGR has adopted a "traditional" governance model, which has a structure comprising a Board of Directors and a Board of Statutory Auditors. The structure, described below, has been set up for the best management possible of the operational model defined for the Company in line with regulatory principles and guidelines, and also with guidance from the Parent Company. In accordance with the characteristics of its own operations, with future planned developments and with the guidelines of the long-term business plan of the SGR and the Group it belongs to, the SGR has the following organisation:

- two "Business Areas" comprising:
  - the UTP & Turnaround Funds Area, with the activities previously managed by the former "Investments Area" of the original organisation. The UTP & Turnaround Funds Area, focussed on setting up and managing AIFs with investment strategies and policies centred on the turnaround market and on businesses in financial difficulty with prospects for relaunch;
  - the Private Capital Funds Area, newly established, with the aim of setting up and managing AIFs with investment strategies and policies targeting asset classes with underlying financial instruments issued by performing companies.
- two "Support Areas" comprising:
  - the Sales & Business Development Area, set up with the aim of steering, coordinating and monitoring the commercial promotion and distribution of all products and services provided by the SGR for its own customers, and organising and promoting new business activities within the SGR;
  - the Operations & Administration Area, which groups the activities of the pre-existing Administration, Finance and Control Area, with a focus on operating areas and providing support for the Business Areas.

Lastly, the SGR's organisation comprises Compliance and AML, Risk Management and Internal Audit functions, outsourced to the central units of the parent company illimity Bank, in order to have a structured system to monitor internal controls.

Other functions - Corporate Center

The organisation also monitors risk management and support activities through functions directly reporting to the Chief Executive Officer:

- The *Chief Financial Officer & Central Functions*, responsible for coordinating the overall planning and control, finance and administration process, to optimise operating and procurement costs, and human resources management, as well as manage the organisational activities of supervision and transversal coordination for the Bank;
- the *Chief Risk Officer*, responsible for guaranteeing the strategic oversight and definition of risk management policies;
- the *Chief Lending Officer*, that monitors credit analysis and approval activities;
- the *Chief Information Officer*, responsible for IT infrastructure management;
- the *Compliance & AML* Department, responsible for compliance risk management and oversight of money laundering and terrorist financing risk;
- the *Communication & Stakeholder Engagement Department*, responsible for promoting and supporting the development of a single, shared identity of the Bank among various stakeholders.

Bank branches and offices

The Bank's branches and offices are as follows:

- Milan – Via Soperga, 9 (registered office);
- Modena – Via Emilia Est, 107 (branch).

Human resources

As of 31 December 2021, the Bank's registered employees numbered 725 (587 as of 31 December 2020). A breakdown of the workforce is given below, divided by job level:

Category	31 December 2021			31 December 2020			Changes	
	Number of employees	in %	Average age	Number of employees	in %	Average age	Number of employees	in %
Executive	67	9%	47	55	9%	46	12	22%
Middle managers	303	42%	38	242	42%	37	61	25%
White collar	355	49%	33	290	49%	34	65	22%
Employees	**725**	**100%**		**587**	**100%**		**138**	**24%**

Macroeconomic scenario

As indicated by the European Central Bank ("ECB") in its Macroeconomic forecasts for the euro area, published in December 2021, economic growth should remain strong in the coming three years, despite certain unfavourable circumstances in the short term. The sharp increase in COVID-19 infection rates in various euro area countries has resulted in new restrictions and greater uncertainty about the duration of the pandemic, which has been heightened by the emergence of the Omicron variant. Furthermore, supply chain bottlenecks have intensified and are currently expected to persist, before easing only gradually starting in the second quarter of 2022 and ceasing completely in 2023. According to current expectations, real GDP should exceed pre-crisis levels in the first quarter of 2022, one quarter behind compared with the forecasts published in September 2021. Nevertheless, in a context in which global supply chain issues are easing, pandemic-related restrictions and associated uncertainties are reducing and high levels of inflation are falling, growth should start to pick up in mid-2022, despite the less favourable feel of budgetary policies and market expectations of a rise in interest rates. Private consumption will remain the key determining factor in economic growth thanks to the recovery in real disposable income, the slight reduction in accumulated savings and a robust job market, with an unemployment rate that, at the end of the forecast time horizon, should be the lowest ever recorded since the creation of the euro area in 1999. Short-term growth is expected to be revised downwards compared with the forecasts made last September.

Again according to the ECB, inflation is likely to be higher for a while longer, but should dip below 2% at the end of 2022 and further fall to 1.8% in 2023 and 2024. Pressures on prices have increased considerably in recent months, with inflation believed to have reached its highest point in the fourth quarter of 2021. These pressures, though considerably more intense than forecast, are believed to be largely temporary, reflecting the increase in energy prices and the imbalance between demand and supply at the international and national level in the context of economies starting to reopen. The rate of change in energy prices is expected to remain high on average in 2022, before seeing a clear moderation during the course of the year in a context in which downward base effects are strengthened by the forecast fall in oil, gas and electricity prices. In 2023 and 2024 the energy sector's contribution to inflation is expected to be minimal. Inflation measured using the Harmonised Index of Consumer Prices (HICP), net of energy and food, should fall during 2022 with the gradual easing of supply chain problems. It is then expected to increase slightly - while remaining below 2% - with the continued economic recovery, the absorption of excess production capacity and the rising cost of labour, as well as being boosted by higher inflation expectations. A comparison with the September forecasts shows that projections for comprehensive inflation underwent a sharp upwards correction, particularly in 2022. This reflects recent data that did not correspond to expectations, greater direct and indirect upward effects resulting from the rise in energy prices, a fall in the euro exchange rate, more persistent upwards pressure caused by the supply chain squeeze, and strong wage growth.

In Italy growth remained high in the third quarter of 2021, boosted by the increased in household consumption. This subsequently slowed: based on the models presented by the Bank of Italy, in the fourth quarter GDP appears to have increased by around half a percentage point. The increase in added value has weakened in both the industrial and tertiary sectors. The uptick in infections and consequent drop in confidence hit services particularly hard. According to the intentions recorded in surveys conducted in November and December, businesses expect to see a slowdown in investments this year. Italian exports continued to grow, bolstered by the recovery in international tourism. The country's current account surplus remained at high levels, despite the worsening of its energy balance, and its net foreign creditor position was enhanced.

Since the summer, the recovery in the demand for labour has resulted in an increase in hours worked, a reduction in the use of wage supplement tools, and a recovery in permanent hires. The lifting of the ban on layoffs in all sectors has not had significant repercussions. The stagnation in the unemployment rate reflects the gradual recovery in the job supply, which is approaching pre-pandemic levels. The trend in contract renewals does not point to significant accelerations in wages in 2022. Inflation reached high levels (4.2% in December), boosted by energy prices. Net of volatile components, the annual change in prices is moderate. Increases in production costs have so far had only a modest impact on retail prices. Financial markets have suffered from fears related to the global increase in infections, uncertainty about the seriousness of the Omicron variant and its impact on the economic recovery, and expectations about the direction of monetary policy. Market volatility and investors' risk aversion have increased, resulting in a widening of Italy's sovereign spread compared with German bonds.

In autumn, growth in loans to non-financial companies was weak, reflecting scarce demand for new loans due to the vast cash and cash equivalents set aside in the last two years. The expansion in household credit continued at a sustained pace. Loan conditions were still relaxed. Rates of decline in bank assets, though up slightly, remained at very contained levels, and the share of performing loans for which banks recorded a significant increase in credit risk fell; in the first nine months of last year, the profitability of intermediaries improved, particularly as a result of the reduction in loan writedowns.

The preliminary information available for 2021, provided by Bank of Italy, appears to indicate a significant improvement in public administrations' net debt compared with the previous year. The debt-to-GDP ratio also appears to have fallen, to around 150% (compared with approximately 155% in 2020 and around 135% in 2019). For the 2022-24 period, the budget approved by Parliament last December will increase the deficit by an average of 1.3% of GDP per year compared with the current legislative scenario. The January Economic Bulletin presented macroeconomic forecasts for Italy for the 2022-24 period, updating those issued in December. The scenario is based on the assumption that the recent rise in infections will have a negative impact on mobility and consumer behaviour in the short term, but will not require a severe tightening of restrictions. The spread of the epidemic is expected to ease off from spring onwards.

GDP, which was 1.3 percentage points below pre-pandemic levels at the end of last summer, is expected to pick up around mid-2022. The expansion of activity should then continue at a strong pace, albeit less intensely than following the reopening of mid-2021. On average, GDP is forecast to grow by 3.8% in 2022, 2.5% in 2023 and 1.7% in 2024. The employment rate looks set to rise more gradually, returning to pre-crisis levels by the end of 2022. Consumer prices should rise by 3.5% on average this year, 1.6% in 2023 and 1.7% in 2024. The core component is forecast to stand at 1.0% this year, before gradually rising to 1.6% in 2024, boosted by the reduction in the margins of unused capacity and the wage rate. Growth prospects are subject to multiple risks, oriented predominantly downwards. In the short term, the uncertainty surrounding the forecast scenario is associated with health conditions and supply chain tensions, which could turn out to be more persistent than expected and have a deeper impact on the real economy. In the medium term, forecasts remain conditional on full implementation of the spending programmes included in the budget, as well as the complete and prompt execution of the interventions planned under the PNRR.

Significant events in 2021

The economic scenario created by the COVID-19 epidemic and the business continuity of the illimity Group

As the evolution of the COVID-19 epidemic continues to have an impact both in economic and operational terms, the illimity Group has maintained the primary measures for mitigating the related risks, including the use of teleworking for employees and the factoring in of the framework of reference (macro forecasts, fiscal and monetary policy choices, regulatory developments, etc.), the management of credit strategies and policies and credit risk, the portfolio of financial assets, customer relations and the governance of its own business models.

The effectiveness of illimity's commercial and technological proposal has been a strength in understanding and meeting the demand for remote financial services even in this context, as seen over the course of the year.

The Group's highly conservative approach to pricing investments and providing funding, continuous monitoring and its limited exposure to economic sectors or asset classes most affected by the pandemic, are all factors that demonstrate the resilience of the business model in a reference scenario still characterised by elements of uncertainty.

The managerial committees and governing boards of the Group carry out assessments at regular intervals on the actual and potential economic, financial and operational impacts of the pandemic on the strategic and operational choices of the various business lines.

Finally, the macro scenarios that also take into account the evolution of the epidemiological context and the responses of the Authorities, markets, companies and consumers were used to guide the prospective capital adequacy (ICAAP) and liquidity (ILAAP) assessments - indicators that will be subject to the approval of the Board of Directors in April 2022 - and the preparation of the Recovery Plan, as required by the prudential supervisory regulations, as well as for the update of the Risk Appetite Framework and the sustainability assessment of the new 2021-2025 Strategic Plan and the annual budget.

Corporate transactions

On 5 January 2021, illimity announced the new composition of its share capital, as follows: (i) the reserved capital increase for Fabrick S.p.A. totalling EUR 44,670,596.42 (of which EUR 3,491,882.89 as capital) freed up via the transfer to illimity of shares representing 37.66% of Hype S.p.A. (which took place on 29 December 2020, effective from 1 January 2021), the registration in the Companies' Register of the statement of the directors pursuant to Article 2343-quater of the Italian civil code (made on 5 January 2021) and consequent issue of 5,358,114 new ordinary shares for this increase, as well as (ii) the cash increase in capital for Banca Sella Holding S.p.A. for a total of EUR 16,544,676.46 (of which EUR 1,293,290.83 as capital), subscribed on 29 December 2020 with effect from 1 January 2021 (with regulation dated 5 January 2021), and consequent issue of 1,984,488 new ordinary shares, for this increase. Hype is a company providing "light banking" services, the objective of which is to establish itself as a leading operator on the Italian market in the segment of innovative financial services provided by non-banking operators.

On 13 January 2021, the deed was signed by which Core, IT Auction and Mado were merged into neprix. The merger became effective on 1 February 2021. The accounting and fiscal effects of the merger started from 1 January 2021. Following the merger, neprix holds 100% of the shares in the company neprix Agency, previously held by IT Auction. This merger has no effects on the consolidated financial statements, as these companies were already controlled by the Group and included in the consolidated financial statements on a line-by-line basis.

On 1 April 2021, illimity SGR announced it had completed the first closing of the illimity Credit & Corporate Turnaround fund (the "Fund" or "iCCT"), dedicated to investments in unlikely-to-pay positions of SMEs, with prospects for them to recover and relaunch. The initial portfolio included receivables for a total gross amount of over EUR 200 million with 33 companies operating in highly diversified sectors. These receivables were sold by 7 banks and banking groups, becoming holders of units in the Fund. Initial funding - subscribed by professional investors, including illimity Bank - amounted to EUR 25 million, to use in managing purchased receivables and to support the turnaround of companies in which the Fund assets have invested. The Fund supports the financial restructuring of companies with the aim not only of overcoming the crisis, but also of valuing their potential and pursuing a concrete prospect of being relaunched. In December 2021, the Fund's inflows increased by around EUR 80 million of new UTP receivables and new subscriptions, which totalled EUR 30 million. The receivables from this second closing were contributed from both institutions already subscribed to the Fund, which expanded their subscription, and two new banking groups. The portfolio currently includes receivables from some forty companies operating in a wide range of sectors.

On 15 June 2021, illimity announced the establishment of the illimity foundation, launched with the aim of creating new spaces for inclusion, cohesion and shared well-being, including through the regeneration of real estate assets to be allocated to projects of social utility and with a strong focus on sustainability issues (ESG).

The foundation is a separate and independent body from the illimity Group, a bank born with a clear mission: to recognise and develop the potential of people, families and businesses. For illimity generating value does not simply mean making profits, but being useful. This mission, deeply rooted in illimity, is confirmed by the establishment of the illimity foundation, which will recognise the potential of real estate assets to be transformed into new spaces that can recreate value for the community.

On 17 June 2021, illimity announced that it had signed a binding letter of intent to form a joint venture (50/50) ("JV") with some funds managed by Apollo Global Management Inc (NYSE: APO) ("Apollo") aimed at investing up to EUR 500 million in non-performing single name loans related to real estate in Italy.

The JV has an initial investment period of two years with the possibility of extension, and is pursuing investments in bad and unlikely-to-pay loans mainly guaranteed by the underlying property and with a unit price of up to EUR 50 million. The JV, which sees illimity and Apollo as 50/50 investors with equal governance rights, also provides for the contribution by illimity of approximately EUR 231 million of gross book value of loans previously purchased by illimity and representing part of the Bank's current investment portfolio in the Bank's special situation real estate world. The JV sees the direct involvement of illimity's Special Situations Real Estate teams and Apollo's European Principal Finance teams. The JV selected neprix as exclusive special servicer for the management of the investments.

On 29 July 2021, the extraordinary shareholders' meeting of illimity approved the increase in share capital reserved for the ION Group, part of the broader strategic alliance between the two Groups, which took place in full during the third quarter of 2021. As part of the new 2021-25 Strategic Plan, a broad collaboration agreement was signed by illimity and the ION Group which will be implemented through:

- a licence agreement for information systems developed by illimity, which will generate EUR 90 million of cumulative revenues for the Bank in the years 2021-25;
- long-term collaboration agreements that can generate important investment and commercial synergies between the two groups in crucial sectors and services including among others data analytics, credit scoring and market intelligence.

On 1 October, illimity announced the new composition of its share capital, as follows: (i) the full increase in share capital with the exclusion of the option right pursuant to Article 2441, paragraph 4, second sentence of the Italian Civil Code, for a total amount of EUR 57,535,660.00 (including the share premium) with an increase in share capital for a total of EUR 3,749,598.96 and issuance of all 5,753,566 ordinary shares, on 30 September 2021, following the increase subscribed by FermION Investment Group Limited, a subsidiary of ION Investment Corporation S.à r.l.

Main business transactions

Distressed Credit Division

On 5 January 2021, illimity finalised a transaction for the sale to Phinance Partners S.p.A. and SOREC S.r.l. of non-performing loans with a gross book value of approximately EUR 129 million, attributable to approximately 4,500 positions.

On 08 January 2021 illimity announced that it had finalised two new transactions in the Senior Financing segment for a total amount of approximately EUR 33 million. The first loan, for EUR 20 million, was disbursed to a Luxembourg vehicle, attributable to York Capital Management Europe (UK) Advisors, LLP. The second transaction was finalised with another Luxembourg vehicle attributable to York Capital, for around EUR 13 million.

On 8 July 2021, illimity, via Spicy Green, a securitisation vehicle created together with VEI Green II S.p.A. and dedicated to distressed loans in the energy sector, completed the acquisition from WRM Group of a portfolio of distressed loans resulting from lease contracts and medium-to-long-term loans.

On 22 July 2021, illimity announced two separate transactions relating to non-performing loans, confirming the dynamism of its strategy in this sector: the sale of granular non-performing loans with a nominal value of around EUR 122 million, and the acquisition of NPL with a gross book value of around EUR 179 million.

On 7 October 2021, illimity announced that it had finalised, during the third quarter of 2021, the acquisition of two different portfolios of non-performing, predominantly corporate, loans, pertaining to around a thousand debtors, for a total gross book value of approximately EUR 300 million, and five "Special Situations - Real Estate" positions classified as unlikely-to-pay and NPL, for around EUR 50 million.

On 30 November 2021, illimity signed a loan agreement with a well-known retail group specialising in the sale of furniture and accessories for the home, for a total of EUR 25 million. The *Distressed Credit* Division and the *Growth Credit* Division jointly contributed to said agreement.

Growth Credit Division

On 19 January 2021, illimity signed a six-year, EUR 6.5 million loan for a long-established group from the Marche area, which manufactures soles in all plastic materials for footwear of important luxury brands and in general Italian brands.

On 4 February 2021, illimity, in a pool with Solution Bank S.p.A., underwrote a six-year, EUR 12 million loan, secured by the SACE Italy Guarantee, for a long-established Italian textiles brand specialised in the manufacture of luxury linens for the home.

On 17 May 2021, one of the leading companies in the manufacture of boxes and cases made of cardboard and similar materials for the luxury, pharma, cosmetics and food & beverage sectors, as well as the production of table and free-standing display units and prints for advertising posters, signed debt restructuring agreements with its creditors pursuant to Article 182-bis. The restructuring saw Oxy Capital and illimity Bank, which had already intervened last October with the disbursement of emergency funding, acting as the linchpins of the Group's turnaround.

On 31 May 2021, illimity and an international leader in the green building sector established a partnership aimed at providing companies and professionals with a comprehensive assistance service to take advantage of the opportunities offered by the 110% Superbonus.

On 5 July 2021, illimity disbursed a EUR 6 million loan to a leading company specialising in the design and creation of high-tech facilities for the processing of raw materials intended for industrial use, predominantly in the ceramics segment.

On 14 July 2021, illimity and one of Italy's and Europe's leading companies in the production of active substances for the pharmaceutical industry established a factoring partnership to support the Vicenza-based company's supply chain. The agreement covers a EUR 21 million reverse factoring operation that aims to support, in terms of liquidity, the businesses that make up the supplier network, most of which are located in central-northern Italy.

On 12 October 2021, a leading Benefit Corporation that is one of the biggest names in Italian design received a loan worth a total of EUR 18 million from a pool of banks comprising illimity, in the role of lead bank, Intesa Sanpaolo S.p.A. and Banco BPM S.p.A.

On 28 October 2021 a well-known company operating in the fast-casual food sector, identifiable through its healthy food offering, obtained a loan worth around EUR 4 million from illimity.

As previously mentioned in the *Distressed Credit* section, on 30 November 2021, illimity signed a loan agreement with a well-known retail group specialising in the sale of furniture and accessories for the home, for a total of EUR 25 million. As mentioned above, this transaction was finalised jointly by the *Distressed Credit and Growth Credit* Divisions.

On 2 December 2021, illimity subscribed a non-convertible bond issue worth EUR 10 million (Secured Floating Rate Notes due 2024) issued by a leader in the production of coffee makers and small household electrical appliances. illimity then supported Sculptor Capital Management, which carried out a similar bond issue (Secured Floating Rate Notes due 2024) in 2019 for a nominal value of EUR 35.8 million. illimity also completed the acquisition of unsecured loans with a total gross book value of EUR 36 million, equal to 55% of its total unsecured loans.

On 14 December 2021, illimity signed a loan agreement with a leading company operating in the aeronautical sector, and particularly in the aerostructures segment, for a total of EUR 9.5 million.

On 28 December 2021 illimity SGR S.p.A., the Asset Management Company of the illimity Bank Group, which was created to set up and manage alternative investment funds, finalised new closings for its "illimity Credit & Corporate Turnaround Fund", dedicated to investments in receivables classified as unlikely-to-pay from SMEs with prospects for turnaround and relaunch.

Direct Banking Division

On 7 April 2021, viafintech and illimity Bank S.p.A. announced a partnership enabling customers of illimitybank.com – the direct digital bank of the illimity Group – to use the viacash function in their mobile banking app. The service, provided by viafintech, can be found in the bank's app under "Cash Payments" and allows customers to deposit cash in a smart, efficient way, while they shop.

On 4 November 2021, illimity joined "Accelerate with Amazon", a free training programme dedicated to Italian SMEs, promoted by Amazon and a small group of companies that provide support with digital transition, with the aim of giving entrepreneurs the necessary tools and expertise to launch or further develop their online activities at the national and international level.

On 12 November 2021, illimity joined Open-es, a digital platform launched at the start of the year by ENI, in collaboration with Boston Consulting Group (BCG) and Google Cloud, and open to all businesses with a view to supporting the sustainable development of their production chains. illimity intends to support and promote this solution to its own corporate customers and, prospectively, to those of B-ILTY, the digital bank dedicated to small and medium-sized enterprises that the illimity Group is due to launch in early 2022.

Other significant information

The other significant events described below took place during the course of the 2021 financial year.

On 29 January 2021, illimity obtained certification as a Great Place to Work® for the second year running. Great Place to Work® is an organisational consulting company in the HR field, leader in Italy in business climate studies and analysis.

On 10 March 2021, illimity was qualified by the Bank of Italy as a Nomad (Nominated Adviser), for companies that, through listing on the AIM Italy market, wish to raise capital to consolidate their competitive position and accelerate their growth.

On 28 April 2021, illimity presented its first voluntary Consolidated Non-Financial Statement pursuant to Legislative Decree 254/2016 and announced that it had achieved *carbon neutrality* at Group level in 2020.

On 25 May 2021, illimity and Flee, a brand owned by Aon, announced that they had entered into a partnership aimed at offering illimitybank.com customers and all bank employees a new idea of mobility thanks to exclusive rental services. Flee is the first mileage-based long-term car rental – pay per use that combines the savings, security and convenience of an all-digital service.

On 9 June 2021, the illimity Board of Directors approved the capital increase servicing the 2021 "Employee Stock Ownership Plan - ESOP" for a total of EUR 78,542.13, corresponding to 120,515 ordinary shares.

On 22 June 2021, the illimity Board of Directors approved the Group's business plan for the 2021-2025 period (the "Plan"). The Plan's objectives include:

- a net profit of approximately EUR 60-70 million already in 2021, increasing to approximately EUR 140 million in 2023 and to more than EUR 240 million in 2025, corresponding to an average annual growth of approximately 51% in the period 2020-25;
- Revenues growing by more than 30% on average each year in the 2020-25 period, reaching over EUR 450 million in 2023 and about EUR 660 million in 2025;
- Operating costs are expected to grow less than proportionally compared to revenues, and operating leverage is expected to progressively and significantly improve; the cost income ratio is expected to decrease from 76% in 2020 to less than 50% in 2023 and further decrease below 40% by 2025.
- Expected net customer loans of over EUR 5 billion in 2023 and over EUR 7 billion in 2025, with total expected assets of over EUR 7 billion in 2023 and about EUR 10 billion in 2025;
- RWA: consistent with the growth in business volumes, this is expected to increase to EUR 5.4 billion in 2023 and EUR 7 billion in 2025;
- CET1 Ratio: the Bank's commitment to maintaining a robust capitalisation is confirmed, with a CET1 Ratio target of more than 15% over the course of the entire Plan and a Total Capital Ratio of around 18%.

On 30 June 2021, illimity announced that it had successfully placed the first Tier 2 subordinated bond with a duration of 10 years and a 5-year call option, for a total amount of EUR 200 million. Due to high investor interest, the bond coupon was set at 4.375%, better than the initial indication of 4.50%-4.75%, and the issue was raised to EUR 200 million compared to an initial plan for EUR 150 million. Listed on Euronext Dublin (Regulated Market) on 7 July 2021, the bond is part of the EMTN programme and was given a B- rating by Fitch.

On 17 November 2021, illimity announced that the international agency Fitch Ratings had raised the Bank's Long-Term Issuer Default Rating (IDR) to "BB-" (from "B+") and its Viability Rating (VR) to "bb-" (from "b+"), confirming its Stable Outlook. At the same time, Fitch Ratings improved its rating of the debts issued by the Bank, assigning its preferred senior bond a rating of "BB-" (up two notches from B), and its class 2 subordinated debt a "B" rating (up from B-).

On 18 November 2021, illimity renewed its own "Euro Medium Term Note" (EMTN) issue programme for a maximum of EUR 3 billion, exclusively for qualified investors listed on the Dublin Stock Exchange (Ireland). In relation to this programme, illimity may issue debt instruments reserved for institutional customers.

On 24 November 2021 illimity, in collaboration with all actors within the sports sector, announced that it had contributed to the creation of "My Sport e Salute" and that it had been chosen as a technological partner in the development of the app of "Sport e Salute S.p.A.", the state-owned company for the promotion of basic sports and healthy lifestyles. illimity was chosen as a technological partner for this project following a selection process, thanks to its expertise in the development of digital platforms and in open innovation.

On 25 November 2021, illimity announced that it had collaborated with ENI and ELITE (companies of the Borsa Italiana/Euronext Group) to launch the "Sustainable Energy Bond Basket" programme, which aims to further strengthen the commitment to a fair and inclusive energy transition.

On 3 December 2021 illimity, continuing along its path of sustainable development, joined the United Nations Global Compact (UNGC), the world's biggest corporate sustainability initiative, with over 14,300 signatories from more than 160 countries.

On 9 December 2021 illimity, together with the EIB Group, made up of the European Investment Bank (EIB) and the European Investment Fund (EIF), signed two agreements aimed at providing new liquidity to Italian small and medium-sized enterprises, to help them deal with the challenge of post-COVID-19 recovery. The agreements signed aim to activate loans of over EUR 1.2 billion, thanks to two EIB Group guarantees worth a total of EUR 210 million.

On 15 December 2021, the Shareholders' Meeting approved by majority (98%) the adoption of a new Long-Term Incentive Plan (the "LTI Plan") for the 2021-2025 period, associated with the economic-financial and ESG targets set out in the new Strategic Plan.

Reclassified consolidated financial statements as of 31 December 2021

This Report on Consolidated Operations has been prepared on the basis of tables in the Bank of Italy Circular No. 262 of 22 December 2005 as amended.

In this document, the mandatory financial statements have been reclassified according to a managerial approach better suited to representing the Group's financial performance and financial position, in view of the typical characteristics of the financial statements of a banking group. The goal has been to simplify the use of these financial statements through the specific aggregations of line items and reclassifications detailed below. Therefore, this Report on Consolidated Operations includes a reconciliation between the financial statements presented and the mandatory financial reporting format laid down in Bank of Italy Circular No. 262, whose values converge in the items of the reclassified financial statements.

Reconciliation with the items of the mandatory financial statements aids in reclassification of the items in question, but above all facilitates the understanding of the criteria adopted in constructing the consolidated interim report. Additional details useful to this end are provided below:

- recoveries of taxes recognised among other operating expenses/income are deducted directly from the indirect taxes included among other administrative expenses and therefore their amount has been set off against the relevant item of the mandatory financial statements;
- the cost components related to Raisin's operations are deducted from net interest;
- personnel expenses also include documented, itemised reimbursements of room, board and travel expenses incurred by employees on business trips and the costs of mandatory examinations;
- membership fees and expenses are reclassified from other administrative expenses and are indicated separately under a dedicated item;
- interest expense resulting from the *lease liability* (IFRS 16) is recognised under other administrative expenses;
- net gains/losses on closed positions include profits and losses made from the sale of real estate investments;
- net credit exposure to customers on closed positions is shown separately from net losses/recoveries for credit risk;
- profit from discontinued operations after tax was broken down into interest income, fee and commission expenses and income tax, and reallocated to these financial statement items.

Some assets and liabilities in the statement of financial position were grouped together, concerning:

- the inclusion of assets held for sale and cash and cash equivalents in the residual item other assets;
- the aggregation in a single item of property and equipment and intangible assets;
- the aggregation of financial assets designated at fair value through other comprehensive income and financial assets held for trading;
- separate indication of HTCS loans;
- separate indication of Loans to financial entities and securities at amortised cost;
- separate indication of Loans mandatorily measured at fair value;
- the reclassification of *Leasing* agreement liabilities, recognised under payables to customers based on IFRS 16, to other liabilities for operational purposes;
- the inclusion of the Provision for Risks and Charges and employee severance pay in residual items of other liabilities;
- the aggregate indication and items comprising shareholders' equity.

Lastly, in accordance with the provisions of the 7th update of Circular 262/2005 issued by Bank of Italy on 29 October 2021, bank overdrafts and on-demand deposits have been reclassified from item 40 a) to item 10 of the asset side of the statement of financial position. Using the same logic, the comparative date has been restated as 31 December 2020.

RECLASSIFIED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(amounts in thousands of euros)

Components of official items of the Statement of Financial Position	Assets	31 December 2021	31 December 2020	Chg.	Chg. (%)
20 a) + 30	Property portfolio - Securities at FV	300,436	91,427	209,009	>100%
20 c)	Financial instruments mandatorily measured at fair value	75,751	18,450	57,301	>100%
40 a)	Due from banks	267,969	522,146	(254,177)	(49%)
40 b)	Loans to financial entities	199,857	109,993	89,864	82%
40 b)	Loans to customers HTC	2,509,884	1,954,995	554,889	28%
40 b)	Securities at amortised cost - Growth Credit	34,266	4,154	30,112	>100%
40 b)	Securities at amortised cost – Distressed Credit	217,790	245,759	(27,969)	(11%)
70	Investments in equity	79,953	-	79,953	N/A
90 + 100	Property and equipment and intangible assets	153,984	147,816	6,168	4%
	of which: Goodwill	36,257	36,224	33	0%
110	Tax assets	45,672	35,403	10,269	29%
10 + 120 + 130	Other assets	775,028	996,146	(221,118)	(22%)
	of which: Cash and cash equivalents	507,779	953,608	(445,829)	(47%)
	Total assets	**4,660,590**	**4,126,289**	**534,301**	**13%**

(amounts in thousands of euros)

Components of official items of the Statement of Financial Position	Liabilities	31 December 2021	31 December 2020	Chg.	Chg. (%)
10 a)	Due to banks	411,314	534,345	(123,031)	(23%)
10 b)	Amounts due to customers	2,818,146	2,552,161	265,985	10%
10 c)	Securities issued	499,788	300,980	198,808	66%
20	Financial liabilities of the property portfolio - instruments measured at fair value	59	-	59	N/A
60	Tax liabilities	20,256	4,207	16,049	>100%
80 + 90 + 100	Other liabilities	138,207	151,474	(13,267)	(9%)
(*)	Shareholders' equity	772,820	583,122	189,698	33%
	Total liabilities and shareholders' equity	**4,660,590**	**4,126,289**	**534,301**	**13%**

(*) 120 + 150 + 160 + 170 + 180 + 190 + 200

Summary of consolidated statement of financial position data

The Group's total assets amounted to EUR 4,660.6 million as of 31 December 2021, up on the figure of EUR 4,126.3 million as of 31 December 2020 - mainly due to the increase in financial assets measured at fair value through other comprehensive income, held within a held-to-collect-and-sell business model and the increase in customer loans measured at amortised cost.

The Group's assets as of 31 December 2021 mainly included financial assets arising from loans to customers of EUR 2,509.9 million (up compared to EUR 1,955 million as of 31 December 2020). The increase in this component in the period under review is primarily attributable to new transactions undertaken by the Distressed Credit Division in the period (net of portfolio disposals in the period), and the Growth Credit Division. For further information, refer to the section "Contribution from operating segments to the Group's results".

With reference to the Group's liquidity profile, the cash and cash equivalents component came to EUR 507.8 million as of 31 December 2021, down on EUR 953.6 million as of 31 December 2020, due to greater uses in the Growth Credit Division, Distressed Credit Division and own portfolio.

Financial assets at amortised cost represented by receivables due from banks amounted to EUR 268 as of 31 December 2021, down by EUR 254.2 million compared to 31 December 2020, and chiefly consist of reverse repurchase agreements. Taking loans to financial entities into account, as of 31 December 2021, total net exposure to banks and financial entities was EUR 467.8 million.

With reference to securities, financial assets measured at fair value through other comprehensive income, held within a held-to-collect-and-sell business model, primarily represented by government bonds and instruments with other banks and financial institutions and high yield corporate bonds, amounted to approximately EUR 299.5 million, up significantly, by approximately EUR 208.1 million, compared to 31 December 2020. As of 31 December 2021, the Group had a total negative net valuation reserve of approximately EUR 6.1 million, attributable to securities of the *Held to Collect & Sell* portfolio, due primarily to a general rise in interest rates and the increase in Italian risk caused by general uncertainty about the political and macroeconomic context.

Financial instruments mandatorily measured at fair value through profit or loss amounted to EUR 75.8 million as of 31 December 2021 and include investments in equity instruments/earnouts for EUR 9.5 million, attributable to the Growth Credit Division, and for EUR 0.8 million attributable to the Distressed Credit Division. The item also includes an energy business operation for EUR 59.0 million, units of an investment fund of illimity SGR for EUR 3.9 million, attributable to the Growth Credit Division, investments in Senior Financing for EUR 2.0 million and in junior and mezzanine notes for EUR 0.6 million, attributable to the Distressed Credit Division.

The "Equity investments" item, which amounted to EUR 80 million as of 31 December 2021, consists predominantly of the value of the equity investment held by illimity in Hype, insofar as it was consolidated using the equity method.

As of 31 December 2021, property and equipment and intangible assets amounted to EUR 154 million, increasing by approximately EUR 6.2 million compared to 31 December 2020.
The Group's intangible assets include the goodwill from the business combination of SPAXS with Banca Interprovinciale, equal to EUR 21.6 million, goodwill recognised at the acquisition of IT Auction (now merged into neprix), and its subsidiaries (equal to EUR 14.6 million) as well as the goodwill recognised at the acquisition of 100% of the units of the securitisation vehicles Doria SPV S.r.l., Friuli SPV S.r.l., Pitti SPV S.r.l., River SPV S.r.l., and 66.7% of the units of the securitisation vehicle Aporti S.r.l., and the intangible assets held by Group companies. Group property and equipment mainly consist of assets covered by IAS 2, namely *datio in solutum* real estate involved in the lending business and items for functional use arising from the recognition of the right of use of assets acquired through lease agreements (IFRS 16).

Total consolidated liabilities and shareholders' equity as of 31 December 2021 amounted to EUR 4,660.6 million. Amounts due to customers, net of the lease liability referred to IFRS 16, amounted to EUR 2,818.1 million, increasing compared to 31 December 2020.

Amounts due to banks - including the central banks component - stood at EUR 411.3 million, down by EUR 123 million compared to 31 December 2020, due primarily to the repayment of certain repurchase agreements payable to bank counterparties.

Securities issued were equal to EUR 499.8 million, up on the figure for the end of 2020, mainly due to the issue of the subordinated bond during the third quarter of 2021.

Group shareholders' equity amounted to EUR 772.8 million, increasing compared to 2020, mainly due to profit realised in the financial year, the capital increase reserved for ION, and the joint venture in Hype S.p.A, also realised through a capital increase.

RECLASSIFIED CONSOLIDATED INCOME STATEMENT

(amounts in thousands of euros)

Components of official items of the Income Statement	Income Statement items	31 December 2021	31 December 2020	Chg.	Chg. (%)
10 + 20 + 320 + 140	Net interest margin	133,133	103,303	29,830	29%
40 + 50	Net fee and commission income	35,556	14,823	20,733	>100%
80 + 100 + 110	Gains/losses on financial assets and liabilities	18,594	8,486	10,108	>100%
130 a) + 130 b) + 200 a) + 280	Net gains/losses on closed positions	63,459	42,637	20,822	49%
280	Other profits (losses) from the disposal of investments	2,278	–	2,278	N/A
230	Other operating expenses and income (excluding taxes)	18,164	4,846	13,318	>100%
Total net operating income		**271,184**	**174,095**	**97,089**	**56%**
190 a)	Personnel expenses	(73,685)	(52,063)	(21,622)	42%
190 b)	Other administrative expenses	(76,192)	(68,576)	(7,616)	11%
210 + 220	Net write-downs/write-backs on property and equipment and intangible assets	(10,732)	(8,614)	(2,118)	25%
Operating expenses		**(160,609)**	**(129,253)**	**(31,356)**	**24%**
Operating profit (loss)		**110,575**	**44,842**	**65,733**	**>100%**
130 a)	Net losses/recoveries for credit risk - HTC Banks	(92)	104	(196)	N/A
130 a)	Net losses/recoveries for credit risk - HTC financial entities	(159)	(115)	(44)	38%
130 a)	Net losses/recoveries for credit risk - HTC Clients	(12,776)	(2,444)	(10,332)	>100%
130 b)	Net losses/recoveries for credit risk - HTCS	(906)	82	(988)	N/A
200 a)	Net losses/recoveries for commitments and guarantees	(2,729)	(981)	(1,748)	>100%
Total net losses/recoveries		**(16,662)**	**(3,354)**	**(13,308)**	**>100%**
200 b)	Other net provisions	(218)	(468)	250	(53%)
250	Other income (expenses) on investments	(7,758)	–	(7,758)	N/A
190 b)	Membership fees and other non-recurring expenses	(5,089)	(2,328)	(2,761)	>100%
Profit (loss) from operations before taxes		**80,848**	**38,692**	**42,156**	**>100%**
300 + 320	Income tax for the year on continuing operations	(15,257)	(7,606)	(7,651)	>100%
Profit (loss) for the year		**65,591**	**31,086**	**34,505**	**>100%**

Consolidated income statement highlights

The Group's total net operating income for the period ended 31 December 2021 amounted to EUR 271.2 million, up sharply on the previous year, when it came to approximately EUR 174.1 million.

The increase in total net operating income is to be attributed to the introduction and expansion of various lines of business by the Bank in 2021, which contributed to the increase in the net interest margin of the Group from EUR 103.3 million as of 31 December 2020 to EUR 133.1 million as of 31 December 2021. Net fee and commission income, which amounted to EUR 35.6 million as of 31 December 2021, also increased in relation to comparative data, due on the one hand to increased operations of the Bank Divisions, and on the other as a consequence of more operations, in the financial year, undertaken by neprix and its subsidiary neprix Agency, which contribute to the item through the "auction commissions" earned on the use of proprietary real-estate portals.

Total net operating income also includes net gains on closed positions during 2021 for a total of EUR 63.5 million (EUR 42.6 million as of 31 December 2020). This item includes net recoveries on closed customer POCI positions for EUR 57.4 million, as well as net income from property sales for EUR 6.1 million.

Meanwhile, income from disposals of investments, amounting to EUR 2.3 million, relates to the sale of the Fluid business unit as part of the joint venture for 50% control of HYPE, which was completed in the first quarter of 2021.

Lastly, the balance of other operating expenses/income went up significantly, due primarily to licence rights granted to ION for the IT platform developed by illimity, which made a positive contribution of EUR 9.3 million in the 2021 financial year.

Overall net losses/recoveries on portfolio positions were negative for EUR 16.7 million. In detail, net losses on positions classified at amortised cost are primarily related to individual and collective assessments of loans to customers and the effects of the revision of expected cash flows from the NPL portfolios for existing positions. During the financial year, net losses for credit risk - HTCS were also recorded, due to an increase in the portfolio.

Operating expenses of EUR 160.6 million as of 31 December 2021 went up by approximately EUR 31.4 million compared to the previous financial year.

In detail, personnel expenses increased compared to the previous year by approximately EUR 21.6 million, mainly as a result of new resources being employed, to support the increased activities of the Bank's Divisions, and also due to the operating activities of neprix. Another factor that increased personnel costs is the MBO portion used to consolidate individual incentive systems for employees.

Other administrative expenses also increased, by approximately EUR 7.6 million compared to the previous financial year, due to the increase in Bank operations.

Finally, the item includes net write-downs for property and equipment and intangible assets totalling around EUR 10.7 million, up by EUR 2.1 million compared to 31 December 2020, primarily due to the amortisation of IT investments and depreciation of materials managed in application of IFRS 16.

The "Other income (expenses) on equity investments" item, equal to EUR 7.8 million as of 31 December 2021, includes the profits and losses generated by joint ventures and companies subject to significant influence, weighted according to the percentage stake held by illimity, insofar as they are consolidated using the equity method.

Based on the above, as of 31 December 2021, profit for the year before taxes amounted to EUR 80.8 million.

Net of income tax for the period on continuing operations and activities being disposed of, equal to approximately EUR 15.3 million, consolidated net profit as of 31 December 2021 stood at EUR 65.6 million, compared to a profit of EUR 31.1 million as of 31 December 2020.

Basic earnings per share as of 31 December 2021, calculated by dividing the result for the year by the weighted average number of ordinary shares issued, was equal to EUR 0.88, while diluted earnings per share as of the same date amounted to EUR 0.87. See the section “Basic and diluted earnings per share” for details of the methodology to calculate earnings per share.

Key data on capital

Invested assets

A table of invested assets broken down by Business Division and/or type of financial asset, is shown below:

(amounts in thousands of euros)

DETAILS OF INVESTED ASSETS	31 December 2021		31 December 2020		Change	
	Book value	Inc. %	Book value	Inc. %	Absolute	Chg. (%)
Cash and cash equivalents	**507,779**	**12.3%**	**953,608**	**24.2%**	**(445,829)**	**(47%)**
Financial assets held for trading	**928**	**0.0%**	**52**	**0.0%**	**876**	**>100%**
Financial assets mandatorily measured at fair value	**75,751**	**1.8%**	**18,450**	**0.5%**	**57,301**	**>100%**
- Distressed Credit Division	62,332	1.5%	11,167	0.3%	51,165	>100%
- Growth Credit Division	13,289	0.3%	7,167	0.2%	6,122	85%
- ALM & Treasury portfolio	130	0.0%	116	0.0%	14	12%
HTCS Financial assets	**299,508**	**7.3%**	**91,375**	**2.3%**	**208,133**	**>100%**
- ALM & Treasury portfolio	261,566	6.4%	91,375	2.3%	170,191	>100%
- Structured Products Portfolio	37,942	0.9%	-	0.0%	37,942	n.a
Due from banks	**267,969**	**6.5%**	**522,146**	**13.6%**	**(254,177)**	**(49%)**
– of which: Repurchase agreements	191,291	4.7%	395,167	10.1%	(203,876)	(52%)
Loans to financial entities	**199,857**	**4.9%**	**109,993**	**2.8%**	**89,864**	**82%**
Loans to customers	**2,509,884**	**61.0%**	**1,954,995**	**50.1%**	**554,889**	**28%**
– Organic non-performing loans	21,025	0.5%	19,055	0.5%	1,970	10%
– Inorganic non-performing loans	1,048,358	25.5%	1,054,778	27.0%	(6,420)	(1%)
– Performing loans	1,440,501	35.0%	881,162	22.6%	559,339	63%
Loans to customers - Securities	**252,056**	**6.1%**	**249,913**	**6.4%**	**2,143**	**1%**
- Distressed Credit Division (Senior Financing) - performing	217,790	5.3%	245,759	6.3%	(27,969)	(11%)
– Growth Credit Division – inorganic POCI	10,037	0.2%	-	0.0%	10,037	n.a
- Growth Credit Division - performing	24,229	0.6%	4,154	0.1%	20,075	>100%
Total invested assets	**4,113,732**	**100%**	**3,900,532**	**100%**	**213,200**	**5%**

Loans to customers amounted to approximately EUR 2,509.9 million, up from EUR 1,955 million at the end of the previous year, due primarily to new transactions concluded by the business divisions, particularly with regard to *Growth Credit*. The line item also includes NPLs of approximately EUR 1,048.4 million classified as POCI (*Purchased or Originated Credit Impaired*), down slightly from EUR 1,054.8 million recorded as of 31 December 2020. Considering Securities, financing to customers amounted to EUR 2,761.9 million.

Financial assets measured at fair value through other comprehensive income, held within a held-to-collect-and-sell business model, amounted to approximately EUR 299.5 million, and refer mainly to government bonds and instruments with other banks and financial institutions and high yield corporate bonds.

Financial instruments mandatorily measured at fair value through profit or loss amounted to EUR 75.8 million as of 31 December 2021 and include investments in equity instruments/earnouts for EUR 9.5 million, attributable to the Growth Credit Division, and for EUR 0.8 million attributable to the Distressed Credit Division. The item also includes an energy business operation for EUR 59.0 million, units of an investment fund of illimity SGR for EUR 3.9 million, attributable to the Growth Credit Division, investments in Senior Financing for EUR 2.0 million and in junior and mezzanine notes for EUR 0.6 million, attributable to the Distressed Credit Division.

The remaining EUR 252.1 million of securities was measured at amortised cost (held-to-collect business model) and mainly comprises EUR 217.8 million of Senior Financing securities, EUR 24.2 million of high-yield securities of the Growth Credit Division and EUR 10 million of inorganic securities of the *Growth Credit* Division.

(amounts in thousands of euros)

INVESTED ASSETS BY TECHNICAL FORM	31 December 2021		31 December 2020		Change	
	Book value	Inc. %	Book value	Inc. %	Absolute	Chg. (%)
Cash and cash equivalents	**507,779**	**12.3%**	**953,608**	**24.2%**	**(445,829)**	**(47%)**
Current accounts and deposits	76,678	1.9%	126,979	3.5%	(50,301)	(40%)
Reverse repurchase agreements	191,291	4.7%	395,167	10.1%	(203,876)	(52%)
Due from banks	**267,969**	**6.5%**	**522,146**	**13.6%**	**(254,177)**	**(49%)**
Loans to financial entities	**199,857**	**4.9%**	**109,993**	**2.8%**	**89,864**	**82%**
Current accounts held by customers	229,126	5.6%	273,971	7.0%	(44,845)	(16%)
Loans	2,280,758	55.4%	1,681,024	43.1%	599,734	36%
Loans to customers	**2,509,884**	**61.0%**	**1,954,995**	**50.1%**	**554,889**	**28%**
Debt securities	613,059	14.9%	352,454	9.0%	260,605	74%
– *Government bonds*	199,178	4.8%	-	0.0%	199,178	n.a
– *Banking*	61,405	1.5%	79,464	2.0%	(18,059)	(23%)
- *Financial companies*	299,932	7.3%	268,837	6.9%	31,095	12%
- *Non-financial companies*	52,544	1.3%	4,153	0.1%	48,391	>100%
Financial Derivatives	896	0.0%	-	0.0%	896	n.a
Financial instruments/earnouts	10,352	0.3%	7,167	0.2%	3,185	44%
Equity securities	19	0.0%	18	0.0%	1	6%
Units of UCIs	3,917	0.1%	151	0.0%	3,766	>100%
Securities and financial derivatives	**628,243**	**15.3%**	**359,790**	**9.2%**	**268,453**	**75%**
Total invested assets	**4,113,732**	**100%**	**3,900,532**	**100%**	**213,200**	**5%**

In accordance with document no. 2011/226, issued by the European Securities and Markets Authority (ESMA) on 28 July 2011, the table above shows the incidence of the various technical forms on total invested assets.

Loans due from banks amounted to EUR 268 million, down compared to 31 December 2020, and consisted mainly of reverse repurchase agreements. Loans to customers, meanwhile, increased due to the constant operations of the Bank's Divisions.

Lastly, debt securities amounted to EUR 613.1 million and related mainly to government entities and financial companies.

The following is a summary of loans to customers measured at amortised cost broken down by business division.

(amounts in millions of euros)

FINANCING BY BUSINESS DIVISION	31 December 2021	Inc. %	31 December 2020	Inc. %	Chg.	Chg. (%)
Distressed Credit Division	1,259	42.5%	1,308	56.5%	(49)	(4%)
Growth Credit Division	1,400	47.3%	763	33.0%	637	83%
Loans to ordinary former BIP customers (Growth Credit)	100	3.4%	134	5.8%	(34)	(25%)
Direct Banking Division	3	0.1%	-	0.0%	3	N/A
Total due from customers (Loans and Securities)	**2,762**	**93.2%**	**2,205**	**95.2%**	**557**	**25%**
Loans to financial entities	200	6.8%	110	4.7%	90	82%
Total loans to customers measured at amortised cost	**2,962**	**100%**	**2,315**	**100%**	**647**	**28%**

Financial assets measured at amortised cost

The table below provides an overview of the Group's main financing at amortised cost, compared with the relevant values as of 31 December 2020.

(amounts in thousands of euros)

FINANCIAL ASSETS AT AMORTISED COST	31 December 2021						31 December 2020					
	Gross Exposure	Inc. %	Recoveries (losses)	Book value	Inc. %	Coverage ratio (*)	Gross Exposure	Inc. %	Recoveries (losses)	Book value	Inc. %	Coverage ratio (*)
Due from banks	**268,226**	**8.2%**	**(257)**	**267,969**	**8.3%**	**0.10%**	**522,319**	**18.2%**	**(173)**	**522,146**	**18.4%**	**0.03%**
- Loans	268,226	8.2%	(257)	267,969	8.3%	0.10%	522,319	18.2%	(173)	522,146	18.4%	0.03%
- Stage 1/2	*268,226*	*8.2%*	*(257)*	*267,969*	*8.3%*	*0.10%*	*522,319*	*18.2%*	*(173)*	*522,146*	*18.4%*	*0.03%*
Loans to financial entities	**200,131**	**6.1%**	**(274)**	**199,857**	**6.2%**	**0.14%**	**110,108**	**3.8%**	**(115)**	**109,993**	**3.9%**	**0.10%**
- Loans	200,131	6.1%	(274)	199,857	6.2%	0.14%	110,108	3.8%	(115)	109,993	3.9%	0.10%
- Stage 1/2	*200,131*	*6.1%*	*(274)*	*199,857*	*6.2%*	*0.14%*	*110,108*	*3.8%*	*(115)*	*109,993*	*3.9%*	*0.10%*
Loans to customers	**2,790,810**	**85.6%**	**(28,870)**	**2,761,940**	**85.5%**	**1.03%**	**2,234,313**	**77.9%**	**(29,405)**	**2,204,908**	**77.7%**	**1.32%**
- Loans	2,537,456	77.9%	(27,572)	2,509,884	77.7%	1.09%	1,984,032	69.2%	(29,037)	1,954,995	68.9%	1.46%
- Stage 1/2	*1,449,544*	*44.5%*	*(9,043)*	*1,440,501*	*44.6%*	*0.62%*	*891,852*	*31.1%*	*(10,690)*	*881,162*	*31.1%*	*1.20%*
- Stage 3	*1,087,912*	*33.4%*	*(18,529)*	*1,069,383*	*33.1%*	*N/A*	*1,092,180*	*38.1%*	*(18,347)*	*1,073,833*	*37.9%*	*N/A*
- Securities	253,354	7.8%	(1,298)	252,056	7.8%	0.51%	250,281	8.7%	(368)	249,913	8.8%	0.15%
- Stage 1/2	*243,317*	*7.5%*	*(1,298)*	*242,019*	*7.5%*	*0.53%*	*250,281*	*8.7%*	*(368)*	*249,913*	*8.8%*	*0.15%*
- Stage 3	*10,037*	*0.3%*	*-*	*10,037*	*0.3%*	*0.00%*	*-*	*0.0%*	*-*	*-*	*0.0%*	*N/A*
Total	**3,259,167**	**100%**	**(29,401)**	**3,229,766**	**100%**	**N/A**	**2,866,740**	**100%**	**(29,693)**	**2,837,047**	**100%**	**N/A**

(*) In the column "Coverage ratio", the value "n.a." was inserted as it refers to net losses/recoveries and therefore is not correlated to the gross exposure in terms of coverage representation.

As of 31 December 2021, the "Due from banks" item amounted to EUR 268 million, compared to EUR 522.1 million as of 31 December 2020, and consisted primarily of reverse repurchase agreements. Bank overdrafts and on-demand deposits were reclassified, in accordance with the provisions of the 7th update of Circular 262/2005, to the item "Cash and cash equivalents".

A breakdown of the quality of customer credit (loans and securities, net of loans to financial entities) and a comparison to the previous year is provided below.

(amounts in thousands of euros)

LOANS TO CUSTOMERS	31 December 2021						31 December 2020					
	Gross Exposure	Inc. %	Recoveries (losses)	Book value	Inc. %	Coverage ratio (*)	Gross Exposure	Inc. %	Recoveries (losses)	Book value	Inc. %	Coverage ratio (*)
- Non-performing loans – organic	**39,554**	**1.4%**	**(18,529)**	**21,025**	**0.8%**	**46.84%**	**37,402**	**1.7%**	**(18,347)**	**19,055**	**0.9%**	**49.05%**
- Bad loans	19,014	0.7%	(14,027)	4,987	0.2%	73.77%	19,988	0.9%	(13,880)	6,108	0.3%	69.44%
- Unlikely-to-pay positions	20,370	0.7%	(4,468)	15,902	0.6%	21.93%	16,961	0.8%	(4,440)	12,521	0.6%	26.18%
- Past-due positions	170	0.0%	(34)	136	0.0%	20.00%	453	0.0%	(27)	426	0.0%	5.96%
Non-performing loans - inorganic	**1,048,358**	**37.6%**	**-**	**1,048,358**	**38.0%**	**N/A**	**1,054,778**	**47.2%**	**-**	**1,054,778**	**47.8%**	**N/A**
- Bad loans	699,429	25.1%	-	699,429	25.3%	N/A	744,260	33.3%	-	744,260	33.8%	N/A
- Unlikely-to-pay positions	348,929	12.5%	-	348,929	12.6%	N/A	310,439	13.9%	-	310,439	14.1%	N/A
- Past-due positions	-	0.0%	-	-	0.0%	N/A	79	0.0%	-	79	0.0%	N/A
Non-performing securities - Inorganic	**10,037**	**0.4%**	**-**	**10,037**	**0.4%**	**N/A**	**-**	**0.0%**	**-**	**-**	**0.0%**	**N/A**
- Unlikely-to-pay positions	10,037	0.4%	-	10,037	0.4%	N/A	-	0.0%	-	-	0.0%	N/A
Performing loans	**1,692,861**	**60.7%**	**(10,341)**	**1,682,520**	**60.9%**	**0.61%**	**1,142,133**	**51.1%**	**(11,058)**	**1,131,075**	**51.3%**	**0.97%**
- Loans	1,449,544	51.9%	(9,043)	1,440,501	52.2%	0.62%	891,852	39.9%	(10,690)	881,162	40.0%	1.20%
- Securities	243,317	8.7%	(1,298)	242,019	8.8%	0.53%	250,281	11.2%	(368)	249,913	11.3%	0.15%
Growth Credit	24,741	0.9%	(512)	24,229	0.9%	2.07%	4,227	0.2%	(73)	4,154	0.2%	1.73%
Distressed Credit	218,576	7.8%	(786)	217,790	7.9%	0.36%	246,054	11.0%	(295)	245,759	11.1%	0.12%
Total	**2,790,810**	**100%**	**(28,870)**	**2,761,940**	**100%**	**N/A**	**2,234,313**	**100%**	**(29,405)**	**2,204,908**	**100%**	**N/A**

(*) In the column "Coverage ratio", the value "n.a." was inserted as it refers to net losses/recoveries and therefore is not correlated to the gross exposure in terms of coverage representation.

Organic non-performing loans amounted to EUR 21 million, higher than the figure recorded as of 31 December 2020. The coverage ratio for organic non-performing loans as of 31 December 2021 was equal to 46.8%, slightly below the figure as of 31 December 2020.

Inorganic non-performing loans amounted to EUR 1,048.4 million, of which:

- EUR 699.4 million relating to purchase transactions concluded by the Growth Credit and Distressed Credit Divisions classified as Bad loans, registering a decrease compared to EUR 744.3 million as of 31 December 2020;
- EUR 348.9 million relating to purchase transactions concluded by the Growth Credit and Distressed Credit Divisions classified as unlikely-to-pay positions, registering an increase compared to EUR 310.4 million as of 31 December 2020.

The inorganic portfolio also includes POCI securities classified as unlikely-to-pay positions, for a total of EUR 10 million as of 31 December 2021.

Performing loans amounted to EUR 1,440.5 million, up compared to EUR 881.2 million as of 31 December 2020, as a result of new transactions carried out by the Business Divisions during the first half of 2021.

Performing securities amounted to EUR 242 million as of 31 December 2021, down compared to 31 December 2020, as a result of the Group's greater focus on operations in portfolios of financial instruments measured at Fair Value.

The coverage ratio for performing loans of the Bank as of 31 December 2021 was equal to 0.62%, down compared to 31 December 2020, due mainly to the increased provision of loans with state guarantee (SACE and Central Guarantee Fund, or FCG).

Funding

(amounts in thousands of euros)

CUSTOMER FUNDING BY TECHNICAL FORM	31 December 2021		31 December 2020		Change	
	Book value	Inc. %	Book value	Inc. %	Absolute	Chg. (%)
Amounts due to customers (A)	2,818,146	75.6%	2,552,161	75.3%	265,985	10.4%
Securities issued (B)	499,788	13.4%	300,980	8.9%	198,808	66.1%
Total direct customer funding (A) + (B)	**3,317,934**	**89%**	**2,853,141**	**84%**	**464,793**	**16.3%**
Due to banks (C)	411,314	11.0%	534,345	15.8%	(123,031)	(23.0%)
Total debt (A) + (B) + (C)	**3,729,248**	**100%**	**3,387,486**	**100%**	**341,762**	**10.1%**

At the end of 2021, funding amounted to approximately EUR 3,729.2 million, up compared to 31 December 2020, primarily due to the issue of a subordinated loan, completed in the third quarter of 2021, which had a considerable impact on the item Securities issued. Furthermore, the increase in current accounts and time deposits resulted in an increase in the item "Payables to customers" of EUR 266 million compared with the end of the previous financial year. "Payables to banks", meanwhile, fell by EUR 123 million due to lower subscriptions of repurchase agreements with bank counterparts.

Property and equipment and intangible assets

Property and equipment as of 31 December 2021 amounted to approximately EUR 68.7 million, down from EUR 78.4 million as of 31 December 2020, due mainly to the sale of *repossessed* property, accounted for pursuant to IAS 2. In accordance with IFRS 16, the item includes the right of use of assets acquired through lease agreements, of approximately EUR 19.5 million, net of accumulated depreciation. The item also includes real-estate investments acquired through enforcement, by auction, as part of NPL transactions.

Intangible assets as of 31 December 2021 amounted to approximately EUR 85.2 million, compared to EUR 69.4 million as of 31 December 2020, and mainly include goodwill from the acquisition of IT Auction (the company now merged into neprix), and its subsidiaries during 2020 (for EUR 14.6 million), as well as the goodwill recognised following the business combination of SPAXS with Banca Interprovinciale (equal to EUR 21.6 million), as well as the goodwill - although marginal - recognised on the acquisition of 100% of the units in the securitisation vehicles Doria SPV S.r.l., Friuli SPV S.r.l., Pitti SPV S.r.l., River SPV S.r.l., and 66.7% of the units of the securitisation vehicle Aporti SPV S.r.l., in addition to IT investments made by Group companies.

Tax assets and tax liabilities

Tax assets amounted to approximately EUR 45.7 million as of 31 December 2021, up from the EUR 35.4 million recognised as of 31 December 2020. Details of the breakdown of tax assets are shown below.

(amounts in thousands of euros)

TAX ASSETS	31 December 2021	31 December 2020	Chg.	Chg. (%)
Current	5,168	3,206	1,962	61%
Deferred	40,504	32,197	8,307	26%
Total	**45,672**	**35,403**	**10,269**	**29%**

Deferred tax assets other than those convertible into tax credits (Article 2, paragraphs 55 et seq, of Italian Legislative Decree no. 225/2010) are recognised on the basis of the likelihood of earning taxable income in future years able to reabsorb the temporary differences. Deferred tax assets also include the effects of the tax exemption of the goodwill arising from the merger by absorption of SPAXS with Banca Interprovinciale and the tax exemption of the goodwill and other intangible assets arising on consolidation, following the acquisition of 100% of the stake in IT Auction S.r.l. (of which 70% was acquired by neprix and 30% by the Bank) and the acquisition of joint control of the equity investment in Hype S.p.A.

Deferred tax liabilities as of 31 December 2021 amounted to Euro 20.3 million, up compared to Euro 4.2 million as of 31 December 2020, due to higher taxes as a result of the positive financial results achieved in 2021.

(amounts in thousands of euros)

TAX LIABILITIES	31 December 2021	31 December 2020	Chg.	Chg. (%)
Current	19,156	3,460	15,696	>100%
Deferred	1,100	747	353	47%
Total	**20,256**	**4,207**	**16,049**	**>100%**

Capital adequacy

On 1 January 2014, the new prudential requirements for banks and investment firms came into force, which are contained in Regulation (EU) No 575/2013 (Capital Requirements Regulation, the so-called CRR) and in Directive 2013/36/EU (Capital Requirements Directive, the so-called CRD IV), which have transposed into the EU the standards set by the Basel Committee on Banking Supervision (Basel 3 Framework). The CRR entered into effect in the Member States directly, whereas the rules laid down in CRD IV were transposed into Italian law by Legislative Decree no. 72 of 12 May 2015, which entered into force on 27 June 2015. Following a public consultation process launched in November, on 17 December 2013 the Bank of Italy published Circular no. 285, "Prudential supervisory regulations for banks", implementing the new EU rules to the extent of its competency, together with Circular no. 286, "Instructions for completing prudential reports for banks and securities brokerage firms" and the update to Circular no. 154 "Supervisory reports by credit and financial institutions. Reporting formats and instructions for submitting data streams" (the above set of rules has been updated on several occasions).

On 19 March 2020 illimity Bank, following the Supervisory Review and Evaluation Process (SREP) performed on the illimity Banking Group, received notification from the Bank of Italy of the prudential requirements to be observed at the consolidated level with effect from 31 March 2020. To ensure compliance with the binding requirements even in the event of a deterioration in the economic and financial scenario (Pillar 2 Guidance - P2G), the Bank of Italy identified the following capital levels, which the illimity Banking Group was invited to maintain on an ongoing basis:

- Common Equity Tier 1 (CET1) ratio of 9.20%;
- Tier 1 ratio of 11.10%;
- Total Capital ratio of 13.70%.

The supervisory authority also indicated a need – without prejudice to the additional supervisory requirements set out in the notification sent – for observance of the commitment to keep the CET1 ratio over 15% on an ongoing basis. On 29 March 2021, the Bank of Italy, considering the complex evaluation aspects available to the regulatory authorities concerning the corporate situation of the illimity Group, confirmed the outcome of the SREP 2020.

Considering the result for the period, net of any foreseeable charges and dividends pursuant to Article 26 (2) (b) of the CRR and Articles 2 and 3 of Commission Delegated Regulation (EU) no. 241/2014, the composition of own funds at the reporting date would be as follows:

Capital ratios	31 December 2021	31 December 2020
Common Equity Tier 1 (CET1) capital	**642,467**	**509,127**
Additional Tier 1 (AT1) capital	**-**	**-**
Tier 2 (T2) capital	**200,432**	**-**
Total own funds	**842,899**	**509,127**
Credit risk	*253,619*	*218,290*
Credit valuation adjustment risk	-	-
Settlement risks	-	-
Market risks	*780*	*17*
Operational risk	*18,518*	*9,739*
Other calculation factors	-	-
Total minimum requirements	**272,917**	**228,046**
Risk-weighted assets	**3,411,468**	**2,850,572**
Common Equity Tier 1 ratio	**18.83%**	**17.86%**
(Common Equity Tier 1 capital after filters and deductions/Risk-weighted assets)		
Tier 1 ratio	**18.83%**	**17.86%**
(Tier 1 capital after filters and deductions/Risk-weighted assets)		
Total capital ratio	**24.71%**	**17.86%**
(Total own funds/Risk-weighted assets)		

As of 31 December 2021, the Bank did not include the positive effect of EUR 14.4 million attributable to special shares in own funds. If special shares had been included in CET1 capital, the CET1 ratio would have been equal to 19.25% and the Total Capital Ratio equal to 25.13%.

Changes in shareholders' equity

As of 31 December 2021, shareholders' equity, including the result for the financial year, amounted to EUR 772.8 million, increasing compared to 2020, mainly due to profit realised in the financial year and to the capital increases carried out for the joint venture in Hype S.p.A. and for the ION Group.

Items/Technical forms	31 December 2021	31 December 2020
1. Share capital	52,620	44,007
2. Share premium reserve	597,589	487,373
3. Reserves	63,904	21,766
4. Equity instruments	-	-
5. (Treasury shares)	(832)	(832)
6. Valuation reserves	(6,057)	(278)
7. Profit (loss) for the period	65,591	31,086
Total shareholders' equity attributable to the Group	**772,815**	**583,122**
Shareholders' equity attributable to minority interests	5	-
Total shareholders' equity	**772,820**	**583,122**

Share capital and ownership structure

At 31 December 2021, the Bank's share capital amounted to EUR 54,189,951.66, of which EUR 52,619,881.24 was subscribed and paid up, divided into 79,300,100 ordinary shares and 1,440,000 special shares without par value.

The Ordinary Shares were admitted to trading on Euronext Milan, organised and managed by Borsa Italiana S.p.A., on 5 March 2019. By order of the Bank of Italy no. 8688 of 2 September 2020, the ordinary shares were admitted to trading on the STAR (Securities with High Requirements) segment of Euronext Milan.

The Bank's Special Shares are not traded.

Treasury shares

Following the purchases made in previous years, as of 31 December 2021, the Bank held 98,505 treasury shares for a value of EUR 832 thousand, in line with figures as of 31 December 2020. The Bank's subsidiaries do not hold any shares in it.

Parent company reconciliation - consolidated

The table below gives a reconciliation of the shareholders' equity and the result of illimity Bank S.p.A. with the respective data for the Group as of 31 December 2021:

	Shareholders' equity	Result
illimity Bank S.p.A.	**777,947**	**69,123**
Effect of consolidation of subsidiaries	(7,598)	-
Result of subsidiaries	3,914	3,914
Consolidation adjustments	6,305	312
Dividends	–	–
Effect of measuring associates and joint ventures using the equity method	(7,753)	(7,758)
Group	**772,815**	**65,591**

Financial performance

Net interest margin

(amounts in thousands of euros)

Items/Technical forms	Loans/ Payables	Debt securities	Other transactions	31 December 2021	31 December 2020	Absolute changes	Change %
Interest and similar income							
1. Financial assets measured at fair value through profit or loss	-	1,329	-	1,329	112	1,217	>100%
Held for trading	-	80	-	80	-	80	N/A
Carried at FV	-	-	-	-	-	-	N/A
Mandatorily measured at fair value	-	1,249	-	1,249	112	1,137	>100%
2. Financial assets at FV through other comprehensive income	-	4,191	-	4,191	2,434	1,757	72%
3. Financial assets at amortised cost	174,087	11,961	-	186,048	142,688	43,360	30%
Due from banks	591	-	-	591	517	74	14%
Loans to customers	173,496	11,961	-	185,457	142,171	43,286	30%
4. Hedging derivatives	-	-	-	-	-	-	N/A
5. Other assets	-	-	580	580	5	575	>100%
6. Financial liabilities	-	-	-	2,806	744	2,062	>100%
Total interest income	**174,087**	**17,481**	**580**	**194,954**	**145,983**	**48,971**	**34%**
Interest expenses							
1. Financial liabilities measured at amortised cost	(40,800)	(15,143)	-	(55,943)	(37,533)	(18,410)	49%
Due to central banks	(27)	-	-	(27)	(17)	(10)	59%
Due to banks	(4,764)	-	-	(4,764)	(5,685)	921	(16%)
Amounts due to customers	(36,009)	-	-	(36,009)	(31,118)	(4,891)	16%
Securities issued	-	(15,143)	-	(15,143)	(713)	(14,430)	>100%
2. Financial liabilities held for trading	-	-	-	-	-	-	N/A
3. Financial liabilities carried at FV	-	-	-	-	-	-	N/A
4. Other liabilities and provisions	-	-	(2,088)	(2,088)	(2,538)	450	(18%)
5. Hedging derivatives	-	-	-	-	-	-	N/A
6. Financial assets	-	-	-	(3,790)	(2,609)	(1,181)	45%
Total interest expenses	**(40,800)**	**(15,143)**	**(2,088)**	**(61,821)**	**(42,680)**	**(19,141)**	**45%**
Net interest margin	**133,287**	**2,338**	**(1,508)**	**133,133**	**103,303**	**29,830**	**29%**

As of 31 December 2021, the net interest margin amounted to approximately EUR 133.1 million, up considerably on the previous year, when it came to approximately EUR 103.3 million.

The change described above is mainly due to the increase in interest income accrued on financial assets at amortised cost: in particular, interest on loans to customers increased by EUR 43.3 million compared to the previous year. This increase is due to larger portfolio volumes in the Bank's assets in the 2021 financial year.

Interest income increased on financial assets measured at *fair value* through other comprehensive income, due mainly to greater volumes.

Interest expense increased by approximately EUR 19.1 million compared to 31 December 2020, mainly due to the rise of EUR 14.4 million in interest expense on securities issued - following the issue of ordinary and subordinated bonds - and the increase in income expense on amounts due to customers, for approximately EUR 4.9 million, directly related to the increase in volumes of direct funding.

Net fee and commission income

Items/Technical forms	31 December 2021	31 December 2020	Absolute changes	Change %
Fee and commission income				
a) Financial instruments	3	7	(4)	(57%)
b) Corporate Finance	3,559	-	3,559	N/A
e) Collective portfolio management	1,683	-	1,683	N/A
f) Custody and administration	1	2	(1)	(50%)
i) Payment services	1,131	760	371	49%
j) Distribution of third party services	132	118	14	12%
l) Servicing activities for securitisation operations	13	-	13	N/A
n) Financial guarantees issued	68	85	(17)	(20%)
o) Loan operations	15,514	9,116	6,398	70%
p) Currency trading	48	25	23	92%
r) Other fee and commission income	18,131	8,416	9,715	>100%
Total	**40,283**	**18,529**	**21,754**	**>100%**
Fee and commission expense				
a) Financial instruments	(198)	-	(198)	N/A
c) Custody and administration	(156)	(124)	(32)	26%
d) Collection and payment services	(1,067)	(769)	(298)	39%
e) Servicing activities for securitisation operations	(1,838)	(1,963)	125	(6%)
g) Financial guarantees received	(1)	(2)	1	(50%)
j) Other fee and commission expense	(1,467)	(848)	(619)	73%
Total	**(4,727)**	**(3,706)**	**(1,021)**	**28%**
Net fee and commission income	**35,556**	**14,823**	**20,733**	**>100%**

Net fee and commission income amounted to EUR 35.6 million, up significantly compared to the period ended 31 December 2020, when they amounted to EUR 14.8 million. The positive change was due primarily to commissions for capital market activities, included in the Corporate Finance category, higher commissions related to factoring and loan operations, and the significant rise in other fee and commission income.

Specifically, this last item refers mainly to commissions arising from the specific business of Group companies related to neprix and neprix Agency – and in particular commissions from auctions and related services, accrued for the use of the companies' property portals – for approximately EUR 11.4 million (a sharp increase compared with the comparative figure, which suffered from the drop in revenues caused by the closure of the courts); it also includes commissions from Ecobonus for around EUR 6.7 million.

Other operating expenses and income

(amounts in thousands of euros)

Items/Technical forms	31 December 2021	31 December 2020	Absolute changes	Change %
Other operating expenses				
Amortisation of expenses for improvements on third party assets	(87)	(73)	(14)	19%
Other operating expenses	(886)	(654)	(232)	35%
Total	**(973)**	**(727)**	**(246)**	**34%**
Other operating income				
Recoveries of expenses from other customers	2,083	1,657	426	26%
Other income	14,121	193	13,928	>100%
Rental income	2,933	3,723	(790)	(21%)
Total	**19,137**	**5,573**	**13,564**	**>100%**
Other operating income/expenses	**18,164**	**4,846**	**13,318**	**>100%**

The item includes operating income and expenses of the Bank and its subsidiaries. Other operating income relates mainly to the amount received from ION for use of the licence on the IT platform developed by illimity, and to sales revenues generated mainly by neprix and the other Group companies. Other main components refer to rental income for the management of real-estate complexes, recognised under Property and Equipment, acquired through the NPL business.

Personnel expenses

(amounts in thousands of euros)

Items / Technical forms	31 December 2021	31 December 2020	Absolute changes	Change %
1. Employees	(68,196)	(48,422)	(19,774)	41%
2. Other personnel in service	(3,291)	(1,705)	(1,586)	93%
3. Directors and statutory auditors	(2,198)	(1,936)	(262)	14%
Personnel expenses	**(73,685)**	**(52,063)**	**(21,622)**	**42%**

Personnel expenses amounted to approximately EUR 73.7 million and consist mainly of employee wages and salaries and the related social security contributions. This item went up compared to the previous year due to new personnel being employed to support the Group's new, increased operations. Another factor that increased costs is the MBO portion used to consolidate individual incentive systems for employees.

The Group had a total of 725 employees as of 31 December 2021, up on 31 December 2020 (587). The following table shows the number of employees as of 31 December 2021, broken down by classification, together with changes compared to 31 December 2020.

Category	31 December 2021			31 December 2020			Changes	
	Number of employees	in %	Average age	Number of employees	in %	Average age	Number of employees	in %
Executive	67	9%	47	55	9%	46	12	22%
Middle managers	303	42%	38	242	42%	37	61	25%
White collar	355	49%	33	290	49%	34	65	22%
Employees	**725**	**100%**		**587**	**100%**		**138**	**24%**

Other Administrative expenses

(amounts in thousands of euros)

Items / Technical forms	31 December 2021	31 December 2020	Absolute changes	Change %
Insurance	(3,268)	(2,065)	(1,203)	58%
Various consulting services	(8,911)	(8,094)	(817)	10%
Cost of services	(3,365)	(3,555)	190	(5%)
Financial information	(2,630)	(1,155)	(1,475)	>100%
Adverts and advertising	(2,669)	(3,125)	456	(15%)
Financial statement audit	(722)	(644)	(78)	12%
IT and software expenses	(21,214)	(17,655)	(3,559)	20%
Legal and notary's fees	(5,480)	(5,124)	(356)	7%
Property management expenses	(3,552)	(4,380)	828	(19%)
Expenses for professional services	(10,035)	(11,772)	1,737	(15%)
Utilities and services	(1,437)	(1,711)	274	(16%)
Other indirect taxes and duties	(11,650)	(8,138)	(3,512)	43%
Others	(1,259)	(1,158)	(101)	9%
Total other administrative expenses	**(76,192)**	**(68,576)**	**(7,616)**	**11%**

Other administrative expenses amounted to approximately EUR 76.2 million, increasing by EUR 7.6 million compared to the end of the previous year, and refer primarily to IT and software expenses other indirect duties and taxes and legal and notary's fees.

With regard to the other indirect taxes and taxes component, the increase is mainly attributable to the combined effect of the IMU property tax on datio in solutum properties acquired in previous years and to lower tax recoveries compared to the comparison period – listing expenses and advertising investments.

Net write-downs/write-backs on property and equipment and intangible assets

(amounts in thousands of euros)

Items / Technical forms	31 December 2021	31 December 2020	Absolute changes	Change %
Net write-downs/write-backs on property and equipment				
Property and equipment with functional use	(3,132)	(2,719)	(413)	15%
of which: own Property and equipment	(779)	(539)	(240)	45%
of which: Rights of use acquired through lease agreements	(2,353)	(2,180)	(173)	8%
Net write-downs/write-backs on intangible assets				
Finite useful life	(7,600)	(5,895)	(1,705)	29%
Net write-downs/write-backs on property and equipment and intangible assets	**(10,732)**	**(8,614)**	**(2,118)**	**25%**

Net write-downs on property and equipment and intangible assets amounted to approximately EUR 10.7 million, compared to EUR 8.6 million as of 31 December 2020. The increase was due to the amortisation of considerable IT investments made by the Bank, as well as greater depreciation for right of use assets, acquired through lease agreements, as indicated in IFRS 16, as well as the amortisation of intangible assets recognised in accordance with IFRS 3.

Net losses/recoveries for assets measured at amortised cost

(amounts in thousands of euros)

Transaction/ Income item	Losses (1)						Recoveries (2)				31.12.2021
	Stage one	Stage two	Stage three		Purchased or originated impaired		Stage one	Stage two	Stage three	Purchased or originated impaired	
			Write-offs	Others	Write-offs	Others					
A. Due from banks	**(165)**	**-**	**-**	**-**	**-**	**-**	**73**	**-**	**-**	**-**	**(92)**
- loans	(165)	-	-	-	-	-	73	-	-	-	(92)
- debt securities	-	-	-	-	-	-	-	-	-	-	-
B. Loans to customers:	**(2,087)**	**(139)**	**-**	**(5,600)**	**-**	**(124,382)**	**1,723**	**832**	**3,307**	**169,943**	**43,597**
- loans	(1,259)	(21)	-	(5,600)		(124,382)	1,708	832	3,307	169,943	44,528
- debt securities	(828)	(118)	-	-			15	-	-	-	(931)
Total	**(2,252)**	**(139)**	**-**	**(5,600)**	**-**	**(124,382)**	**1,796**	**832**	**3,307**	**169,943**	**43,505**

Net losses/recoveries for assets measured at amortised cost amounted to EUR 43.5 million. In particular, net recoveries on POCI loans amounted to EUR 45.6 million, as shown in the table above.

Item 130 a) also includes net losses/recoveries relating to banks, financial entities and open POCI positions. The sub-item "purchased or originated credit impaired" refers to the amount of losses/recoveries on loans classified as purchased or originated credit impaired as a result of collections or revisions of business plans.

Net gains/losses on closed positions amounted to EUR 63.5 million as of 31 December 2021, of which EUR 6.1 million related to gains from the sale of real estate investments, and EUR 57.4 million to closed positions relating to POCI customers (including EUR 56.6 million *on-balance* characterised by a *held-to-collect* business model).

Income tax for the year on continuing operations

Income tax for the year amounted to EUR 15.3 million and primarily benefited from the effects of the tax exemption of the goodwill and other intangible assets arising on consolidation, pursuant to Article 15, paragraph 10-ter of Legislative Decree 185/2008, following the acquisition of 30% of the stake in IT Auction S.r.l. and the acquisition of joint control of the equity investment in Hype S.p.A.

In particular, in relation to the cost of the substitute tax, corresponding to 16% of the higher values recognised in the financial statements for goodwill and other intangible assets, totalling EUR 11 million, prepaid taxes (corporate income tax and regional production tax - IRES and IRAP) of EUR 22.7 million were recognised. These prepaid taxes will be released in five annual instalments, simultaneously with lower current taxes.

Basic and diluted earnings (losses) per share

The basic earnings (losses) per share is calculated by dividing the Group's net profit (loss) for the year by the weighted average number of ordinary shares in issue during the year.

(amounts in thousands of euros)

Basic earnings per share	Net profit/loss for the year	Average number of shares	Basic and diluted earnings per share
Year ended 31 December 2021	65,591	74,768,897	0.88
Year ended 31 December 2020	31,086	65,700,601	0.47

The diluted earnings (losses) per share differs from the basic earnings per share due to the issuance of *market warrants* with an effective date of 30 September 2021.

(amounts in thousands of euros)

Diluted earnings (losses) per share	Net profit/loss for the year	Average number of shares	Diluted earnings (losses) per share
Year ended 31 December 2021	65,591	75,377,813	0.87
Year ended 31 December 2020	31,086	65,700,601	0.47

Quarterly trend

The quarterly trend of the reclassified consolidated statement of financial position and consolidated income statement is presented below.

Reclassified Statement of Financial Position

(amounts in thousands of euros)

Assets	31 December 2021	30 September 2021	30 June 2021	31 March 2021	31 December 2020
Property portfolio - Securities at FV	300,436	264,768	299,513	342,635	91,427
Loans to customers HTCS	-	15,806	15,856	-	-
Financial instruments mandatorily measured at fair value	75,751	87,021	138,439	17,789	18,450
Loans mandatorily measured at fair value	-	521	505	512	-
Due from banks	267,969	373,040	438,603	516,608	522,146
Loans to financial entities	199,857	169,825	169,842	139,943	109,993
Loans to customers	2,761,940	2,473,115	2,330,341	2,233,732	2,204,908
Investments in equity	79,953	81,775	83,727	85,564	-
Property and equipment and intangible assets	153,984	153,986	152,371	147,191	147,816
Tax assets	45,672	24,247	29,449	31,088	35,403
Other assets	775,028	1,001,465	672,108	800,975	996,146
Total assets	**4,660,590**	**4,645,569**	**4,330,754**	**4,316,037**	**4,126,289**

(amounts in thousands of euros)

Liabilities	31 December 2021	30 September 2021	30 June 2021	31 March 2021	31 December 2020
Due to banks	411,314	546,046	581,628	626,660	534,345
Amounts due to customers	2,818,146	2,713,706	2,643,308	2,567,758	2,552,161
Securities issued	499,788	507,117	304,067	302,402	300,980
Financial liabilities of the property portfolio - instruments measured at fair value	59	-	-	-	-
Tax liabilities	20,256	8,354	5,268	6,859	4,207
Other liabilities	138,207	114,584	115,741	146,865	151,474
Shareholders' equity	772,820	755,762	680,742	665,493	583,122
Total liabilities and shareholders' equity	**4,660,590**	**4,645,569**	**4,330,754**	**4,316,037**	**4,126,289**

Reclassified Income Statement

(amounts in thousands of euros)

Income Statement items	4Q2021	3Q2021	2Q2021	1Q2021	4Q2020
Net interest margin	34,484	34,227	33,215	31,207	30,801
Net fee and commission income	11,639	10,275	8,698	4,944	6,548
Gains/losses on financial assets and liabilities	6,153	7,545	1,063	3,833	2,747
Net gains/losses on closed positions	18,956	7,076	26,021	11,406	13,995
Other profits (losses) from the disposal of investments	-	-	-	2,278	-
Other operating expenses and income	6,579	7,443	2,138	2,003	4,112
Total net operating income	**77,811**	**66,567**	**71,135**	**55,671**	**58,203**
Personnel expenses	(22,215)	(15,871)	(18,961)	(16,638)	(16,023)
Other administrative expenses	(23,337)	(17,083)	(19,234)	(16,538)	(23,801)
Net write-downs/write-backs on property and equipment and intangible assets	(2,898)	(2,649)	(2,215)	(2,970)	(2,456)
Operating expenses	**(48,450)**	**(35,603)**	**(40,410)**	**(36,146)**	**(42,280)**
Operating profit (loss)	**29,361**	**30,964**	**30,725**	**19,525**	**15,923**
Net losses/recoveries for credit risk - HTC Banks	(137)	48	12	(15)	57
Net losses/recoveries for credit risk - HTC Other financial entities	(30)	-	(98)	(31)	25
Net losses/recoveries for credit risk - HTC Clients	(13,699)	1,159	(6,421)	6,185	(5,108)
Net losses/recoveries for credit risk - HTCS	(222)	459	361	(1,504)	82
Net losses/recoveries for commitments and guarantees	218	(1,630)	190	(1,507)	(785)
Total net losses/recoveries	**(13,870)**	**36**	**(5,956)**	**3,128**	**(5,729)**
Other net provisions	(218)	-	25	(25)	(428)
Other income (expenses) on investments	(1,788)	(1,996)	(1,851)	(2,123)	-
Membership fees and other non-recurring expenses	(1,351)	(1,765)	(569)	(1,403)	(1,443)
Profit (loss) from operations before taxes	**12,134**	**27,238**	**22,374**	**19,102**	**8,323**
Income tax for the period on continuing operations	7,258	(8,457)	(7,512)	(6,546)	(1,558)
Profit (loss) for the period	**19,392**	**18,781**	**14,862**	**12,556**	**6,765**

The interest margin in the fourth quarter of 2021 amounted to EUR 34.5 million, in line with the previous quarter and up strongly on the same period of 2020, following the significant purchases of NPL portfolios in the year. The Distressed Credit Division was able to make a significant contribution also to the result for the period, in spite of the challenging market conditions caused by the COVID-19 pandemic.

Total net operating income for the fourth quarter of 2021 amounted to EUR 77.8 million. Besides net interest, revenues for the quarter included net commission for EUR 11.6 million, a net gain on positions closed in the quarter for approximately EUR 19 million, a positive contribution from trading for EUR 6.2 million and other net income, attributable to both more operations in the real estate sector connected with the management of securitised NPL portfolios, and recurring income from the sale to ION of licence rights for the IT platform developed by illimity.

Operating expenses in the fourth quarter of 2021, equal to approximately EUR 48.5 million, improved over the previous quarter. Personnel costs increased, due primarily to the rise in FTE employees and provisions set aside for the MBO incentive system. Other administrative expenses also rose, due to consultancy fees, IT costs and indirect taxes on the real estate portfolio.

Net losses/recoveries, negative in the amount of EUR 13.9 million, are essentially linked to the valuation of the Customer HTC portfolio, with a significant impact compared with the previous quarters in the context of the usual ongoing analysis of individual positions carried out by the management.

Expenses on investments, related to results for the period of companies consolidated using the equity method, came to EUR 1.8 million, in addition to membership fees and other non-recurring expenses for EUR 1.4 million.

As a result of the above dynamics, the fourth quarter of 2021 ended with a profit, before taxes on continuing operations and on assets held for disposal, equal to EUR 12.1 million. As a result of the positive contribution of taxes arising from the tax exemption of the implicit goodwill arising from the acquisition of the 50% stake in Hype, the Group's net profit for the quarter amounted to EUR 19.4 million.

Contribution of operating segments to the Group's results

The illimity Group operates through an organisational structure comprising four Operating Segments:

a) Distressed Credit
b) Growth Credit
c) Direct Banking;
d) Asset Management Company.

In addition, the Corporate Center has the function of steering, coordinating and controlling the entire Group. The segment reporting is based on elements that management uses to make its operating decisions ("management approach"), in line with the reporting requirements of IFRS 8.
The next table shows the main data summarising developments in the operating segments of the illimity Group in the 2021 financial year.

Economic performance	Distressed Credit	Growth Credit	Direct Banking	SGR	Corporate Center (*)	31 December 2021
Net interest margin	108.0	20.9	4.2	-	-	133.1
Net fee and commission income	9.6	24.0	0.3	1.7	-	35.6
Other economic components	80.9	9.6	10.8	0.1	1.1	102.5
Total net operating income	**198.5**	**54.5**	**15.3**	**1.8**	**1.1**	**271.2**
Personnel expenses	(27.0)	(12.3)	(7.8)	(2.3)	(24.3)	(73.7)
Other administrative expenses and Net write-downs/write-backs on property and equipment and intangible assets	(41.3)	(10.0)	(11.9)	(0.5)	(23.2)	(86.9)
Operating expenses	**(68.3)**	**(22.3)**	**(19.7)**	**(2.8)**	**(47.5)**	**(160.6)**
Operating profit (loss)	**130.2**	**32.2**	**(4.4)**	**(1.0)**	**(46.4)**	**110.6**
Total net write-downs/write-backs and other provisions	(18.3)	1.4	-	-	-	(16.9)
Membership fees and other non-recurring expenses	(0.7)	(1.0)	(0.8)	-	(2.6)	(5.1)
Other income (expenses) on investments	0.4	-	(8.2)	-	-	(7.8)
Profit (loss) from operations before taxes	**111.6**	**32.6**	**(13.4)**	**(1.0)**	**(49.0)**	**80.8**

Shown below are the main financial data illustrating developments in the operating segments of the illimity Group in the 2020 financial year.

Economic performance	Distressed Credit	Growth Credit	Direct Banking	SGR	Corporate Center (*)	31 December 2020
Total net operating income	147.5	32.0	(6.2)	-	0.8	**174.1**
Operating expenses	(52.9)	(20.9)	(15.3)	(1.1)	(39.1)	**(129.3)**
Profit (loss) from operations before taxes	**92.7**	**8.3**	**(21.7)**	**(1.1)**	**(39.5)**	**38.7**

Financial data	Distressed Credit	Growth Credit	Direct Banking	SGR	Corporate Center (*)	31 December 2021
Financial assets measured at fair value through profit or loss	62.5	14.1	-	0.1	-	76.7
Loans to customers	1,041.3	1,465.9	2.7	-	-	2,509.9
Asset securities at amortised cost	217.8	34.3	-	-	-	252.1
Property and Equipment	48.3	-	-	-	20.4	68.7
Amounts due to customers and Securities issued	-	-	1,832.1	-	1,509.0	3,341.1
RWAs	2,020.1	1,016.8	60.7	2.9	311.0	3,411.5

(*) Intersector eliminations are carried out at the Corporate Center.

The Distressed Credit Division reported approximately EUR 108 million of net interest income in 2021, and a net operating income of EUR 198.5 million (approximately 73.2% of the Group's net operating income). Profits before taxes amounted to EUR 111.6 million for the year.

The Growth Credit Division reported a profit before taxes of EUR 32.6 million, a net increase compared to the profit for 2020, which amounted to EUR 8.3 million.

The Direct Banking Division, as of 31 December 2021, reported an operating loss of approximately EUR 4.4 million and includes the positive contribution, starting in the second half of the year, from the granting of the licence to use the IT platform between illimity and the ION Group, which generated a further EUR 9.3 million of other income.

The joint venture in Hype is expected to produce benefits, above all significant cost sharing, as well as revenues enabled from cross selling opportunities.

The SGR contributed to consolidated results as of 31 December 2021 with an operating loss of approximately EUR 1 million. It is believed that the growing operation of illimity SGR will gradually benefit the Group, especially in terms of improving the commission margin.

Lastly, the central functions of the Corporate Center reported an operating loss of EUR 46.4 million in the 2021 financial year, which is consistent with its nature as a cost centre for all other functions of the Group.

Distressed Credit

Direct Acquisitions

As of 31 December 2020, the Distressed Credit Division had purchased EUR 7.6 billion of *distressed* loans, in terms of gross book value, for the price of approximately EUR 1,120 million.

Throughout the course of 2021, a total of approximately EUR 212 million was invested in loan purchase operations, for a total nominal value of around EUR 1,027 million. These opportunities were finalised through two different structural types:

- acquisitions completed through securitisation vehicles pursuant to Law 130/1999: these transactions were concluded by subscribing 100% of the *notes* issued by the securitisation vehicles, which in turn receive from illimity the *funding* necessary for the acquisition of the credits. In this case, the purchase may only concern positions classified as bad loans, or in any case revoked credit lines;
- acquisitions or new loan disbursements executed directly by illimity: credits are purchased (or disbursed) directly by illimity and accounted for in the Bank's financial statements; this case is necessary, for example, for the purchase of still-active positions, usually classified as *unlikely-to-pay*, for which the transfer of both the credit right and the associated banking relationship is required.

Also taking into account investments made in previous years, as of 31 December 2021 the Distressed Credit Division finalised investment transactions in *distressed* loans, both on its own and through controlled securitisation vehicles, for a total amount of approximately EUR 1,332 million, as shown below.

(Amounts in millions of euros)

Investment transactions in Distressed Loans	Price	GBV
Acquisitions as of 31/12/2019	**720**	**5,301**
Q1 2020	37	174
Total as of 31/03/2020	**757**	**5,475**
Q2 2020	100	282
Total as of 30/06/2020	**857**	**5,757**
Q3 2020	12	485
Total as of 30/09/2020	**869**	**6,242**
Q4 2020	251	1,325
Total as of 31/12/2020	**1,120**	**7,567**
Q1 2021	47	245
Total as of 31/03/2021	**1,167**	**7,812**
Q2 2021	49	213
Total as of 30/06/2021	**1,216**	**8,025**
Q3 2021	35	352
Total as of 30/09/2021	**1,251**	**8,377**
Q4 2021	81	217
of which: items being processed	*14*	*38*
Total as of 31/12/2021	**1,332**	**8,594**

Senior Financing Operations

During the course of 2021, the operations finalised by the *Senior Financing* area amounted to EUR 30 million disbursed.

Also taking into consideration the investments made by the *Senior Financing* area in previous years, as of 31 December 2021 the Bank signed *asset-backed* loan-agreements in support of professional investors in the *distressed credit* and *distressed assets* sectors, for a total of EUR 486 million, as shown below.

(Amounts in millions of euros)

Asset-backed financing on Distressed Loans	Amount paid
Investments up to 31/12/2019	**372**
Q1 2020	11
Total as of 31/03/2020	**383**
Q2 2020	13
Total as of 30/06/2020	**396**
Q3 2020	27
Total as of 30/09/2020	**423**
Q4 2020	33
Total as of 31/12/2020	**456**
Q1 2021	2
Total as of 31/03/2021	**458**
Q2 2021	2
Total as of 30/06/2021	**460**
Q3 2021	9
Total as of 30/09/2021	**469**
Q4 2021	17
Total as of 31/12/2021[11]	**486**

Special Situations - Real Estate operations in the context of note subscriptions

In addition to the operations finalised by the Senior Financing area, the Special Situations - Real Estate area carried out operations for a total of EUR 40 million disbursed.

Also taking into account investments made in previous years, as of 31 December 2021 the Bank subscribed notes with the support of the Special Situations - Real Estate area, for a total amount of approximately EUR 58 million, as shown below.

11 As of 31 December 2021, the outstanding accounting balance (paid) amounted to approximately EUR 289 million, including EUR 198 million of notes and EUR 91 million of loans.

(Amounts in millions of euros)

Asset-backed financing on Distressed Loans	Amount paid
Investments up to 30/09/2019	**-**
Q4 2019	18
Total as of 31/12/2019	**18**
Q1 2020	-
Total as of 31/03/2020	**18**
Q2 2020	-
Total as of 30/06/2020	**18**
Q3 2020	-
Total as of 30/09/2020	**18**
Q4 2020	-
Total as of 31/12/2020	**18**
Q1 2021	10
Total as of 31/03/2021	**28**
Q2 2021	-
Total as of 30/06/2021	**28**
Q3 2021	-
Total as of 30/09/2021	**28**
Q4 2021	30
Total as of 31/12/2021	**58**

Energy operations

The current positions of Special Situations - Energy in the portfolio are recognised under the item "financial instruments mandatorily measured at *fair value*" in a "*note*".

Also taking into consideration the investments made in previous years, as of 31 December 2021, the Bank finalised investment transactions in the Special Situations - Energy sector, through the securitisation vehicle in the joint venture Spicy Green SPV S.r.l., for an overall amount of approximately EUR 88 million, in terms of the purchase price of positions, against a gross nominal value of purchased positions of approximately EUR 117 million, plus it used EUR 4.7 million of the granted Revolving Credit Facility. Considering the stake held by illimity in the *joint venture*, the total amount in terms of *net book value* invested by the Bank in the Special Situations - Energy segment as of 31 December 2021 amounted to around EUR 74 million.

Growth Credit Division

As of 31 December 2020, the *Growth Credit* portfolio had a gross exposure of EUR 926 million, broken down as follows:

- former BIP portfolio, amounting to EUR 154 million (17%);
- *Turnaround* amounting to approximately EUR 244 million (26%);
- *Crossover* and *Acquisition Finance* amounting to EUR 368 million (40%);
- Factoring, amounting to EUR 160 million (17%).

2021 was marked by a considerable growth in the lending portfolio, with an increase in volumes of around EUR 602 million (+65% compared to 31 December 2020).

This growth is mainly attributable to the new disbursements by the Crossover & Acquisition Finance and Turnaround Areas, largely owing to transactions secured by public guarantees from the Central Guarantee Fund and SACE pursuant to the Liquidity Decree Law carried out during the course of the year.

The corporate bond portfolio, which during 2021 saw an expansion of the investment strategy to include the HTCS business model in order to increase the range of possible investments – compared to a strategy aimed at mere retention in the portfolio (HTC) – as of 31 December 2021 amounted to a total of EUR 62 million, of which EUR 38 million HTCS and EUR 24 million HTC. In accounting terms, the HTCS corporate bond portfolio comprised securities rather than client loans and, therefore, is not included in the amounts reported in this section.

In brief, the main qualitative trends observed in 2021 are as follows:

a) new loans secured by public guarantees for a total of approximately EUR 159 million, mainly relating to the Turnaround Area;
b) new loans secured by public guarantees for a total of approximately EUR 200 million, mainly relating to the Crossover & Acquisition Finance Area;
c) subscription for EUR 10 million of the subordinated bond issue of the Turnaround Area;
d) disbursal of unsecured loans, largely attributable to disbursements on operations of the Crossover & Acquisition Finance Area;
e) purchases of receivables of the Turnaround Area related to portfolios and single name positions.

With regard to factoring, the strikingly positive trend continued in 2021, at the end of which total turnover since the beginning of the year was almost EUR 1,178 million, up more than 100% compared to 2020. Gross financing as of 31 December 2021 amounted to EUR 370 million, the highest value achieved so far.

The gradual reduction in former BPI portfolio exposures continued, with a decrease of around EUR 36 million in 2021. Note that due to operating practices the aggregate also includes loans granted to illimity Group employees.

As of 31 December 2021, the *Growth Credit* portfolio had a gross exposure of EUR 1,528 million, broken down as follows:

- former BIP portfolio, amounting to EUR 118 million (8%);
- *Turnaround* amounting to approximately EUR 440 million (29%);
- *Crossover* and *Acquisition Finance* amounting to EUR 600 million (39%);
- Factoring, amounting to EUR 370 million (24%).

Direct Banking

Direct Banking projects

During the course of 2021 the Direct Banking Division completed a project master plan, involving both the consolidation of its Retail segment positioning strategy and support for its launch into the world of banking services for Small and Medium-sized Enterprises.

The completion of the Retail offering was achieved through the launch of numerous projects, including

- *ViaCash*. The partnership with viafintech was launched in the second quarter to offer a service that enables Direct Banking customers to deposit cash intelligently and efficiently, while they shop at over 2,000 sales points in Italy (including Pam, Penny Market and Carrefour), and directly by using the home banking function;
- *Flee*. In May, illimity announced a partnership with Flee (Aon group), a supplier of exclusive *pay-per-use* long-term car hire services, which combines savings, security and the convenience of an all-digital service. The service offers several financial and service-based advantages, such as selected vehicles (green and eco-friendly choices), free advice on booking, and many more. The service is accessible through a simple, fast and intuitive process.
- *My Sport&Salute*. In November, the My Sport e Salute app was launched on the market, aiming to simplify access to sport, offering all sporting organisations and athletes the possibility to contribute to and use a common hub to disseminate information about any sporting discipline whatsoever. The app is a complete, simple, virtual ecosystem that aims to bring the entire sporting world together with a single click. Sporting organisations will be able to have a visible space for promoting their activities and attracting new users, whereas athletes will be able to manage their individual and family exercise levels. illimity was chosen as a technological partner for this project following a selection process, thanks to its expertise in the development of digital platforms and in *open innovation*.

Projects aimed at consolidating the Bank's *funding strategy* were also launched, including:

- The marketing of illimity's deposit products to Hype customers, in order to offer its deposits to customers who already subscribe to a Hype account (via the Hype app), thereby developing illimity's *brand awareness*. In addition to fulfilling the goal of diversifying illimity's funding channels, the initiative will also make it possible to disseminate the deposit product among a wider customer base for the distribution of funding products;
- The opening of the Raisin Italy funding channel, which strengthened the Bank's strategic partnership with Raisin, already a key partner for the collection of deposits in Germany. Thanks to the expansion of this collaboration in Italy, illimity is present, along with other banks, on the deposit platform managed by Raisin and intended for customers of Banca Sella.

September saw the launch of the new Hype, a commercial project aimed at making financial management for a pool of 1.5 million customers even more personal and effective, through a latest-generation technological platform, with a fully restyled interface, that offers an increasingly comprehensive range of banking products and services (savings, payment, credit, investment and other instruments) from a single access point, guaranteeing an even more streamlined, immediate user experience. The initiative benefits considerably from the synergy with illimity, in technological and strategic terms and with regard to the completion of its offering, in addition to a new CRM, brand positioning and new graphic design.

The second half of the year saw the Division committed to B-ilty, a key initiative in the Bank's Business Plan, dedicated to the creation of a digital direct bank for SMEs, with a focus on those with turnover of less than EUR 10 million. The initiative aims to expand illimity's current small corporate customer base, creating customised business solutions based on each entrepreneur's needs.

The project is aimed at helping companies to improve their financial management, thanks to an evolved, fully comprehensive digital platform, simple products designed to meet the needs of entrepreneurs and an entirely innovative *user experience*; this has been enabled by extending the digital platform already used for the retail market.

A first pilot of B-ilty with a subset of functionalities has been on the market since July, including digital factoring products for SMEs. Since the start of the pilot stage, the first credit products have been approved and disbursed successfully, and customers have opened current accounts via a completely digital end-to-end *onboarding* process. The platform and integration with third party solutions were completed in the last quarter, while the market launch of the complete product is scheduled for early 2022.

To support the year's projects, important customer communication campaigns were designed, planned and put in place, based on main market launches. These include:

- campaigns dedicated to the commercial launches of the key new products and services, including *ViaCash*, the *Project Wellbeing* campaign to position the insurance offering in partnership with Aon and Helvetia, and the *American Express* card promotion campaign;
- the maxi-billboard campaign in Milan, supported by a communication plan through the group's official channels and a dedicated landing page. Overall, these activities have resulted in a 7% increase in *brand awareness* in Milan compared with the previous month;
- the *Salary Crediting* campaign, following the development of new *customer journeys*, activated through the redesign of public sites and private areas, and the implementation of permanent, optimised customisation of *properties*;
- *illimity Black Week*, an initiative that has involved various campaigns dedicated to products such as loans, expenditure projects and salary crediting.

All these communication campaigns were developed across several levels and involved various *touchpoints*: the sending of DEM and *push notifications*, the use of Delorean cards, the customisation of landing pages, and the activation for audiences selected through CRM lists of advertising campaigns on digital platforms and of remarketing campaigns based on user behaviour, as tracked using Google Analytics. Furthermore, for certain types of campaign, CRM communication triggers were generated after CRM data were enriched with Google Analytics behavioural data.

Retail Business performance

As of 31 December 2021, the Bank's funding continued to receive important contributions from all available sources:

- the partnership with the German fintech platform Raisin, operational since May 2019, contributed around EUR 460 million to funding thanks to its nearly 13,000 customers. Compared to the end of the previous year, the increase was approximately EUR 50 million;
- the strategic partnership with Azimut, a leading advisory and wealth management firm, contributed EUR 60 million to the Bank's funding. Funding through this channel remained stable compared with the previous quarter, but grew by around 10% compared with the end of 2020;
- the digital bank *illimitybank.com* contributed funding of EUR 1.3 billion (of which around 20% was on demand). The funding raised by *illimitybank.com* increased by approximately EUR 70 million during the last quarter. Compared to 31 December 2020, deposits increased by around EUR 300 million, as the customer base rose from approximately 40,000 to approximately 54,000 in the last 12 months;
- November saw the launch of the new funding channel in collaboration with Hype, whose customers are being marketed illimity's deposit products. In little over a month, illimity raised around Euro 600 thousand in funding through this channel.

Total direct deposits from customers, including former customers of Banca Interprovinciale, amounted to approximately EUR 1.8 billion at the end of the year. Compared to the third quarter of 2021, overall direct deposits from customers remained stable (with the cost of funding down by 6 percentage points); compared to the end of 2020, however, the item recorded a net increase, equal to approximately EUR 150 million.

The projects managed and released during the year in the retail segment therefore enabled *illimitybank.com* to confirm its position on the financial market as a leading bank. In particular, excellent results were achieved concerning:

- *Customer Experience,* with the following reference KPIs:
    - *Net Promoter Score (NPS)*: during 2021, illimitybank.com further consolidated its customer satisfaction level, which rose from 40 in 2020 to 46 in 2021. This confirms *illimitybank.com* as a market leader, with an advantage of 9 points over the *operator in second place* and considerably

higher than the sector average of 3. The excellent results achieved in 2021 were boosted by various activities aimed at improving the customer experience, including the release of 18 customisations (each related to a *customer journey*) and UX/UI improvements;
  - *Brand Awareness*: overall in 2021, awareness of *illimitybank.com* remained stable compared with 2020 (28%), despite a lower level of advertising investment. The continued optimisation of the Bank's campaigns throughout 2021 resulted in a slight but gradual growth in *consideration* (a consumer's interest in considering it as their next bank), up to 5% from 3% in 2020;
  - The *Net Sentiment Score* (*NSS*) in 2021 was 26.9, above the market average, with a significant spike in Q4. This indicator, through the use of evolved sentiment analysis tools, helps to understand in real time the state of health of the illimity brand and its performance over time.
- The level of activity and customer loyalty, of which the reference KPIs are:
  - The number of *active customers*, i.e. customers who use the Bank's services, is stable, currently amounting to 88%, reflecting a *customer base* that is satisfied and engaged;
  - The number of *loyal customers*, who use the products and services of the Bank to a considerable extent, which currently stands at 37%, with an increase of 59% in the number of customers choosing illimity as the Bank their salary is paid into, compared to the same quarter of 2020;
  - The number of *customers that access the platform* each month stands at 73%, with an average of approximately 21 visits a month, with 90% from smartphones.

With regard to the B-ilty project and its loans to Small and Medium-sized Enterprises, the Division has successfully disbursed its first loans to various customers in the target segment, as analysed using a first version, already in production, of the technological platform developed by illimity in the second half of the year. Volumes and operations are expected to increase in the first half of 2022, following the commercial launch and the completion of the IT infrastructure supporting the operations.

Asset Management Company ("SGR")

On 31 March 2021, with effect from 1 April 2021, the SGR completed the first closing of the "illimity Credit & Corporate Turnaround" AIF, a contribution fund dedicated to investments in unlikely-to-pay positions of SMEs, with prospects for them to recover and relaunch. The initial portfolio included receivables for a total gross amount of over EUR 200 million with 33 companies operating in highly diversified sectors. These receivables were sold by 7 banks and banking groups, becoming holders of units in the Fund. The Fund envisaged an initial funding – subscribed by professional investors, including illimity Bank – amounting to EUR 25 million, that will be used by the SGR to manage purchased UTP receivables and to support the turnaround of companies in which the Fund assets have invested. In addition to the valuation and management of the various positions by the SGR on behalf of the Fund, additional cash receivables were also acquired in June and July 2021. The SGR has therefore launched full management operations.

During the month of June 2021, as part of the multi-year strategic planning process, illimity Bank made a payment on account for a future capital increase of EUR 2 million aimed at supporting the development of the SGR in full compliance with the capital requirements.

In September 2021, further subscriptions were made to the Fund, to finance turnaround strategies for a total of EUR 5 million.

During the fourth quarter of 2021, the SGR finalised new closings of the Fund, following which additional UTP receivables were contributed for around EUR 80 million, bring total funding to EUR 280 million.

The receivables were contributed from both existing subscribers of the Fund, which expanded their subscription, and two new banking groups. The portfolio currently includes receivables from some forty companies operating in a wide range of sectors. In the context of strategies for optimisation and execution of the turnaround projects that characterise the investment strategy it is pursuing, the SGR also completed, during the period, cash purchases of additional receivables from target companies that have already borrowed from the Fund.

Corporate Center

The Corporate Center, which oversees the steering, coordination and control of the Entire Group, manages financial data arising from:

- activities supporting other Group segments, overseen by CIO;
- planning and control, administration and risk management overseen by the central units;
- treasury activities, own portfolio management and Asset & Liability Management overseen by the Finance Department.

CIO

In the fourth quarter of 2021 there were no slowdowns due to the continuing COVID-19 pandemic. All illimiters work at the company and remotely as necessary, facilitated by the IT architecture (e.g. reserving workstations in the office when necessary and using the resources made available by the company) and related updates. The plan for attendance at offices was defined in accordance with measures decided by authorities to contain the spread of infection and working methods promoted by illimity.

IT platform projects

illimity recently started a strategic alliance with ION, which includes a licence agreement for developed information systems.

As part of IT4IT projects, initiatives dedicated to the technological evolution of infrastructure continued. Specifically, a project was approved for the evolution of the API technological platform, which will move from an "IAAS" to a "Hybrid PAAS" paradigm. The design and analysis phases have been completed, while the execution phase proper will be carried out in the first quarter of 2022. The intervention will reduce infrastructure and platform management costs.

As regards Data Quality, the "illimity Data Governance" project saw the creation of a web application that Data Owners can access, as well as a dashboard for ongoing monitoring of the outcomes of Data Quality controls. The team in charge of data governance continued its work to support Data Owners in the creation of controls in various areas, monitoring the outcomes with the business officers and checking data reconciliation (if necessary).

Project activities concerning security are under way to develop Identity Governance, enabling the control of access to company systems based on "least privilege" and "need to know" principles.

In addition, the IT team manages Disaster Recovery and Business Continuity activities on a continual basis, also overseeing their development and consolidation. In the last quarter of the year, Business Continuity and Disaster Recovery tests were completed.

Projects in support of the other divisions

In addition, the IT Function is supporting the Direct Banking, Growth Credit and Distressed Credit Divisions in developing the projects identified in their respective masterplans:

Direct Banking Division

- As set out in the Business Plan, development of the B-ILTY project was launched in order to build and release a digital transactional platform that offers customers an inclusive value proposition of credit products and value-added services dedicated to small and micro-enterprises. The first release of the initiative, including the basic functions, was rolled out in July 2021, with the release target currently planned for the first quarter of 2022.

One of the fundamental parts of the B-ILTY project concerns the process to acquire customers, and digital on-boarding, guaranteeing high added value (for both costs and times), considering the bureaucratic complexity of the operation;

- The evolution linked to open banking for Payment Initiation and Account Information services also continued, expanding the pool of banks through which the two services are accessible to customers from home banking and mobile banking. The aim of this project is to consolidate experience in using the services, also in response to periodic requests from EBA and BankIT.

Growth Credit Division

- Development of the Fiscal Bonus Module was completed, an application for illimity to manage the purchase of tax credits accrued by third parties, which features an engine to calculate the interest to recognise in financial statements;
- The development of the module in the COMS (Credit Origination & Management System) application continued, which will centralise the management of write-downs/write-backs and reclassification of loan relations in the Group's portfolio in a single point, and is scheduled for completion at the end of the first quarter of 2022.

Distressed Credit Division

- Releases and developments of the modules related to COMS continued. This vertical application will guide the user through all phases of the process related to the world of credit, from origination to management, both distressed and performing. In the first half of 2021, the modules to support the management of the Business Plan and related receipts, acquisition and screening (in the second half of 2021), as well as the amortisation of transaction costs, were released and consolidated. In addition, an advanced version of the Pricing and LDT (Loan Data Tape) ingestion modules was released. The former is useful for the creation and management of the pricing models of the portfolios being valued, the latter expands COMS by introducing the ingestion of data from the Virtual Data Room of the sellers by digitising the load process.

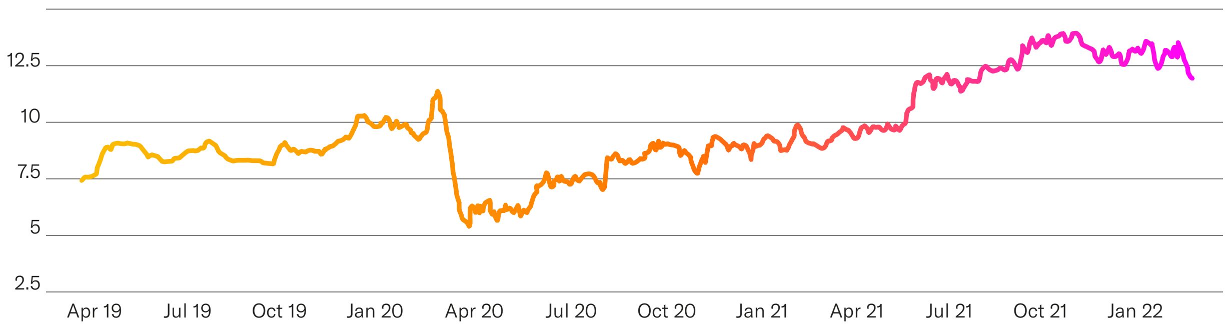
  The part concerning loan disposal management was released in the fourth quarter of 2021. This module manages the entire life cycle of the loan disposal process, starting from the creation of the portfolio up to the sale (including related accounting aspects).
- Lastly, in the Data sector, in collaboration with the Growth Credit Division, the creation of a single credit Data Warehouse continues, containing the current content of various illimity systems. The project saw an acceleration in the last quarter of 2021 and release before the end of the first quarter of 2022 is confirmed.

Central Functions

As regards main projects underway and dedicated to central Functions, activities continued on Corporate Performance Management systems used to guarantee the correct monitoring and management of the company's economic and financial performance (and related decision-making KPIs), the project to revise the TIT (internal transfer rate) calculation model, with expected benefits that include a better understanding and measurement of business income, and the active management of interest rate risk. The model is being implemented (including the database) to enable the Bank to calculate and monitor the monthly RWA. Lastly, the front-to-back system to manage new operations on OTC derivatives was completed.

illimity Bank share performance

The ordinary shares of illimity are traded on the Mercato Telematico Azionario (MTA) organised and managed by Borsa Italiana since 5 March 2019. Since 10 September 2020, the ordinary shares have been traded on the STAR (Securities with High Requirements) segment of the MTA market. The performance of the share since it has been listed, is reported below:



Significant shareholders with a stake of at least 5% in the share capital with voting rights in illimity, with the percentages calculated by the Bank based on the number of shares resulting from the most recent information available and number of ordinary shares issued, updated at 28 February 2022, are reported below:

Declaring entity, i.e. subject at the head of the control chain	Direct shareholder	Share held	Holding % of the ordinary capital	Holding % of the voting capital
Gruppo Sella	Gruppo Sella	Owned	10.00%	10.00%
LR Trust	Fidim Srl	Owned	8.12%	8.12%
ION Investment Corporation Sàrl	FermION Investment Group Limited	Owned	7.26%	7.26%
Tensile Capital Management LLC	Tensile-Metis Holdings Sàrl	Owned	7.01%	7.01%
Atlas Merchant Capital LLC	AMC Metis Sàrl	Owned	6.56%	6.56%

In relation to the ownership structure, AMC Metis S.à.r.l., Metis S.p.A. and Corrado Passera entered into an agreement on 18 March 2019 pertaining directly and indirectly to shares of Tetis S.p.A. (a company nearly wholly owned by Metis S.p.A. which in turn is 90% owned by Corrado Passera and holds ordinary and special shares in the company) and ordinary shares of illimity, containing shareholders' pact measures. Specifically, this agreement, which governs AMC Metis S.à.r.l.'s pre-emptive right to ordinary illimity shares held by Tetis subject to certain conditions, provides among other things that Corrado Passera and Metis S.p.A. take steps to ensure that the illimity shareholders' meeting appoints, depending on the make-up of the Company's Board of Directors, one or two non-executive directors nominated by AMC Metis S.à.r.l.

Management of business risks

As extensively discussed in the Consolidated Explanatory Notes - Part E, the illimity Group has a Risk Management Process (RMP), used as a reference model in the organisational and process-related development and systematic execution of all operational and business activities carried out - which may be standard, or non-systematic or contingent In line with the mission assigned, strategies and objectives pursued, these operations and activities entail undertaking and continually managing risks, in order to contribute to a sustainable value creation process, while also ensuring regulatory compliance and, among others, a coordinated use of human resources, technologies and methodologies. In fact, at a general level, the Group implements the aforementioned process through an organisation model that requires the coordinated use of human resources, technologies and methodologies based on a set of internal rules that define the structure of management controls, the policies (rules, authorities, objectives and limits in governing risks of various operating and business segments), and the processes in which the activities are carried out, including the control activities.

The Board of Directors of the Parent Company plays a fundamental role in risk control. It sets the strategic guidelines, approves the risk management policies and assesses the level of efficiency and adequacy of the Internal Control System. The Board of Directors relies on the Risks Committee and the Management Committee to carry out the preparatory and advisory work relating to internal control and the monitoring of business risks. In collaboration with the Chief Executive Officer, it is also responsible for the implementation of strategic guidelines, the Risk Appetite Framework (“RAF”) and risk governance policies.

The Board of Statutory Auditors oversees the efficiency and adequacy of the risk management and control system and of internal auditing, as well as compliance with the regulations that govern the banking business and the functioning and adequacy of the overall Internal Control System. It is also identified by the Group as being the body responsible for supervising the operation of and compliance with the Organisation and Management Model (also known as the Model pursuant to Legislative Decree 231/2001) that the Group has adopted and, precisely, verifying the efficiency, effectiveness, as well as the adequacy of the model itself with respect to the prevention of the commission of the crimes provided for by the decree itself.

The *Chief Risk Officer* oversees the so-called second level control activities as a Risk Management Function, ensuring, through the support of the technical functions concerned, constant control of the risks assumed by the Group in terms of both monitoring and control and governance.

The Compliance & AML (Anti-Money Laundering) Department oversees the so-called second level control activities in terms of the Regulatory Compliance Function and the Anti-Money Laundering and Prevention of Terrorist Financing Function, with a view to preventing and managing the risk of incurring legal or administrative penalties, major financial losses or damage to reputation resulting from violations of mandatory regulations or self-regulation, or preventing and combating violations of regulations on money laundering and terrorist financing. In addition, it fulfils the Group's legal obligations regarding the processing of personal data by appointing a *Data Protection Officer* in accordance with current legislation.

The Internal Audit Department oversees the so-called “third level” control activities as the Internal Audit Function. Specifically, it monitors the regular performance of operations and the evolution of risks as well as assesses the completeness, adequacy, functionality and reliability of the components of the internal control system and information system, of the risk management process, the RAF, thereby contributing to the improvement of the effectiveness and efficiency of the organisation, control processes, policies and risk management processes.

To ensure that the Risk Management Process functions efficiently and effectively, and can fully cover all existing or potential risks, also in accordance with regulatory requirements, the Group has implemented:

- a system of risk limits and objectives (Risk Appetite Framework, RAF), that represents an organic and structured approach which has implications on integrated risk management and governance processes and impacts on all company functions. It is structured and expressed at operational level for the Division and operational teams, and covers escalation processes, metrics and quantitative limits, as well as qualitative guidelines set out at least annually in the Risk Appetite Statement (RAS). The formalisation, through the definition of the RAF, of risk limits and objectives that reflect the maximum acceptable risk, the business model and strategic guidelines, is essential in determining and adopting a risk governance policy and risk management process based on the principles of sound, prudent company management.
- The Internal Capital Adequacy Assessment Process (ICAAP) and the process for the self-assessment of the liquidity profile (so-called ILAAP). The objective of the ICAAP and the ILAAP is to provide an internal assessment of the current and forward-looking adequacy, under ordinary and stress conditions, of available assets in relation to exposure to operational risks, and of the operational liquidity and structural profile in relation to related reserves.
- The process for the ex ante assessment of Major Transactions (OMR), with a prior opinion on their sustainability at a credit and income level and coherence with the RAF.

In conjunction with these processes, adopted by the Group to manage and control risk (risk management framework) in normal operating conditions, the Group has implemented a Recovery Plan, the instrument that governs the management of crisis situations, and strategies designed to restore ordinary operation, as well as the Contingency Funding Plan procedure, that defines the emergency plan to manage liquidity in crisis situations.

In accordance with the prudential regulatory provisions, the Group has defined the way in which information is provided to the public about its capital adequacy, risk exposure and the general characteristics of the systems it uses to identify, measure, manage and control these risks (so-called Third pillar of Basel 2 – “Pillar 3”), a separate report in addition to the information given in this financial report. The report is published according to the rules laid down by the Bank of Italy on its website, at the address: *www.illlimity.com* (“*Investor Relations*" section).

Main risks and uncertainties

The Group has defined, codified and continually adopted an operational risk mapping process based on quali-quantitative metrics and rules shared within the organisation, which identify the individual types of risk that the Group is or might be exposed to, and also assesses these risks according to specific drivers which may represent the materiality of the risk itself.

The result of the identification process is contained in the "Risk Radar" risk map, the objective of which is to represent, in relative terms, the risks inherent in the Group's operations, and to structure them according to the business lines that generate these risks, as a functional requirement to determine the overall risk exposure.

The execution of the process to identify material risks for the Group is overseen by the CRO, together with the CFO & Central Functions and the support of other organisational units of the Parent Company and subsidiaries.

The results of this process represent the assessment and input measures used to develop processes related to the ICAAP and ILAAP, i.e. the Strategic Plan, Budget and RAF, and are therefore validated by top management, discussed and analysed by the Risks Committee, and subject to approval by the Board of Directors of the Parent Company.

Part E of the Consolidated financial statements of the illimity Group contains overall information about the risk governance system and specific information about material risks, indicated below, and the related management, control and hedging policies adopted by the Group:

- credit risk (which also includes concentration risk);
- market risk (interest rate risk and price risk - regulatory trading portfolio);
- interest rate (interest rate risk and price risk of banking portfolio);
- liquidity risk;
- operational risk;
- IT risk;
- ESG risk (for further information, see the information published in the Consolidated Non-Financial Statement of the illimity Group (pursuant to Italian Legislative Decree 254/2016)).

The other risks considered relevant as a result of the *risk mapping* process described above are also subsequently reported and defined.

The Group also has a system of quantitative limits with reference to assets at risk towards related parties and others. In accordance with the relevant supervisory provisions, indication of the level of risk appetite required by the provisions for the determination and formalisation by banks and banking entities was planned, defined in terms of the maximum limit of the lines of credit granted to related parties deemed acceptable in relation to the total lines of credit granted by illimity Bank.

Further limits are envisaged with reference to the exposures granted to subjects in conflict of interest pursuant to Article 2391 of the Italian civil code, bankruptcy proceedings, as well as stricter limits than the regulations for the individual borrower or connected group.

For details on the objectives and strategies of individual risks in the new context of the epidemiological crisis, reference is made to the specific section in Part A – *Risks, uncertainties and impacts of the COVID-19 epidemic*.

Impacts of the Ukraine crisis on the strategic and operational context of the illimity Group

The outbreak of the military conflict in Ukraine, involving methods and time frames that took the world's political and economic leaders by surprise, and the reactions of various states and multilateral organisations, with the tightening of sanctions against Russia and, in general, political and economic-financial actions whose effects will unfold in the coming weeks, have put global money and financial markets under stress.

In this context, the illimity Group's reaction has followed the procedure for managerial and operational actions that has characterised its handling of the effects of the pandemic since early March 2020.

At governance level, a specific managerial committee has been set up that usually meets every two working days, with the aim of continuously monitoring the situation and updating the Group's governance bodies with regard to the actual and potential impacts, of an economic-financial and operational nature, of the crisis, and in order to render the process of managing risk mitigation actions more efficient.

Furthermore, a group of market indicators has been identified that are continuously monitored and reported to the aforementioned committee, in order to make it aware of the current context.

Specifically, the Bank does not have any direct exposures of any kind to operators, businesses and/or financial companies domiciled in the areas involved. Its credit exposures to counterparties whose creditworthiness may be directly related (procurement, sales, orders, etc.) to the markets involved are currently being analysed, in order to assess the possible impacts in terms of credit and liquidity risk.

Secondly, with a view to mitigating the financial risks associated with the management of the HTCS and HTC financial portfolios, it has been ascertained that the current risk profile of the portfolios is under control and that the relevant development activities will be implemented, taking due consideration of the changed context. Furthermore, considering that said portfolios relate to debts, monetary policy decisions, which could be revised given the evolution of the crisis, are continuously monitored.

Both the baseline and the stress macro-economic scenarios underpinning the prospective capital adequacy (ICAAP 2022) and liquidity (ILAAP 2022) assessments and the preparation of the Recovery Plan are also currently being updated to factor in the impacts of the crisis.

Overall, we can confirm the resilience of illimity's business model, even in a complex and uncertain context like the current one, as a result of both its contained exposure to direct risks and its business mix, in which lines of activity have limited correlation.

Transactions with related parties

Transactions with related parties are mainly governed by Article 2391-bis of the Italian civil code, according to which the executive bodies of companies resorting to the risk capital markets have to adopt rules, according to criteria indicated by CONSOB, which ensure "the transparency and material and procedural fairness of operations with related parties" carried out directly or through subsidiaries. The supervisory body is required to oversee compliance with the rules and reports on this, in its report to the meeting of shareholders.

In its decision of 12 March 2010, no. 17221, and in implementation of the authority contained in Article 2391-bis of the Italian civil code, CONSOB approved the "Regulation on related party transactions", which was then amended by Resolution no. 17389 of 23 June 2010. This sets out the general principles that companies making recourse to the risk capital markets have to observe when setting rules designed to ensure transparency, and the material fairness and procedural fairness of related party transactions.

In relation to this specific activity, companies are also subject to the provisions of Article 136 of the Banking Consolidation Act on the obligations of corporate officers.

Related party transactions as identified according to IAS 24 and the Consob Regulation issued in Decision no. 17221 as amended, for within the normal operations of the Bank and are settled at market conditions or on the basis of the costs incurred, if there are no suitable criteria.

Throughout 2021, there were no minor or material related party transactions, which significantly affected the Group's capital or profit and loss.

In relation to CONSOB communication no. DEM/6064293 of 28 July 2006, operations or positions with related parties as classified in IAS 24 and the Consob Regulation have a limited impact on the financial situation and capital, profit and loss and cash flows of the Group.

According to IAS 24, related parties are parties:

a) that directly or indirectly, through one or more intermediaries,
   i. control the entity, are controlled by it, or are under joint control (including controlling entities, subsidiaries and associates);
   ii. hold an investment in the entity of an extent that they may have considerable influence on the latter; or
   iii. jointly control the entity;
b) represent an associate of the entity;
c) represent a joint venture in which the entity participates;
d) are one of the key senior managers of the entity or its parent;
e) are a close family member of one of the parties in points (a) or (d);
f) are an entity controlled by, controlled jointly or subject to significant influence by one of the subjects in points (d) or (e), or those parties have directly or indirectly, a significant portion of voting rights; or
g) are a pension fund for employees of the entity or of any related entity.

On 12 December 2011 the Bank of Italy issued the IX update to Circular no. 263 of 27 December 2006 which introduced prudential supervisory requirements for banks. One of the requirements is a specific provision relating to risk and conflicts of interests regarding Connected Parties, a definition that includes related parties as defined by CONSOB but also parties connected to the same related parties as identified in the provisions; these requirements were modified by the Bank of Italy on 23 June 2020, merging said piece of regulation into Circular no. 285 (see 33rd update of 23 June 2020 Part Three, issued by the Bank of Italy on 23 June 2020, which added a new Chapter 11 "Risk assets and conflicts of interest with connected parties" to the said Circular no. 285). This update therefore supplements the Consob Regulation, in turn revised and updated by Consob with ruling no. 21624 of 10 December 2020, in order to implement Directive (EU) 2017/828 on shareholder rights (SHRD II).

For more detail about the operations with related parties and for an examination of the impact of these operations on the financial situation, refer to Part H of the Notes.

Atypical or non-ordinary transactions

In 2021 the Bank did not carry out any such transactions as defined in the Consob Communication no. 6064293 of 28 July 2006.

Research and Development

illimity's Research and Development activities in 2021 led to the execution of various projects of importance to the Bank.

For the Direct Banking Area, the following projects were developed to facilitate business initiatives:

- B-ilty - tactical phase: in order to build and release a digital transactional platform that offers customers an inclusive value proposition of credit products and value-added services dedicated to small and micro-enterprises;
- Continued evolution of Open Banking for the Payment Initiation and Account Information services, with the expansion of the banks that can connect to the illimity digital hub.

During 2021, the Delorean 3.0 architectural framework was also developed and released to support the web and app direct channels, with the aim of increasing the efficiency and flexibility of development, as well as the quality of the delivery.

For the Distressed Credit Division, 2021 saw the full activation of the developments related to the Credit Origination & Management System (COMS). The system, consisting of 15 modules, will make it possible to manage illimity's loans through all phases of the process, from origination to pricing, management and servicing. In particular, 2021 saw the release of the modules for the acquisition and screening of portfolios, the ingestion of data, the definition of pricing, the revision of the business plan, and the management of collections and disposals.

For the Growth Credit Area, the development of the Credit DWH continued, with release scheduled for early 2022. This illimity DWH will be used as the framework for all engines for first-, second- and third-level controls carried out by the Business and the other units.

For the IT Area, the Data Quality project "illimity Data Governance" was developed, to guarantee ownership and governance of the Bank's internal data, through a web application that Data Owners can access and a dashboard for monitoring controls. Activities related to Disaster Recovery and Business Continuity Management were developed and consolidated during the course of the year. As part of IT4IT projects, initiatives dedicated to the technological evolution of infrastructure were also continued. Specifically, the design and analysis phases were completed for the evolution of the API technological platform to the "Hybrid PAAS" model.

For the Central Functions, the implementation of the Corporate Performance Management and TIT calculation model projects continued, with expected benefits that will include a better understanding and measurement of business income, and the active management of interest rate risk. Lastly, the front-to-back system to manage new operations on OTC derivatives was completed.

Events after the reporting date

On 21 February 2022, the Extraordinary Shareholders' Meeting approved the new text of the Articles of Association for adoption by the Bank of the "monistic" model of administration and control. The amendments to the Articles of Association include the explicit inclusion of "sustainable success" and, as announced in the press release of 31 January 2022, the possibility of holding future Shareholders' Meetings exclusively via telecommunication ("virtual-only meetings").

A highly innovative *proptech* company will be launched in the coming weeks. This operation is part of a broader context of developing the servicing activities of the Group, which, as a leader in remarketing on the foreclosure market, with a new brand and an innovative platform, will enter the free property market, which is vast and in need of innovation.

Business outlook

Business volumes in all segments of the Bank's activity are expected to see strong growth in the coming months.

The Growth Credit Division is expected to see further growth in customer loan volumes in 2022, thanks in part to the extension until June of loans secured by public guarantees. The pipeline for the first few months of 2022, including loans that have already been approved, is promising, with a value of over EUR 150 million.

The Distressed Credit Division is expected to see a strong recovery in transactions starting in 2022, due partly to the end of the moratoria in place, as suggested by the pipeline of investment opportunities, which is already looking very healthy for the first part of 2022, at more than EUR 250 million.

The new business volumes will result in growth in the net interest margin, which looks set to remain strong throughout 2022.

The positive trend in net fee and commission income is also expected to continue throughout 2022, boosted by the growth in the aforementioned business volumes and the further development of new initiatives: alongside the SME capital markets and illimity SGR activities, which are expected to enjoy strong growth, the initial contribution of the B-ILTY and proptech initiatives should gradually become visible during 2022. This will be bolstered by the income from closed positions on distressed loans, a recurring component of illimity's business model.

The IT platform licence agreement, signed by illimity and the ION Group in the third quarter of 2021, will bring a positive contribution of EUR 4.25 million for each quarter, making an annual total of EUR 17 million.

As a result of investments made in strategic projects, costs are expected to rise in 2022, but this increase should be less than proportionate to the expected growth in revenues.

In light of the excellent quality of the portfolio in place with businesses and of the significant contribution of loans backed by public guarantees, which cover a large part of the Growth Credit Division's portfolio, the cost of credit is expected to remain at moderate levels.

As a result of the above dynamics, the excellent results reported in 2021 and current prospects confirm that the Bank is on course to achieve the short- and medium-to-long-term targets set out in the 2021-25 Strategic Plan that was presented on 22 June.

Lastly, the Bank's considerable own funds capacity and expected profits will ensure that its Common Equity Tier 1 Ratio remains significantly below regulatory requirements, despite increased weighted risk activities arising from the growth in business volumes.

Frame the image using the Aria App to watch the “Real Estate Area” video

Consolidated Financial Statements

illimity

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Assets	31 December 2021	31 December 2020
10.	Cash and cash equivalents	507,779	953,608
20.	Financial assets measured at fair value through profit or loss	76,679	18,502
	a) financial assets held for trading	928	52
	b) financial assets at fair value	-	-
	c) other financial instruments mandatorily measured at fair value	75,751	18,450
30.	Financial assets measured at fair value through other comprehensive income	299,508	91,375
40.	Financial assets measured at amortised cost	3,229,766	2,837,047
	a) due from banks	267,969	522,146
	b) loans to customers	2,961,797	2,314,901
50.	Hedging derivatives	-	-
60.	Fair value change of financial assets in hedged portfolios (+/-)	-	-
70.	Equity investments	79,953	-
80.	Technical reinsurance reserves	-	-
90.	Property and equipment	68,735	78,434
100.	Intangible assets	85,249	69,382
	of which:		
	- goodwill	36,257	36,224
110.	Tax assets	45,672	35,403
	a) current	5,168	3,206
	b) deferred	40,504	32,197
120.	Non-current assets held for sale and discontinued operations	43,117	-
130.	Other assets	224,132	42,538
	Total assets	**4,660,590**	**4,126,289**

Continued: CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Liabilities and shareholders' equity	31 December 2021	31 December 2020
10.	Financial liabilities measured at amortised cost	3,752,384	3,410,034
	a) due to banks	411,314	534,345
	b) due to customers	2,841,282	2,574,709
	c) securities issued	499,788	300,980
20.	Financial liabilities held for trading	59	-
30.	Financial liabilities designated at fair value	-	-
40.	Hedging derivatives	-	-
50.	Fair value change of financial liabilities in hedged portfolio (+/-)	-	-
60.	Tax liabilities	20,256	4,207
	a) current	19,156	3,460
	b) deferred	1,100	747
70.	Liabilities associated with non-current assets held for sale and discontinued operations	-	-
80.	Other liabilities	105,595	121,789
90.	Employee severance pay	3,695	2,656
100.	Allowances for risks and charges	5,781	4,481
	a) commitments and guarantees given	4,482	3,296
	b) post-employment benefits	18	7
	c) other allowances for risks and charges	1,281	1,178
110.	Technical reserves	-	-
120.	Valuation reserves	(6,057)	(278)
130.	Redeemable shares	-	-
140.	Equity instruments	-	-
150.	Reserves	63,904	21,766
160.	Share premium reserve	597,589	487,373
170.	Share capital	52,620	44,007
180.	Treasury shares (-)	(832)	(832)
190.	Equity attributable to minority interests (+/-)	5	-
200.	Profit (loss) for financial year(+/-)	65,591	31,086
	Total liabilities and shareholders' equity	**4,660,590**	**4,126,289**

CONSOLIDATED INCOME STATEMENT

Items		31 December 2021	31 December 2020
10.	Interest income and similar income	194,288	145,983
	of which: interest income calculated according to the effective interest method	188,230	143,089
20.	Interest expenses and similar charges	(61,223)	(42,205)
30.	**Net interest margin**	**133,065**	**103,778**
40.	Fee and commission income	40,283	18,529
50.	Fee and commission expense	(5,708)	(5,013)
60.	**Net fee and commission income**	**34,575**	**13,516**
70.	Dividends and similar income	-	-
80.	Profits (losses) on trading	3,167	(389)
90.	Fair value adjustments in hedge accounting	-	-
100.	Profits (losses) on disposal or repurchase of	5,393	7,699
	a) financial assets measured at amortised cost	302	1,863
	b) financial assets measured at fair value through other comprehensive income	5,091	5,837
	c) financial liabilities	-	(1)
110.	Profits (losses) on other financial assets and liabilities measured at fair value through profit or loss	10,034	1,176
	a) financial liabilities designated at fair value	-	-
	b) other financial instruments mandatorily measured at fair value	10,034	1,176
120.	**Total net operating income**	**186,234**	**125,780**
130.	Net losses/recoveries for credit risks associated with:	43,135	40,264
	a) financial assets measured at amortised cost	43,505	40,182
	b) financial assets measured at fair value through other comprehensive income	(370)	82
140.	Profits/losses on changes in contracts without derecognition	196	-
150.	**Net result from banking activities**	**229,565**	**166,044**
160.	Net premiums	-	-
170.	Other net insurance income (expense)	-	-
180.	**Profits (losses) of banking and insurance management**	**229,565**	**166,044**
190.	Administrative expenses:	(157,719)	(125,054)
	a) personnel expenses	(73,563)	(51,944)
	b) other administrative expenses	(84,156)	(73,110)
200.	Net allowances for risks and charges	(2,622)	(1,449)
	a) commitments and guarantees given	(2,404)	(981)
	b) other net provisions	(218)	(468)
210.	Net write-downs/write-backs on property and equipment	(3,132)	(2,719)
220.	Net write-downs/write-backs on intangible assets	(7,600)	(5,895)
230.	Other operating income/expenses	21,421	7,765
240.	**Operating expenses**	**(149,652)**	**(127,352)**
250.	Profits (losses) on equity investments	(7,758)	-
260.	Net gains/losses on the measurement at fair value of property and equipment and intangible assets	-	-
270.	Impairment of goodwill	-	-
280.	Profits (losses) on disposal of investments	8,344	-
290.	**Profit (loss) before tax from continuing operations**	**80,499**	**38,692**
300.	Income tax for the year on continuing operations	(15,161)	(7,606)
310.	**Profit (loss) after tax from continuing operations**	**65,338**	**31,086**
320.	Net income (Loss) (+/-) from discontinued operations after tax	253	-
330.	**Profit (loss) for the year**	**65,591**	**31,086**
340.	Profit (Loss) for the financial year attributable to minority interests	-	-
350.	**Profit (Loss) for the year attributable to the Parent Company**	**65,591**	**31,086**

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

Items		31 December 2021	31 December 2020
10.	**Profit (loss) for the year**	**65,591**	**31,086**
	Other comprehensive income, after tax, that may not be reclassified to the income statement		
20.	Equity instruments measured at fair value through other comprehensive income	1	(3)
30.	Financial liabilities designated at fair value through profit or loss (changes in creditworthiness)	-	-
40.	Hedging of equity instruments measured at fair value through other comprehensive income	-	-
50.	Property and equipment	-	-
60.	Intangible assets	-	-
70.	Defined-benefit plans	(100)	(44)
80.	Non-current assets held for sale and discontinued operations	-	-
90.	Share of valuation reserves for equity investments measured at equity:	5	-
	Other comprehensive income, after tax, that may be reclassified to the income statement		
100.	Hedging of foreign investments	-	-
110.	Foreign exchange differences	-	-
120.	Cash flow hedges	-	-
130.	Hedging instruments (undesignated elements)	-	-
140.	Financial assets (other than equities) measured at fair value through other comprehensive income	(5,685)	(1,170)
150.	Non-current assets held for sale and discontinued operations	-	-
160.	Share of valuation reserves for equity investments measured at equity	-	-
170.	**Total other comprehensive income (after tax)**	**(5,779)**	**(1,217)**
180.	**Other comprehensive income (Item 10+170)**	**59,812**	**29,869**
190.	Consolidated comprehensive income attributable to minority interests	-	-
200.	**Consolidated comprehensive income attributable to the parent company**	**59,812**	**29,869**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AS OF 31 DECEMBER 2021

	Balance on 31 December 2020	Change in opening balances	Balance as of 1 January 2021	Allocation of result for the previous year		Changes in reserves
				Reserves	Dividends and other allocations	
Share capital:						
a) ordinary shares	43,069	–	43,069	–	–	–
b) other shares	938	–	938	–	–	–
Share premium reserve	487,373	–	487,373	–	–	–
Reserves:						
a) retained earnings	(4,229)	–	(4,229)	31,086	–	–
b) other	25,995	–	25,995	–	–	7
Valuation reserves	(278)	–	(278)	–	–	–
Equity instruments	–	–	–	–	–	–
Treasury shares	(832)	–	(832)	–	–	–
Net profit (loss) (+/-) for the financial year	**31,086**	**–**	**31,086**	**(31,086)**	**–**	**–**
Group shareholders' equity	**583,122**	**–**	**583,122**	**–**	**–**	**7**
Shareholders' equity attributable to minority interests	**–**	**–**	**–**	**–**	**–**	**–**

CONTINUED

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AS OF 31 DECEMBER 2020

	Balance as of 31 December 2019	Change in opening balances	Balance as of 1 January 2020	Allocation of result for the previous year		Change in reserves
				Reserves	Dividends and other allocations	
Share capital:						
a) ordinary shares	42,470	–	42,470	–	–	(96)
b) other shares	938	–	938	–	–	(4)
Share premium reserve	480,156	–	480,156	–	–	–
Reserves:						
a) retained earnings	12,007	–	12,007	(16,140)	–	–
b) other	24,181	–	24,181	–	–	–
Valuation reserves	939	–	939	–	–	–
Equity instruments	–	–	–	–	–	–
Treasury shares	(96)	–	(96)	–	–	–
Net profit (loss) (+/-) for the financial year	**(16,140)**	**–**	**(16,140)**	**16,140**	**–**	**–**
Group shareholders' equity	**544,455**	**–**	**544,455**	**–**	**–**	**(100)**
Shareholders' equity attributable to minority interests	**–**	**–**	**–**	**–**	**–**	**–**

CONTINUED

	Changes in the year									
	Shareholders' equity transactions									
	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity interests	Comprehensive income for the financial year 2021	Shareholders' equity attributable to the Group as of 31/12/2021	Shareholders' equity attributable to minority interests at 31/12/2021
Share capital:										
a) ordinary shares	8,533	–	–	–	–	79	–	–	**51,682**	**3**
b) other shares	–	–	–	–	–	–	–	–	**938**	**–**
Share premium reserve	110,216	–	–	–	–	–	–	–	**597,589**	**–**
Reserves:										
a) retained earnings	–	–	–	–	–	2,944	–	–	**29,801**	**2**
b) other	8,372	–	–	–	–	(271)	–	–	**34,103**	**–**
Valuation reserves	–	–	–	–	–	–	–	(5,779)	**(6,057)**	**–**
Equity instruments	–	–	–	–	–	–	–	–	**–**	**–**
Treasury shares	–	–	–	–	–	–	–	–	**(832)**	**–**
Net profit (loss) (+/-) for the financial year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**65,591**	**65,591**	**–**
Group shareholders' equity	**127,121**	**–**	**–**	**–**	**–**	**2,752**	**–**	**59,812**	**772,815**	**–**
Shareholders' equity attributable to minority interests	**–**	**–**	**–**	**–**	**–**	**–**	**5**	**–**	**–**	**5**

	Changes in the year									
	Shareholders' equity transactions									
	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity interests	Comprehensive income for the financial year 2020	Shareholders' equity attributable to the Group as of 31/12/2020	Shareholders' equity attributable to minority interests at 31/12/2020
Share capital:										
a) ordinary shares	599	–	–	–	–	–	–	–	**43,069**	–
b) other shares	–	–	–	–	–	–	–	–	**938**	
Share premium reserve	7,217	–	–	–	–	–	–	–	**487,373**	–
Reserves:										
a) retained earnings	–	–	–	–	–	–	–	–	**(4,229)**	–
b) other	–	–	–	–	–	1,818	–	–	**25,995**	–
Valuation reserves	–	–	–	–	–	–	–	(1,217)	**(278)**	–
Equity instruments	–	–	–	–	–	–	–	–	**–**	–
Treasury shares	–	(736)	–	–	–	–	–	–	**(832)**	–
Net profit (loss) (+/-) for the financial year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**31,086**	**31,086**	–
Group shareholders' equity	**7,816**	**(736)**	**–**	**–**	**–**	**1,818**	**–**	**29,869**	**583,122**	–
Shareholders' equity attributable to minority interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**

CONSOLIDATED CASH FLOW STATEMENT (INDIRECT METHOD)

A. OPERATING ACTIVITIES	Amount	
	31 December 2021	31 December 2020
1. Cash flow from operations	**120,219**	**90,172**
Net profit/loss for the year (+/-)	65,591	31,086
Gains/losses on financial assets held for trading and other financial assets measured at fair value through profit or loss (-/+)	(1,408)	(1,258)
Profits/losses on hedging activities (-/+)	-	-
Net losses/recoveries for credit risk (+/-)	1,680	8,304
Net write-downs/write-backs on property and equipment and intangible assets (+/-)	10,732	8,614
Net allocations to allowances for risks and charges and other costs/income (+/-)	14,478	7,790
Net premiums not collected (-)	-	-
Other income/expenses from insurance activities not collected (-/+)	-	-
Taxes, duties and unpaid tax credits (+)	21,035	10,592
Net write-downs/write-backs on discontinued operations, net of the tax effect (+/-)	-	-
Other adjustments (+/-)	8,111	25,044
2. Cash flow generated/absorbed by financial assets	**(870,363)**	**(885,072)**
Financial assets held for trading	(876)	11
Financial assets designated at fair value	-	-
Other financial assets mandatorily measured at fair value	(54,924)	(8,649)
Financial assets measured at fair value through other comprehensive income	(215,301)	34,736
Financial assets measured at amortised cost	(387,837)	(911,003)
Other assets	(211,425)	(167)
3. Cash flow generated/absorbed by financial liabilities	**276,920**	**1,010,226**
Amounts due to customers	319,674	1,017,598
Financial liabilities held for trading	59	-
Financial liabilities designated at fair value	-	-
Other liabilities	(42,813)	(7,372)
Net cash generated/absorbed by operating activities	**(473,224)**	**215,326**

B. INVESTING ACTIVITIES	Amount	
	31 December 2021	31 December 2020
1. Cash flows from	**6,666**	**-**
Sales of equity investments	-	-
Dividends received on equity investments	-	-
Sales of property and equipment	6,666	-
Sales of intangible assets	-	-
Sales of subsidiaries and business units	-	-
2. Cash flows used in	**(53,143)**	**(42,898)**
Purchases of equity investments	(31,574)	-
Purchases of property and equipment	(101)	(8,425)
Purchases of intangible assets	(21,468)	(34,473)
Purchases of subsidiaries and business units	-	-
Net cash generated/absorbed by investing activities	**(46,477)**	**(42,898)**

C. FINANCING ACTIVITIES	Amount	
	31 December 2021	31 December 2020
Issues/Purchases of treasury shares	-	(736)
Issues/purchases of equity instruments	73,872	-
Distribution of dividends and other purposes	-	-
Sale/purchase of third-party control	-	-
Net cash generated/absorbed by financing activities	**73,872**	**(736)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(445,829)**	**171,692**

Key:

(+) generated
(–) absorbed

Reconciliation

FINANCIAL STATEMENT ITEMS	Amount	
	31 December 2021	31 December 2020
Cash and cash equivalents at start of financial year	**953,608**	**781,916**
Net increase(decrease) in cash and cash equivalents	(445,829)	171,692
Cash and cash equivalents: foreign exchange effect	-	-
Cash and cash equivalents at end of financial year	**507,779**	**953,608**

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to watch the “Design Area” video

Explanatory Notes

PART A - Accounting policies

A.1 General information

Section 1 – Declaration of compliance with IAS/IFRS

These consolidated financial statements have been prepared in application of Legislative Decree no. 38 of 28 February 2005, according to the accounting standards issued by the International Accounting Standards Board (IASB) approved by the European Commission and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as established by Community Regulation no. 1606 of 19 July 2002.

In preparing these consolidated financial statements, the IAS/IFRS in force as of 31 December 2021 were applied, including the SIC and IFRIC interpretations as harmonised by the European Commission. The line items presented in this report have been valued and measured on the basis of the IAS/IFRS accounting standards issued by the International Accounting Standards Board (IASB) and the relevant interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as endorsed by the European Commission, in addition to the guidelines laid down in Article no. 9 of Legislative Decree no. 38/05 and article 43 of Legislative Decree no. 136/15.

There were no departures from IAS/IFRS.

The Bank of Italy, with reference to the financial statements of banks and financial companies subject to supervision, has established, by Circular 262 of 22 December 2005, as amended, the financial statements and explanatory notes used for the drafting of these Financial Statements. When drawing up these consolidated financial statements, illimity applied the provisions of Circular 262 – 7th update, issued on 29 October 2021, and took into account the supplements set out in the communication "Update to the supplements to the provisions of Circular no. 262 - Bank reporting: financial statements and rules on preparation", published on 21 December 2021, with the aim of providing the market with information about the effects of COVID-19 and the related economic support measures on intermediaries' strategies, targets and risk management policies, as well as on their performance and financial situation. These supplements take into account, where applicable, the documents published in recent months by European regulatory and supervisory bodies and by standard setters.

Lastly, the reclassifications and restatements provided for by the 7th update to Circular 262/2005, issued by Bank of Italy on 29 October 2021, were carried out whilst also recalculating the comparative figures as of 31 December 2020.

Except as stated herein – and more broadly described in Section 5 – there are no changes in the Accounting Standards adopted compared to the previous year.

Section 2 – Basis of Preparation

The Financial Statements comprise the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Shareholders' Equity, the Cash Flow Statement (prepared applying the "indirect" method) and the consolidated Explanatory Notes. The Consolidated Financial Statements are also accompanied by the Directors' Report on operations, on the economic results achieved and on the financial position and cash flows of the Group.

In accordance with Delegated Regulation (EU) 2019/815 on "Regulatory technical standards on the specification of a single electronic reporting format", illimity, as an issuer whose securities are traded on a regulated market of the European Union, is publishing this annual financial report in digital format, i.e. using iXBRL tagging.

In relation to the consolidated financial statements for the financial year ended 31 December 2021, the obligation to publish and file documents with iXBRL tagging is limited to the official financial statements, i.e. the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Shareholders' Equity and the Cash Flow Statement .

In accordance with Article 5 of Legislative Decree no. 38/2005, the financial statements have been drafted using the Euro as the functional currency. The amounts presented in the consolidated financial statements and in the Explanatory Notes are stated in thousands of euro, unless otherwise indicated. Any discrepancies between the figures presented are due solely to rounding.

These financial statements have been prepared assuming that the Group will continue as a going concern, since there are no significant uncertainties regarding events or conditions that may lead to doubts as to the Group's ability to continue to operate as a going concern. The valuation criteria adopted are therefore consistent with the business continuity assumption and comply with the principles of competence, relevance and materiality of accounting information and the precedence of economic substance over legal form. These criteria remained unchanged from the previous year.

The financial statements are prepared in accordance with IAS 1 and the specific accounting standards approved by the European Commission as illustrated in the "Section on the main financial statement items" of these Explanatory Notes.

The Financial Statements have been drafted with clarity and provide a true and fair view of the financial situation and economic result of illimity Bank S.p.A. (the "Parent Company") and subsidiaries and/or consolidated companies as of 31 December 2021, as described in the section "Consolidation area and methods".

The general principles used in the preparation of the financial statements are outlined below:

- business continuity: the valuations are made on a going-concern basis;
- matching principle: costs and revenues are recognised in the period in which they accrue in relation to the services received and supplied, regardless of the date of cash settlement;
- consistency of representation: to guarantee the comparability of the data and information in the financial statements and related tables, the representation and classification methods are kept the same over time, unless they have to be changed to comply with international accounting standards or interpretations, or unless there is a need to make the presentation of data more significant and reliable;
- relevance and aggregation: each major class of items with a similar nature or function is shown separately in the statement of financial position and income statement; items with different functions or of different types, if important, are highlighted separately;
- prohibition on set off: a prohibition on set off applies, unless a set-off is provided for or permitted by the international accounting standards or interpretations, or by the Bank of Italy Circular 262 of 22 December 2005 as amended;
- comparison with the previous year: the financial statements and formats show the amounts from the previous year, which may be adapted to ensure that they can be compared;
- the financial statements are prepared on the basis of substance over form and in accordance with the principle of relevance and materiality of information.

The consolidated statements as of 31 December 2021, which were approved by the Board of Directors on 10 March 2022, were audited by the independent auditors KPMG S.p.A.

Content of the financial statements

1. Consolidated statement of financial position and income statement

The consolidated statement of financial position and consolidated income statement consist of items, sub-items and additional details. In the consolidated income statement, revenues have been presented without sign, whereas costs have been stated in parentheses.

2. Consolidated statement of other comprehensive income

In addition to the profit (loss) for the year, the consolidated statement of other comprehensive income indicates income components taken to valuation reserves, net of the relevant tax effect, in accordance with international accounting standards.

Consolidated other comprehensive income is presented by separately stating income components that will not be reversed to the income statement in the future and those that instead may subsequently be reclassified to profit (loss) for the year in the year in which certain conditions are met. The statement also distinguishes the share of profit attributable to the Parent Company from that attributable to minority-interest shareholders. Negative amounts have been stated in parentheses.

3. Statement of changes in consolidated shareholders' equity

The statement shows the composition of and changes in shareholders' equity during the year of the report, broken down into share capital (ordinary and savings shares), capital reserves, earnings reserves and reserves from the measurement of assets or liabilities and net profit. The treasury shares in portfolio are deducted from shareholders' equity.

4. Consolidated cash flow statement

The statement of cash flows during the reporting year was prepared on the basis of the indirect method, according to which the cash flows from operating activities are represented by the results for the financial year, adjusted by the effects of non-monetary operations. The cash flows are divided between those generated by operating activities, those generated by investment activities and those generated by financing activities.

In the statement, the cash flows generated during the year are indicated without sign, while those absorbed are indicated in brackets.

Content of the Explanatory Notes

The Explanatory Notes include the information required by the IAS and by the Circular of the Bank of Italy no. 262 issued on 22 December 2005, as amended and supplemented, applicable to the drafting of these financial statements.

The main accounting issues relating to COVID-19

In view of the particular seriousness of the events resulting from COVID-19, during 2020 and 2021, the IASB and various European regulators issued a series of measures relating to the accounting consequences of the pandemic. In addition to those reported in the financial statements as of 31 December 2020, the main measures issued in 2021 are listed below.

ESMA:

- On 29 October 2021, in the communication "European common enforcement priorities for 2021 annual financial reports", ESMA set out the priorities for producing IFRS annual financial statements that adequately reflect the consequences of the COVID-19 pandemic and the effects of the main government measures to support the economy, the effects in financial and non-financial terms arising from climate change, and ECL reports for financial institutions.

EBA:

- On 29 January 2021, the EBA published further clarifications on the application of the prudential framework in response to the issues raised following the COVID-19 pandemic.

CONSOB:

- On 16 February 2021, in its warning notice "COVID 19 – measures to support the economy - drawing attention to financial reporting", CONSOB drew the attention of issuers to:
  a) The disclosure to be provided by supervised issuers, based on the aforesaid ESMA document of 28 October 2020 - European common enforcement priorities for 2020 annual financial reports;
  b) Verification by control bodies on information flows with the management board;
  c) Verification by independent auditors on impacts that may arise from uncertainties related to the effects of the pandemic.

Section 3 – Consolidation scope and methods

The following are the consolidation criteria and principles used to prepare the financial statements as of 31 December 2021.

Financial Statements included in the consolidation

The consolidated financial statements include the illimity Bank S.p.A. and the companies over which it directly or indirectly exercises control, comprising, for the period within the scope of consolidation – as specifically required by the international accounting standard IFRS 10 – the financial statements or reports of companies operating in business segments different from that of the Parent Company. The consolidated financial statements take into account the Parent Company's financial statements for the year ending as of 31 December 2021 and the financial statements of subsidiaries, appropriately reclassified and adjusted to take account of consolidation requirements and, where necessary, to bring them into line with the Group accounting principles.

The scope of consolidation of the financial statements as of 31 December 2021 includes the following entities:

i. **Aporti S.r.l.** (“Aporti”), in which the Bank holds a 66.7% stake, established to undertake the securitisation of Non-Performing Loans (hereinafter "NPLs"), through the subscription by the Bank of the notes issued by the securitisation vehicle established in accordance with Italian Law no. 130/1999;
ii. **Soperga RE S.r.l.** (REOCO) (“Soperga RE”) a wholly owned subsidiary of the Bank, established to manage the real estate assets associated with the portfolios of acquired NPLs pursuant to Article 7.1 of Italian Law no. 130/1999 on securitisations;
iii. **Friuli LeaseCo S.r.l.** (“Friuli LeaseCo”), a wholly owned subsidiary of the Bank, established to service the leasing transactions included in the portfolios of acquired NPLs, operating in accordance with Article 7.1 of Italian Law no. 130/1999 on securitisation;
iv. **Friuli SPV S.r.l.** (“Friuli SPV”), a wholly owned subsidiary of the Bank, established to undertake the securitisation of NPL leases, through the subscription by the Bank of the notes issued by the securitisation vehicle established in accordance with Italian Law no. 130/1999;
v. **Doria LeaseCo S.r.l.** (“Doria LeaseCo”), a wholly owned subsidiary of the Bank, established to service the leasing transactions included in the portfolios of acquired NPLs, operating in accordance with Article 7.1 of Italian Law no. 130/1999 on securitisation;
vi. **Doria SPV S.r.l.** (“Doria SPV”), a wholly owned subsidiary of the Bank, established to undertake the securitisation of NPL leases, through the subscription by the Bank of the notes issued by the securitisation vehicle established in accordance with Italian Law no. 130/1999;
vii. **River LeaseCo S.r.l.** (“River LeaseCo”), a wholly owned subsidiary of the Bank, established to service the leasing transactions included in the portfolios of acquired NPLs, operating in accordance with Article 7.1 of Italian Law no. 130/1999 on securitisation;
viii. **River SPV S.r.l.** (“River SPV”), a wholly owned subsidiary of the Bank, established to undertake the securitisation of NPL leases, through the subscription by the Bank of the notes issued by the securitisation vehicle established in accordance with Italian Law no. 130/1999;
ix. **neprix S.r.l.** (“neprix”), a wholly owned subsidiary of the Bank mainly operating in the non-performing loan sector, relying on the services of professionals with specific experience and know how in assessing and managing non-performing loans;
x. **illimity SGR S.p.A.** (“illimity SGR”) wholly owned by the Bank, which manages the assets of closed-end alternative investment funds (AIFs), established with own funds and the funds of third-party institutional investors;
xi. **Pitti LeaseCo S.r.l.** (“Pitti LeaseCo”), a wholly owned subsidiary of the Bank, established to service the leasing transactions included in the portfolios of acquired NPLs, operating in accordance with Article 7.1 of Italian Law no. 130/1999 on securitisation;
xii. **Pitti SPV S.r.l.** (“Pitti SPV”), a wholly owned subsidiary of the Bank, established to undertake the securitisation of NPL leases, through the subscription by the Bank of the notes issued by the securitisation vehicle established in accordance with Italian Law no. 130/1999;
xiii. **neprix Agency S.r.l.** (“neprix Agency”), wholly owned by neprix, a real-estate broker that handles sales and leases and certifies the value of properties and companies for third parties;

xiv. **River Immobiliare S.r.l.** ("River Immobiliare"), held entirely by the Bank, set up for the purchase, sale and management - for disposal - of property owned by the company;

xv. **Beagle SPE S.r.l.** ("Beagle SPE"), established to undertake the securitisation of NPL leases, through the subscription by the Bank of the notes issued by the securitisation vehicle established in accordance with Italian Law no. 130/1999;

xvi. **Hype S.p.A.** ("Hype"), held 50% by illimity through a joint venture with Fabrick (a company of the Sella group), that operates with a payment institute licence and is the digital solution for simple, efficient day-to-day money management. On the market since 2015, Hype has anticipated the response to the growing need of the public to access banking services in an entirely new way, offering other added value services.

xvii. **SpicyCo S.r.l.** ("SpicyCo"), of which illimity holds 49% of the share capital, which is responsible for the acquisition, management and sale of equity investments. Based on the company's Articles of Association, the economic and financial rights pertaining to illimity have been defined at 77.63%.

xviii. **SpicyCo 2 S.r.l.** ("SpicyCo 2"), of which illimity holds 49% of the share capital, which is responsible for the acquisition, management and sale of equity investments. Based on the company's Articles of Association, the economic and financial rights pertaining to illimity have been defined at 77.63%.

This scope has changed with respect to the consolidated financial statements for the year ended 31 December 2020. Below is a summary of the transactions that led to the change in the scope of consolidation.

INCLUSIONS

a) Acquisition of an investment in Hype with joint venture characteristics, consolidated according to the equity method;
b) Acquisition of a stake in SpicyCo, consolidated according to the equity method;
c) Acquisition of a stake in SpicyCo 2, consolidated according to the equity method;
d) Acquisition of all shareholdings in Doria SPV, Friuli SPV, Pitti SPV and River SPV, in addition to the acquisition of a controlling interest (66.7% of the share capital) in Aporti;
e) Full subscription of *Single Tranche Notes* of the vehicle Beagle SPE.

DISPOSALS

a) Merger of Core, IT Auction and Mado into neprix.

For further information on changes in the scope of consolidation during 2021, reference is made to Section 5 - Other aspects.

Details of the type of control and consolidation method for the scope of consolidated entities as of 31 December 2021 are given below:

Name	Operational headquarters	Registered office	Type of relationship (*)	Ownership relationship	
				Held by	Holding % (**)
Parent Company					
A.0 illimity Bank S.p.A.	Milan	Milan			
Companies consolidated on a line-by-line basis					
A.1 Aporti S.r.l. (SPV)	Milan	Milan	1-4	A.0	66.7%
A.2 Soperga RE S.r.l.	Milan	Milan	1	A.0	100.0%
A.3 Friuli LeaseCo. S.r.l.	Milan	Milan	1	A.0	100.0%
A.4 Friuli SPV S.r.l. (SPV)	Milan	Milan	1-4	A.0	100.0%
A.5 Doria Leasco S.r.l.	Milan	Milan	1	A.0	100.0%
A.6 Doria SPV S.r.l. (SPV)	Milan	Milan	1-4	A.0	100.0%
A.7 River Leasco S.r.l.	Milan	Milan	1	A.0	100.0%
A.8 River SPV S.r.l. (SPV)	Milan	Milan	1-4	A.0	100.0%
A.9 neprix S.r.l.	Milan	Milan	1	A.0	100.0%
A.10 illimity SGR	Milan	Milan	1	A.0	100.0%
A.11 Pitti Leasco S.r.l.	Milan	Milan	1	A.0	100.0%
A.12 Pitti SPV S.r.l. (SPV)	Milan	Milan	1-4	A.0	100.0%
A.13 neprix Agency S.r.l.	Faenza	Faenza	1	A.9	100.0%
A.14 River immobiliare S.r.l.	Milan	Milan	1	A.0	100.0%
A.15 Beagle SPE S.r.l.	Milan	Milan	4	A.0	
Companies consolidated on an equity basis					
A.16 Hype S.p.A.	Biella	Biella	5	A.0	50.0%
A.17 SpicyCo S.r.l.	Milan	Milan	6	A.0	49.0%
A.18 SpicyCo 2 S.r.l.	Milan	Milan	6	A.0	49.0%

(*) Type of relationship:
1 = majority of voting rights at the ordinary meeting of shareholders (pursuant to Article 2359 paragraph 1(1))
2 = dominant influence at the ordinary meeting of shareholders
3 = arrangements with other shareholders
4 = other forms of control
5 = joint control
6 = significant influence

(**) Availability of votes in the ordinary shareholders' meeting: the participation quota represents voting rights in the shareholders' meeting.

2. Significant assessments and assumptions to determine the consolidation area

2.1 Subsidiaries

Subsidiaries are those entities, including structured entities, over which the Parent Company has direct or indirect control. Under IFRS 10, control exists if the following elements are simultaneously present:

- the power to direct the subsidiary's main activities;
- exposure to, or rights to variable returns, arising from the relation with the investee company;
- the capacity to exercise its power on the investee company, to influence the amount of its returns.

Subsidiaries are consolidated from the date on which control was effectively acquired by the Group. They cease to be fully consolidated on the date on which control is transferred to entities external to the Group. The costs and revenues of a subsidiary are included in the scope of consolidation from the date of acquisition of control. The costs and revenues of a sold subsidiary are included in the consolidated income statements until the date of the sale, i.e. until the moment when the parent company ceases to have control over the affiliate.

Subsidiaries are those companies, including structured entities over which the parent company SPAXS exercises control and, as defined by IFRS 10, has the power to determine, directly or indirectly, their financial and operational policies, in order to obtain benefits from their activities.

The Group may sometimes exercise "de facto control" over certain entities when, even in the absence of a majority of voting rights, it possesses rights that allows a one-way management of the affiliate significant assets.

The subsidiary may also include structured entities, in which the voting rights are not significant for the purposes of assessing control. They include special-purpose entities and investment funds. Structured entities are considered to be controlled if:

- the Group has contractual rights giving it the power to govern the major activities;
- the Group is exposed to variable returns arising from those activities.

Line-by-line consolidation

Subsidiaries are consolidated using the line-by-line method. The consolidated financial statements prepared according to the full consolidation method represent the financial situation of the Group as a single economic entity.

The full consolidation method involves acquiring the statement of financial position and income statement aggregates of subsidiaries on a "line by line" basis. After the minority shareholders have been attributed their shares of the assets and profit or loss, the value of the equity investment is cancelled as a contra entry of the residual value of the subsidiary's assets. The assets, liabilities, costs and income of a significant amount, recognised among the consolidated entities, are eliminated.

Subsidiaries are consolidated from the date on which the Group acquires control according to the purchase method, as provided for in IFRS 3, which establish that the identifiable assets purchased and the identifiable liabilities accepted (including the potential liabilities) have to be recognised at their respective fair values on the date of acquisition. Any surplus in the paid price compared to the above fair values is recognised as goodwill or as other intangible assets; if the price is lower, the difference is charged to the income statements.

If there is an event that determines a loss of control, the effect recorded in the income statement is equal to the difference between (i) the sum of the fair value of the price received and the fair value of the residual interest held, and (ii) the previous carrying amount of the assets (including goodwill), of the liabilities of the subsidiary and of any third-party assets. The difference between the sale price of the subsidiary and the carrying amount of its net assets at the same date is recognised in the Income Statement under the item Gains (losses) on disposal of investments for companies consolidated on a line-by-line basis. The portion attributable to minority interests is recognised in the Statement of Financial Position under the item Shareholders' equity attributable to minority interests, separately from liabilities and shareholders' equity attributable to the Group. In the Income Statement as well, the portion attributable to minority interests is presented separately under the item Net profit (loss) attributable to minority interests.

2.2 Joint control agreements

A joint control agreement is a contractual arrangement whereby two or more counterparts have joint control. Joint control is the sharing, on a contractual basis, of the control of an arrangement that only exists when the unanimous consent of all the sharing control parties is required for decisions on major activities.

According to IFRS 11, joint control agreements have to be classified as Joint operation or Joint Venture depending on the contractual rights and obligations held by the Group:

- a Joint Operation is a joint control agreement in which the parties have rights to the assets and obligations, with regard to the liabilities of the agreement;
- a Joint Venture is a joint control agreement in which the parties have the rights to the net assets of the arrangement.

Investments in companies under joint control qualified as joint ventures are recognized using the equity method.

2.3 Associates

These are entities over which an investor has significant influence, and which is neither a subsidiary nor a joint venture.

The controlling entity is considered to have significant influence if:

- it holds, directly or indirectly, at least 20% of the capital in another company, or
- it can, also through shareholders' agreements, exercise significant influence through:
  a) representation on the company board of directors;
  b) participation in policy-making process, including participation in decisions about dividends or other distributions;
  c) material transactions between the investor and the investee;
  d) interchange of managerial personnel;
  e) provision of essential technical information.

Investments in associates are recognised using the equity method.

Equity method

Investments in associates and joint ventures are measured using the equity method. Post-acquisition profits and losses are recognised in the Income Statement under the line item Gains (losses) from investments. Any distribution of dividends is recognised minus the goodwill of the investment.

3. Investments in wholly-owned subsidiaries with significant minority interests

As required by paragraph 12 of IFRS 12, it is reported that there are no significant minority interests in subsidiaries as of 31 December 2021.

4. Significant restrictions

The Group operates in a regulated sector and is subject to the restrictions of paragraph 13 of IFRS 12 concerning significant legal, contractual or regulatory restrictions that could impede the swift transfer of assets within the Group.

5. Other information

There are no financial statements of subsidiaries used in preparing illimity consolidated financial statements for a date other than that of the consolidated financial statements.

Section 4 - Subsequent events

In detail, subsequent events are described in the relevant section of the Report on Operations; in this part of the Explanatory Notes it is indicated that pursuant to the requirements of IAS 10, after 31 December 2021, the reporting date, no events occurred requiring any rectification of the information presented in the financial statements.

For an examination of the business outlook, refer to the Report on Operations.

Section 5 – Other aspects

5.1 – Acquisition of the Joint Venture Hype S.p.A.

On 22 September 2020, the Boards of Directors of illimity, Banca Sella Holding S.p.A. ("Banca Sella Holding"), Fabrick S.p.A. ("Fabrick") and Hype approved the agreement for investment by illimity in Hype, giving rise to a 50-50 joint venture between illimity and Fabrick (until then 100% owner of Hype, and in turn owned by Banca Sella Holding S.p.A.). The purpose of the industrial transaction is to increase the project's ambitions and also to accelerate the growth of Hype.

On 22 December 2020, the Shareholders' Meeting of illimity, in an extraordinary session, following relative authorisations received from the Supervisory Authorities, unanimously approved the increase in share capital to serve agreements made with the Sella Group for the establishment of a joint venture in Hype. illimity therefore signed a deed of assignment, effective from 1 January 2021, for the acquisition by Fabrick S.p.A. of 37.66% of the share capital of Hype; illimity subscribed in cash the capital increase in HYPE and a deed was signed to assign the direct banking business unit to Hype, resulting in illimity holding 50% of Hype with effect from 1 January 2021.

On 5 January 2021, illimity, following its disclosure dated 29 December 2020, announced the new composition of its share capital, as follows: (i) the reserved capital increase for Fabrick S.p.A. totalling EUR 44,670,596.42 (of which EUR 3,491,882.89 as capital) freed up via the transfer to illimity of shares representing 37.66% of Hype S.p.A. (which took place on 29 December 2020, effective from 1 January 2021), the registration in the Companies' Register of the statement of the directors pursuant to Article 2343-quater of the Italian civil code (made on 5 January 2021) and consequent issue of 5,358,114 new ordinary shares for this increase, as well as (ii) the cash increase in capital for Banca Sella Holding S.p.A. for a total of EUR 16,544,676.46 (of which EUR 1,293,290.83 as capital), subscribed on 29 December 2020 with effect from 1 January 2021 (with regulation dated 5 January 2021), and consequent issue of 1,984,488 new ordinary shares, for this increase.

Following the above events, in accordance with IFRS 11 the stake in Hype and its consolidation were reported according to the equity method, while it was reported in the separate financial statements at cost. Based on the value of the investment recorded at the time of acquisition with respect to the pro-rata shareholders' equity of Hype, an implicit goodwill of approximately EUR 65.1 million was determined.

5.2 - Merger of Core, IT Auction and Mado into neprix

On 13 January 2021, the deed of merger of the companies Core, IT Auction and Mado into neprix was signed. The merger became effective on 1 February 2021. The accounting and fiscal effects of the merger started from 1 January 2021. On 7 January 2021, the subsidiary ITA Gestione changed its company name to "neprix Agency S.r.l" ("neprix Agency").

In addition, following the merger, neprix holds 100% of the shares in the company neprix Agency (formerly ITA Gestione), previously held by IT Auction. This merger has no effects on the consolidated financial statements, as these companies were already controlled by the Group and included in the consolidated financial statements on a line-by-line basis.

Use of estimates and assumptions in preparing the consolidated financial statements

In compliance with the requirements of the IFRS framework, the preparation of the consolidated financial statements requires the use of estimates and assumptions that may influence the values stated in the statement of financial position and income statement and the disclosures regarding contingent assets and liabilities presented in the consolidated Financial statements.

The estimates and related assumptions are based on the use of available management information and subjective assessments, also founded on historical experience. The use of reasonable estimates is, thus, an essential part of the preparation of the financial statements. The components in which the use of estimates and assumptions is substantially inherent in determining the book values are indicated below:

- measurement of loans;
- measurement of financial assets not quoted in active markets;
- determination of the amount of accruals to allowances for risks and charges;
- determination of the amount of deferred taxation;
- assessments regarding the recoverability of goodwill;
- definition of the depreciation and amortisation of property and equipment and intangible assets with finite useful lives.

It should also be noted that an estimate may also be adjusted due to changes in the circumstances on which it was based, new information or greater experience. By their nature, the estimates and assumptions used may change from one period to the next. Accordingly, the values presented in the financial statement may differ, also to a significant degree, from current estimates. Any changes in the estimates are applied prospectively and therefore result in an impact on the income statement in the year which the change occurs as well as that for future years.

New documents issued by the IASB and endorsed by the EU, adoption of which is mandatory with effect from financial statements for years beginning on or after 1 January 2021.

Document title	Issue date	Effective date	Date endorsed	EU regulation and publication date
Extension of the Temporary Exemption from Applying IFRS 9 - Amendments to IFRS 4 Insurance Contracts	June 2020	1 January 2021	15 December 2020	(UE) 2020/2097 16 December 2020
Interest Rate Benchmark Reform — phase 2 - Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	August 2020	1 January 2021	13 January 2021	(UE) 2021/25 14 January 2021

As shown in the above table, the adoption of several amendments to accounting standards endorsed by the European Commission in 2021 is mandatory with effect from 2021. These amendments are not particularly relevant to the Group. In further detail:

- Commission Regulation (EU) 2020/2097: The amendments to IFRS 4 are aimed at remedying the temporary accounting impact of the time lag between the date of entry into force of IFRS 9 Financial instruments and the effective date of the future IFRS 17 Insurance contracts. In particular, amendments to IFRS 4 extend the temporary exemption from adopting IFRS 9 until 2023, in order to align the date of entry into force of IFRS 9 with the new IFRS 17;
- Commission Regulation (EU) 2021/25: The change is to take into account the consequences of replacing the benchmark indexes used to determine interest rates, with alternative reference rates. These amendments require specific accounting treatment to allocate, over time, changes in the value of financial instruments or lease agreements due to the replacement of the benchmark to determine interest rates, thus avoiding immediate repercussions on profit (loss) for the period and pointless suspensions in hedging following the replacement of the benchmark to determine interest rates.

IAS/IFRS and the relative IFRIC interpretations applicable to financial statements of financial years starting after 1 January 2021

Documents endorsed by the'EU as of 31 December 2021

Document title	Issue date	Effective date	Date endorsed	EU regulation and publication date
Improvements to IFRS (2018–2020 cycle) [Amendments to IFRS 1, IFRS 9, IFRS 16[1] and IAS 41]	May 2020	1 January 2022	28 June 2021	(UE) 2021/1080 02 July 2021
Property, plant and equipment – Proceeds before Intended Use (Amendments to IAS 16)	May 2020	1 January 2022	28 June 2021	(UE) 2021/1080 02 July 2021
Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37)	May 2020	1 January 2022	28 June 2021	(UE) 2021/1080 02 July 2021
Reference to the Conceptual Framework (Amendments to IFRS 3)	May 2020	1 January 2022	28 June 2021	(UE) 2021/1080 02 July 2021
IFRS 17 – Insurance Contracts (including amendments published in June 2020)	May 2017 June 2020	1 January 2023	19 November 2021	(EU) 2021/2036 of 23 November 2021

Documents NOT yet endorsed by the EU as of 31 December 2021

Document title	Issue date by the IASB	Date of entry into force of the IASB document	Date of expected endorsement by the EU
Standards			
IFRS 14 Regulatory Deferral Accounts	January 2014	01 January 2016	TBD
Amendments			
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	September 2014	Deferred until completion of the IASB project concerning the equity method	TBD
Classification of Liabilities as Current or Non-current (Amendments to IAS 1), including subsequent amendment issued in July 2020[2]	January 2020 July 2020	1 January 2023	TBD
Disclosure of Accounting policies (Amendments to IAS 1 and IFRS Practice Statement 2)	February 2021	1 January 2023	TBD
Definition of Accounting Estimates (Amendments to IAS 8)	February 2021	1 January 2023	TBD
Deferred tax related to assets and liabilities arising from a single transaction (Amendments to IAS 12)	May 2021	1 January 2023	TBD
Initial Application of IFRS 17 and IFRS 9 — Comparative Information (Amendment to IFRS 17)	December 2021	1 January 2023	TBD

These documents will only apply after they have been harmonised by the EU.

1 The amendment to IFRS 16 was not endorsed by the European Union because the change refers to an illustrative example that is not an integral part *of the Standard*.

2 A project is being carried out by the IASB to amend the *requirements* of the document published in 2020 and to postpone its entry into force until 1 January 2024. The Exposure Draft was published on 19 November 2021.

A.2 SECTION ON THE MAIN FINANCIAL STATEMENT ITEMS

This section presents the accounting standards used to prepare the consolidated accounts to 31 December 2021 with reference to the classification, recognition, measurement and derecognition of the various asset and liability items, and for the methods used for the recognition of costs and revenues.

Financial assets measured at fair value through profit or loss

This category of financial assets measured at fair value through profit or loss (FVTPL) includes Financial assets that cannot be qualified as Financial assets measured at fair value through comprehensive income or as Financial assets measured at amortised cost. This item therefore includes:

- financial assets held for trading, which are essentially debt and capital instruments and financial derivatives, for which there is a short-term profit-making strategy;
- financial assets mandatorily measured at fair value that do not meet the requirements for valuation at amortised cost or at fair value with an impact on comprehensive income. These are assets for which the contractual terms do not provide only for reimbursement of capital and payment of interest on the amount of capital to be returned (the so-called failed "SPPI test"), or which are not held in connection with a "Hold to Collect" business model, or whose objective is the "Hold to Collect and Sell" business model;
- financial assets designated at fair value, namely financial assets which are thus defined at the time of first recognition, if the requirements are met. An entity can irrevocably designate, on recognition, a financial asset as being measured at fair value through profit or loss if, and only if, by so doing it would eliminate or significantly reduce an inconsistency in valuation.

As reported above, this item includes derivatives, which are recognised among financial assets held for trading, which are represented as assets if the fair value is positive, and as a liability if the fair value is negative. It is observed that it is possible to offset the current positive and negative values from transactions with the same counterparty only if there is currently a legal right to offset the recognised amounts, and where there is an intention to settle the offset positions on a net basis. Derivatives may also include those incorporated in complex financial contracts – in which the primary contract is a financial liability – which have been recognised separately, as:

- their economic characteristics and risks are not closely correlated to the characteristics of the underlying contract;
- the incorporated instruments, even if separate, meet the definition of derivative;
- the hybrid instruments they belong to are not valued at fair value with the related changes recognised on the income statement.

Reclassifications to other categories of financial assets are only permitted if the entity changes its business model with regard to the management of financial assets. In such cases, which are expected to be infrequent, the financial assets may be reclassified from the category measured at fair value, affecting the income statement, to one of the other two categories permitted by IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at fair value affecting comprehensive income). The transfer value is represented by the fair value at the time of reclassification and the effects of reclassification operate on a forward-looking basis, from the date of reclassification. In this case, the effective interest rate of the reclassified asset is determined on the basis of its fair value on the reclassification date. That date is taken to be the date of first recognition, for stage assignment for impairment purposes.
The initial recognition of financial assets takes place on the date of settlement for debt securities and equity instruments, on the date of disbursement for loans, and on the date of subscription, for derivatives. Upon initial recognition, financial assets measured at fair value though profit and loss are recognised at fair value, without considering transaction costs or income, which are immediately recognised in the income statement, even if directly attributable to these financial assets.

After the first recognition, financial assets measured at fair value through profit or loss are measured at fair value and the effects of applying this measuring principle are charged to the income statement. To determine the fair value of financial instruments listed on an active market, the market prices are used. Without an active market, the commonly-adopted estimation and valuation models are used, which take into account all the risk factors related to the instruments and are based on observable market data, such as: (i) methods based on the valuation of listed instruments with similar characteristics; (ii) discounted cash flow calculations, models for determining the option prices; (iii) recorded values of recent comparable transactions.

Financial assets are eliminated from the financial statements when the contractual rights to the related cash flows expire, or when the financial asset is sold with a substantial transfer of all the related risks and benefits. Conversely, if a significant part of the risks and benefits of the sold assets has been maintained, the assets will still be recognised in the financial statements, even if legally, ownership of them has been effectively transferred.
If it is not possible to ascertain the material transfer of the risks and benefits, the financial assets will be eliminated if no type of control has been retained. Otherwise, even if partial control has been retained, the assets will be maintained to an extent equal to the residual involvement, which is measured by the exposure to changes in value of the sold assets and to changes in their cash flows.

Realised gains and losses on disposal or redemption and unrealised gains and losses arising from changes in the fair value of financial assets held for trading are recognised in the income statement under the item "Net trading result".
The accounting treatment of financial assets mandatorily measured at fair value or designated at fair value is similar to that of "Financial assets held for trading", with the recording of profits or losses, realised and measured, under the item "Profits (losses) on other financial assets and liabilities measured at fair value through profit or loss", respectively under the components "a) financial assets and liabilities designated at fair value" and "b) other financial assets obligatorily measured at fair value".

Financial assets measured at fair value through other comprehensive income

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

- the financial asset is owned according to a business model the goal of which is achieved both through the collection of contractually determined cash flows and through the sale ("Hold to Collect and Sell" business model), and
- the contractual conditions of the financial asset provide for cash flows on certain dates which consist only of payments of capital and interest on the amount of capital to be repaid ("SPPI test" passed).

This item also includes equity instruments not held for trading for which, at the time of first recognition, the option for designation at fair value through other comprehensive income has been exercised.

In particular this item includes:

- debt instruments related to a Hold to Collect and Sell model which have passed the SPPI test;
- shareholder interests that cannot be qualified as controlling, connected or joint control, which are not held for trading purposes, and for which an option for designation at fair value through comprehensive income has been exercised;
- loans connected to a Hold to Collect and Sell model that have passed the SPPI test, including shares in syndicated loans or other types of loan that, from the origin, are destined for sale and which relate to a Hold to Collect and Sell business model.

In general, IFRS 9 does not allow reclassifications to other categories of financial assets except where the entity changes its business model with regard to the management of financial assets.

In such cases, which are expected to be very infrequent, the financial assets may be reclassified from the category of assets measured at fair value through comprehensive income to one of the other two categories permitted by IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at fair value affecting profit or loss). The transfer value is represented by the fair value at the time of reclassification and the effects of reclassification operate on a forward-looking basis, from the date of reclassification. In the case of reclassification from this category to the amortised cost category, the cumulative profit or loss recognised in the revaluation reserve is carried as an adjustment to the fair value of the financial asset on the date of reclassification. In the case of reclassification into the category of fair value through profit or loss, the profit or loss that was previously recognised in the revaluation reserve is reclassified from shareholders' equity to the profit or loss for the year.

The initial recognition of financial assets takes place on the date of settlement for debt instruments and equity instruments, and on the date of disbursement for loans. At the time of first recognition, the assets are recognised at fair value inclusive of the transaction costs or income directly attributable to the instrument. This excludes costs or revenues that, despite meeting the above conditions, are the subject of reimbursement by the borrower or can be classified under normal internal administration costs.
After initial recognition, assets classified at fair value through other comprehensive income other than equity instruments are measured at fair value and the impacts from application of amortised cost are recognised on the income statement together with the effects of impairment and any foreign exchange effect, while the other profits or losses arising from a change in fair value are recognised in a specific shareholders' equity reserve until the financial asset is derecognised. At the time of total or partial disposal, the profit or loss in the revaluation reserve is reinstated, in full or in part, in the income statement. Subsequent to the initial recognition, therefore, with regard to accrued interest on interest-bearing instruments, they are recognised in the income statement according to the amortised cost criterion in the line item "Interest and similar income" where positive, or in the line item "Interest expense and similar charges" if negative. Profits and losses arising g from changes in fair value are instead recognised in the Statement of comprehensive income and shown in the item "Valuation reserves" of shareholders' equity.

Equity instruments that were classified in this category are measured at fair value and the amounts recognised as a contra-entry of shareholders' equity (Statement of comprehensive income) must not be subsequently transferred to the income statement, not even in the case of disposal (OCI exemption). The only item relating to the equity instruments in question that is recorded on the income statement is the related dividends.

The fair value is determined on the basis of the principles already illustrated, for the Financial assets designated at fair value through profit or loss.

For the equity instruments included in this category not listed on an active market, the cost criterion is used to estimate the fair value only on a secondary basis and limited to a small number of circumstances, namely if none of the above valuation methods can be applied or if there is a wide range of possible fair value valuations, within which the cost is the most significant estimate.
Financial assets designated at fair value through other comprehensive income - in the form of debt or credit instruments – are subject to verification of the significant increase in credit risk (impairment) provided for in IFRS 9, like Assets at amortised cost, and therefore a value adjustment is recognised in the income statement to cover the expected losses. These impairment losses are recognised in the income statement under the item "Net write-downs/write-backs for credit risk relating to: b) financial assets measured at fair value through other comprehensive income", offset by the statement of comprehensive income and also shown under the item "Reserves from valuation" of shareholders' equity. Equity instruments are not recognised in the income statement as impairment in accordance with IFRS9. Only dividends will be shown in the income statement under the item "Dividends and similar income".

Financial assets are eliminated from the accounts when the contractual rights to the related cash flows expire, or when the financial asset is sold with a substantial transfer of all the related risks and benefits.

Conversely, if a significant part of the risks and benefits of the sold assets has been maintained, the assets will still be recognised in the financial statements, even if legally, ownership of them has been effectively transferred.

If it is not possible to ascertain the material transfer of the risks and benefits, the financial assets will be eliminated if no type of control has been retained. Otherwise, even if partial control has been retained, the assets will be maintained to an extent equal to the residual involvement, which is measured by the exposure to changes in value of the sold assets and to changes in their cash flows.
Finally, sold financial assets are derecognised if the contractual rights to receive the related cash flows have been retained with the simultaneous acceptance of an obligation to pay those cash flows, and only those, without a significant delay, to other third parties.

In the case of disposal, profit and losses are recognised in the income statement under the item "Profits/ losses on disposal or repurchase of: b) financial assets measured at fair value through other comprehensive income".
The amounts arising from the adjustment made to the carrying amounts of financial assets, considered gross of the related total write-downs/write-backs, in order to reflect changes made to contractual cash flows that do not give rise to write-offs, are recognised in the income statement under the item "Profits/ losses on changes in contracts without derecognition; this item does not include the impact of contractual changes on the amount of expected losses that must be recognised under the item "Net losses/recoveries for credit risk associated with: b) financial assets measured at fair value through other comprehensive income".

With regard to equity instruments, in the case of disposal, accumulated profits and losses are recorded under "Reserves".

Financial assets measured at amortised cost

This category includes financial assets (in particular, loans and debt instruments) that meet both the following conditions:

- the financial asset is owned according to a business model of which the goal is achieved through the collection of contractually determined cash flows ("Hold to Collect" business model), and
- the contractual conditions of the financial asset provide for cash flows on certain dates which consist only of payments of capital and interest on the amount of capital to be repaid ("SPPI test" passed).

Specifically, this item includes: customer and bank loans disbursed directly or acquired from third parties that provide for fixed or determinable payments, which are not listed on an active market and which have not been classified at origin under Financial assets measured at fair value through other comprehensive income.

The receivables item also includes debt instruments, repos and securities acquired through subscription or private placement with determinate or determinable payments, which are not listed on active markets.

In general, IFRS 9 does not allow reclassifications to other categories of financial assets except where the entity changes its business model with regard to the management of financial assets. In such cases, which are expected to be extremely infrequent, the financial assets may be reclassified from the category measured at amortised cost in one of the other two IFRS 9 categories (Financial assets measured at amortised cost or Financial assets measured at fair value through profit or loss). The transfer value is represented by the fair value at the time of reclassification and the effects of reclassification operate on a forward-looking basis, from the date of reclassification. The profits or losses resulting from the difference between the amortised cost of the financial asset and its relative fair value are recognised on the income statement in the case of reclassification among Financial assets designated at fair value through profit or loss and Shareholders' equity, in the relevant revaluation reserve, in the case of reclassification among Financial assets designated at fair value through other comprehensive income.

The initial recognition of the financial assets takes place on the date of settlement for debt instruments and on the date of disbursement for loans. At the time of first recognition, the assets are recognised at fair value inclusive of the transaction costs or income directly attributable to the instrument.
With particular reference to loans, the date of disbursement is usually the date on which the contract is signed. If this is not the case, when the contract is signed a commitment will be included to disburse funds, and this commitment ends on the date the loan is drawn down. The loan will be recognised on the basis of its fair value, equal to the amount lent, or the subscription price including the costs or income directly linked to the individual loan and which can be determined from the outset of the operation, even if paid at a later date. This excludes costs that, despite meeting the above conditions, are the subject of reimbursement by the borrower or can be classified under normal internal administration costs.

After first recognition the loans are measured at the amortised cost which is equal to the value of first recognition, reduced or increased by the repayments of capital, the write-downs/write-backs and the amortisation – calculated according to the effective interest rate method – of the difference between the amount loaned and the amount repayable on maturity, which is typically linked to the costs and income directly attributable to the individual loan.

The effective interest rate is the rate that discounts the flow of estimated future payments for the expected duration of the loan in order to obtain an accurate net book value at the time of the first recognition, which includes both the transaction costs and revenues directly attributable and also all the payments made or received between the contracting parties. This method of accounting, which uses a financial logic, allows the economic effects of the costs and income to be distributed along the expected residual life of the loan. Accrued interest is shown in the item "Interest income and similar income" where positive, or in the item "Interest expenses and similar charges" where negative. Any adjustments/write-backs are recognised in the income statement under the item "Net losses/recoveries for credit risk associated with: a) financial assets measured at amortised cost". In the event of sale, profits and losses are recognised in the income statement under the item "Profits/losses on disposal or repurchase of: a) financial assets measured at amortised cost". The amounts arising from the adjustment made to the carrying amounts of financial assets, considered gross of the related total write-downs/write-backs, to reflect changes made to contractual cash flows that do not give rise to write-offs, are recognised in the income statement under the item "Profits/losses on changes in contracts without derecognition"; this item does not include the impact of contractual changes on the amount of expected losses that must be recognised under the item "Net losses/recoveries for credit risk associated with: a) financial assets measured at amortised cost".

The amortised cost method is not used for loans of a short term for which the effect of applying the discounting method is considered negligible. Those loans are measured at the historic cost. The same measurement principle is used for loans with no definite maturity date, or revolving credit.

The measurement criteria are closely connected to the inclusion of these instruments in one of the three stages of credit risk provided for in IFRS 9, the last of which (stage 3) includes non-performing financial assets and the others (stages 1 and 2) include performing assets.

With reference to the presentation of these valuations, the write-downs/write-backs referring to this type of asset are recognised in the income statement:

- at the time of initial recognition, for an amount equal to the loss expected at 12 months;
- at the time of subsequent measurement, if the credit risk has not increased significantly compared to the initial recognition, based on the changes in write-downs/write-backs due to expected losses over the following twelve months;
- at the time of subsequent measurement, if the credit risk has significantly increased compared to initial recognition, based on the recognition of write-downs/write-backs for expected losses over the entire residual contractual life of the asset;
- upon subsequent measurement, if – after there has been a significant increase in the credit risk compared to initial recognition – the materiality of that increase no longer exists in relation to the change in cumulative write-downs/write-backs to take into account the transition from a loss over the asset's lifetime, to one over twelve months.

If the financial assets in question are performing, they are subjected to a valuation intended to define the write-downs/write-backs to be taken from the financial statements for each loan account (or "tranche" of the security), based on the risk parameters: probability of default (PD), loss given default (LGD) and exposure at default (EAD), and are adjusted as necessary to reflect the provisions of IFRS 9.
If, together with a significant increase in the credit risk there is also objective evidence of a loss in value, the amount of the loss is measured as the difference between the book value of the asset – classified as non-performing, in the same way as all the other relations with the same counterpart – and the current value of the estimated future cash flows, discounted at the original effective interest rate. The amount of the loss recorded on the income statement is defined according to a detailed valuation process, or is determined for identical categories and therefore, is attributed in detail to each position, taking into account forward-looking information and potential alternative recovery scenarios.

Non-performing assets include financial instruments that have been given bad loan status, unlikely to pay or overrun/past-due for more than 90 days according to the Bank of Italy regulations, in line with the IAS/IFRS and European regulation.
The expected cash flows take into account the expected recovery times and the presumed realisation value of any guarantees.

The effective original rate of each asset remains unchanged over time, even if there has been a restructuring of the account that led to the change in the contractual rate, and even if the account is not, in practice, bearing contractual interest.

If the reasons for the impairment are removed following a subsequent event occurring after the recognition of the change in value, write-backs are made and allocated to the income statement. The write-back may not exceed the amortised cost that the financial instrument would have had without such adjustments having been made.

Write-backs connected to the passage of time are posted in the net interest margin.

In some cases, during the life of the financial assets in question and of the loans in particular, the original contractual conditions are then modified by the parties to the contract. If the contractual terms are modified during the life of an instrument, there is a need to check whether the original asset is still to be recognised or needs to be de-recognised, and a new financial instrument recognised in its place.

In general, changes to a financial asset lead to its de-recognition and the entry of a new asset, if the changes are substantial. Considerations about the "substantiality" of changes are based on qualitative and quantitative factors. In some cases it may be clear, without using complex analyses, that the changes have substantially modified the characteristics and/or cash flows of a certain asset while in other cases, additional quantitative analysis has to be done to assess the effects of the changes, and to check whether or not to de-recognise the asset and enter a new one.

The quali-quantitative analyses intended to define the substance of the contractual changes made to a financial asset must therefore consider:

- the reasons why the changes were made: for example, renegotiations for commercial reasons and concessions due to financial difficulties of the counterparty;
    a) commercial reasons, designed to "keep" the customer, involve a borrower that is not in a situation of financial difficulty. This type of case includes any renegotiation designed to adapt the burden of the debt to the market conditions. These operations involve a change to the original contractual conditions, usually requested by the borrower, and relate to the onerousness off the debt resulting in an economic benefit to the borrower. In general it is considered that whenever the Group renegotiates to avoid losing a customer, the renegotiations must be considered as substantial because if they did not take place, the customer could be financed by another bank, and the Group would see a decrease in its expected future revenue;

b) the second type of renegotiation, which is done for "credit risk reasons" (forbearance measures) relates to the Group's attempt to maximise the recovery of cash flows from the original loan. The underlying risks and benefits, after the changes, are not usually substantially transferred, and, therefore, the accounting presentation that gives the most relevant information to the reader (apart from the information given below on objective elements) is "modification accounting" – which implies the recognition in the income statement of the difference between the carrying amount and the discounted value of the modified cash flows, discounted at the original interest rate – and not through derecognition;

- the presence of objective elements or triggers that affect the characteristics and/or contractual flows of the financial instrument (including change of currency, or changes to the type of risk the Bank is exposed to, if it is correlated to equity and commodity criteria), which the derecognition is expected to involve considering their impact (expected to be significant) on the original contractual flows.

Financial assets are derecognised only if the disposal resulted in the substantial transfer of all the risks and benefits connected to the assets. Conversely, if a significant part of the risks and benefits of the sold assets has been maintained, the assets will still be recognised in the financial statements, even if legally, ownership of them has been effectively transferred.

If it is not possible to ascertain the material transfer of the risks and benefits, the financial assets will be eliminated if no type of control has been retained. Otherwise, even if partial control has been retained, the assets will be maintained to an extent equal to the residual involvement, which is measured by the exposure to changes in value of the sold assets and to changes in their cash flows.

Finally, sold financial assets are derecognised if the contractual rights to receive the related cash flows have been retained with the simultaneous acceptance of an obligation to pay those cash flows and only those, without a significant delay, to other third parties.

As regards the recognition methods of purchased or originated impaired Financial assets (so-called POCI), refer to the "Other information" section – Part A of these Explanatory Notes.

Hedging operations

As of 31 December 2021 the Group does not hold hedging instruments.

Equity investments

The item includes investments in joint ventures and associates.
Companies are considered are joint ventures if, on a contractual basis, control is shared between the Bank and one or more other parties or when the unanimous consent of all the controlling parties is necessary for decisions concerning significant activities.
Companies are considered to be subject to significant influence (associates) if the Bank holds at least 20% of the voting rights (including potential voting rights) or if the Bank has a smaller share of the voting rights but can participate in determining the associate's financial and operational policies because of particular legal conditions such as participation in shareholder agreements.
Investments in joint ventures and companies subject to significant influence are recognised at cost and accounted for using the equity method.
On each reporting date, any objective evidence that the investment has been impaired, is verified. The recoverable value will then be calculated by considering the discounted value of the future cash flows that the equity investment could generate, including the final disposal value.
Equity investments are eliminated from the financial statements when the contractual rights to the related cash flows expire, or when the investment is sold with a substantial transfer of all the related risks and benefits.

Property and equipment

This item includes property and equipment for functional use (IAS 16), those held for investment (IAS 40) and inventories of property and equipment (IAS 2). Property and equipment also include rights of use acquired through lease agreements relating to the use of property and equipment (for the lessee) and operating leasehold assets (for the lessor) under IFRS 16.

This item includes long-term assets held for the purpose of generating income, for leasing or for administration purposes such as land, instrumental real estate, property investments, technical installations, furniture and fittings, tools of any type, and works of art.
Property and equipment also include the costs of improvement to leasehold assets if they can be separated from the assets themselves. If these costs are not independently functional and usable but future benefits are expected, they are entered under “other assets” and are depreciated over the shortest of the foreseeable life of the improvements, and the residual term of the lease. The related depreciation is entered under “Other operating expenses/income”. The value of Property and equipment also includes any advances paid for acquisition, and the restructuring of any assets not yet included in the production process and therefore not depreciated.

Property and equipment held for the provision of services or for administration purposes are defined as “for use in the business” (IAS 16), while assets “for investment purposes” (IAS 40) are those held to collect leasing charges and/or for the appreciation of the invested capital. Property and equipment constitute inventories (IAS2) where they are held for sale in the normal course of business.
Property and equipment are recognised at the cost of acquisition, adjusted by the ancillary costs and any incremental expenses, and are presented in the financial statements net of any impairment loss and depreciation on a straight line basis from the period in which they were input into the production process. Maintenance and repair costs that do not lead to an increase in the value of the assets are charged to the income statement for the period.

Subsequent to initial recognition, property and equipment are recognised at cost net of accumulated depreciation and impairment losses. In fact, property and equipment are systematically depreciated using the straight-line method, over their useful life. The properties are depreciated for a portion deemed appropriate to represent the deterioration of the assets over time as a result of their use, taking into account extraordinary maintenance costs, which increase the value of the assets.

However, the following are not depreciated:
- the land, whether acquired individually or incorporated into the value of the buildings, as it has an indefinite useful life;
- investment property that, as required by IAS 40, is measured at fair value through profit or loss, must not be depreciated;
- inventories (IAS 2): these assets are measured at the lesser between cost and the net realisable value.

A tangible asset is eliminated from the statement of financial position at the time of disposal, or when the asset is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any difference between the disposal value or recoverable amount and the book value is then recognised in the income statement respectively under the item "Profits (losses) on disposal of investments” or “Net adjustments/write-backs on property and equipment”.

In application of IFRS 16, the item property and equipment also includes the right of use referring to lease contracts on property and equipment. A lease is defined as a contract the fulfilment of which depends on the use of an identified asset, and that conveys the right to control the use of the asset for a period of time in exchange for consideration: IFRS 16, therefore, applies to all transactions that provide for a right to use the good, regardless of its contractual form. The scope of application of the Standard excludes contracts that have terms of less than 12 months or that refer to leased assets with low unit values when new.

In accordance with IFRS 16, the Bank shall initially recognise an asset representing the Right of use ("ROU") of the leased asset, together with a liability represented by the present value of the expected future lease payments over the life of the lease contract (the "Lease Liability") discounted at the implicit rate of the transaction (if determinable); if the rate cannot be easily determined, the lessee shall instead use the incremental borrowing rate (IBR). The ROU is, therefore, initially determined by increasing the Lease Liability of the initial direct costs incurred by the lessee.
With regard to measurements following the initial recognition of lease contracts, the lessee must measure the ROU on the basis of a cost model; therefore:

- the right of use was depreciated over the term of the contract or the useful life of the asset (on the basis of IAS 16) and is subject to impairment;
- the liability was progressively reduced due to the effect of the lease payments and the relevant interest expenses have been recognised and attributed separately to the income statement.

Intangible assets

Non-monetary identifiable non-physical assets held to be used over several years or for an indefinite period, are termed intangible. They are generally represented by software and the rights to use intellectual property, trademarks and other intangible assets. They are recognised at the cost of purchase adjusted for any ancillary costs only if the future economic benefits attributable to the asset are likely to be realised and if the cost of the asset can be reliably determined. Otherwise, the cost of intangible assets is recognised in the income statement of the year in which it was incurred. Intangible assets also include rights of use acquired through lease agreements relating to the use of intangible assets under IFRS 16.

They are only recognised if the assets can be identified and originate from legal or contractual rights. Otherwise, the cost of intangible assets is recognised in the income statement of the year in which it was incurred.

An intangible asset is identifiable if:

- it is separable, in other words it can be separated or divided and sold, transferred, given under licence, leased or exchanged;
- it derives from contractual or other legal rights regardless of whether those rights can be transferred or separated from other rights and obligations.

The asset can be controlled by the company as a result of past events on the assumption that through its use, the company will receive economic benefits. The company has control of an asset if it has the power to use the future economic benefits arising from that asset and it can also limit access to those benefits by third parties. An intangible asset is recognised as such if:

- it is probable that the company will receive future economic benefits from that asset;
- the cost of the asset can be reliably measured.

The probability that there will be future economic benefits is assessed by representing the best estimate of all the economic conditions that will exist during the useful life of the asset, taking into account the available sources of information at the time of initial recognition.
For assets with a definite life, the cost is amortised on a straight line basis. Assets with an indefinite useful life, if existing, are not systematically amortised but undergo a periodic test to check the adequacy of the recognition value.
If there is any indication that demonstrates that an asset may have suffered an impairment of value, its recovery value is estimated. The amount of the loss, recognised in the income statement under the item "Net write-downs/write-backs on intangible assets" is equal to the difference between the asset' carrying amount and its recoverable value.

Intangible assets are categorised as goodwill, which is the positive difference between the cost of purchase and the fair value of the assets and liabilities belonging to an acquired entity. Whenever there is a loss in value, and in any case at least once a year, a check is carried out to ensure there are no long-term value impairments. For this purpose the CGU to which the goodwill should be allocated, will be identified. The CGU is the minimum level at which the goodwill is monitored for internal operational purposes and must not be greater than the operating segment determined in accordance with IFRS 8.

Any reduction in value is determined on the basis of the difference between the recognition value of the goodwill and its recovery value, if lower. The recovery value is equal to the higher of the fair value of the CGU, net of any costs of sale, and the related value in use. The value in use is the current value of the future cash flows expected from the CGU to which the goodwill was attributed.

In order to verify the adequacy of goodwill value, the impairment test is carried out, governed by accounting standard IAS 36 – Impairment of Assets, which provides that, at least on an annual basis and, in any case, whenever events arise that suggest a potential impairment, a test must be carried out to verify the adequacy of the goodwill value subject to recognition. The impairment test is carried out identifying the units generating financial flows to which goodwill is allocated and, if the value of goodwill is lower than its recoverable value (determined as its value in use), any impairment losses must be recognised in the income statement, they are not susceptible to future value recoveries.
The value of intangible assets having a specific duration is systematically amortised starting from the inclusion of such assets in the production process. An intangible asset is therefore eliminated from the statement of financial position (i) at the time of disposal, (ii) when it is fully amortised or (iii) when future economic benefits are not expected. Any difference between the disposal value or recoverable amount and the carrying amount is recognised in profit or loss respectively under the item "Profits (losses) on disposal of investments" or "Net write-downs/recoveries on intangible assets"

With reference to the methods of recognition of leases pertaining to intangible assets in accordance with IFRS 16, see the paragraph referring to property and equipment.

Non-current assets and asset/liability groups held for sale

"Non-current assets and asset groups held for sale" are classified under assets, while "Liabilities associated with non-current assets held for sale and discontinued operations", non-current assets or asset/liability groups for which a sale process has been initiated and whose sale is considered highly likely, are classified under liabilities.

Such assets/liabilities are valued at the lower of carrying amount and fair value net of disposal costs, with the exception of certain kinds of asset (e.g. financial assets falling within the scope of application of IFRS 9), for which IFRS 5 specifies that the valuation criteria of the pertinent accounting standard must be applied.

Non-current assets and asset groups may be included in portfolios of assets for which there are no prices on an active market. In that case, they should be valued at fair value, referring, if an agreement has been reached with the purchasing counterparty, to the sale prices resulting from said agreement; in the absence of an agreement, specific valuation techniques should be applied depending on the asset, potentially making use of external fairness opinions.

Income and expense (net of tax effect), attributable to asset groups held for sale or recognised as such during the course of the financial year, are recognised in the income statement under a separate item.

Current and deferred taxes

Income taxes, calculated in accordance with current tax regulations, are recognised in the income statement according to the accruals principle, in line with the recognition of the costs and revenues that generated them, apart from those relating to entries debited or credited directly to shareholders' equity, for which the recognition of the related taxes is done in shareholders' equity, for the sake of consistency. Current and deferred taxes are recognised in the income statement under the item "Income tax for the year of continuing operations", with the exception of those taxes that refer to items that are credited or debited, in the same or another year, directly to shareholders' equity, such as, for example, those relating to profits or losses on financial assets at fair value through comprehensive income and those relating to changes in the fair value of financial derivative instruments hedging cash flows, whose changes in value are recognised, after taxes, directly in the Statement of Comprehensive Income, among the Valuation Reserves.

Provisions for income taxes are determined on the basis of the provision of the current tax burden, the advance taxes and the deferred taxes.

In general, deferred tax assets and liabilities arise in cases where the deductibility or taxability of the cost or income is deferred with respect to their accounting recognition. Deferred tax assets and liabilities are recognised according to the tax rates that, as of the reporting date, are expected to be applicable in the year in which the asset will be realised or the liability will be extinguished, based on current tax legislation and are periodically reviewed in order to take into account any regulatory changes.

Deferred tax assets are recognised only to the extent that they are expected to be recovered through the production of sufficient taxable income by the entity. In accordance with IAS 12, the likelihood of future taxable income sufficient for the use of deferred tax assets is subject to periodic review. If the aforementioned review reveals that future taxable income is insufficient, the deferred tax assets are correspondingly reduced.

Deferred tax assets and liabilities are recognised in the statement of financial position in open balances without set-offs, the former being included in “tax assets” and the latter in “tax liabilities”. Any deferred tax liabilities payable on capital reserves under tax suspension are not recognised, as it can reasonably be considered that there will be no operations that will result in their being taxed.

Allowances for risks and charges

Commitments and guarantees given

Allowances for risks and charges against commitments and guarantees given are recognised against all commitments and guarantees, revocable and irrevocable, whether they fall within the scope of IFRS 9 or within the scope of IAS 37. For these cases, the same allocation methods are adopted, in principle, between the three stages (credit risk stages) as well as the same calculation methods of the expected losses shown with reference to financial assets measured at amortised cost or the fair value through other comprehensive income.

Post-employment benefits

Post-employment benefits are set up to reflect company agreements and are classified as defined benefit plans. The liabilities relating to these plans and the welfare cost of current workers are determined according to actuarial assumptions, applying the “Unit Credit Projection” method, which projects the future expenditure based on historical statistical analysis, the demographic curve, and the financial discounting of these cash flows based on the market interest rate. The contributions paid in each year are considered as separate units and are identified and valued individually for the purposes of determining the final obligation. The discounting rate used is determined according to the market returns recognised on the measurement date, for the obligations of leading companies taking into account the liability's average residual life. The current value of the obligation on the reporting date is also adjusted by the fair value of any assets servicing the plan.

Actuarial gains and losses (which are changes in the current value of the obligation arising from changes in the actuarial assumptions are recognised as counterpart to shareholders' equity under the item "Valuation reserves” and shown on the statement of comprehensive income.

Other Allowances

Other Allowances for risks and charges include provisions for legal obligations and those relating to employment relations or disputes, including tax disputes, originating from a past event, for which an outlay of financial resources is probable in order to fulfil the obligations, but for which a reliable estimate of the amount cannot be made.

Therefore an allowance is recognised if, and only if:

- there is a current legal or implied obligation resulting from a past event;

- it is probable that funds designated to produce economic benefits will have to be used to fulfil the obligation;
- a reliable estimate can be made of the amount of the obligation.

The amount recognised as an allowance represents the best estimate of the cost required to fulfil the obligation on the reference date and reflects any risks and uncertainties that characterise multiple events and circumstances.

If the temporal value of money is a relevant aspect, the amount of the provision must be discounted at a rate, inclusive of the fiscal effects, which reflects the market valuations of the passage of time on the value of the liabilities and which takes into account the specific risks of the liability itself (IAS 37 - 45, 47). The allowance and the increases due to the time factor are recognised in the income statement.

The provision is reversed if the use of funds designed to produce economic benefits is improbable, or when the obligation is discharged. A provision is used only for the charges for which it was originally recorded.

The allocation for the year, recorded under the item "Net allocations to allowances for risks and charges: b) other net provisions" of the income statement, includes increases in provisions due to the passage of time and is net of any adjustments.

This item must also include long-term employee benefits, the cost of which is determined using simplified actuarial criteria compared to those described for the pension funds. Actuarial gains and losses are immediately recognised in the income statement.

Amounts due to customers

This item includes financial instruments, other than trading liabilities and those designated at fair value, representative of the various forms of supply of funds from third parties (loans, repurchase agreements, securities lending and bonds) and includes: (i) amounts due to banks, (ii) amounts due to customers, and (iii) securities issued. The item includes operational payables with the exception of those to providers of services and goods, and lease liabilities.

These financial liabilities are initially recognised on the contractual settlement date which is normally the time of receipt of the sums collected, or the issue of the debt securities.

Initial recognition is based on the fair value of the liabilities, normally corresponding to the amount received or the issue price, adjusted for any additional costs/income directly attributable to the individual supply or issue transaction. This excludes costs or revenues that, despite meeting the above conditions, are the subject of reimbursement by the borrower or can be classified under normal internal administration costs.

After initial recognition these financial liabilities are measured at the amortised cost using the effective interest rate method. Accrued interest is shown in the item "Interest expenses and similar charges" if negative, or in the item "interest income and similar income" if positive.

Debt securities in issue are measured at the amortised cost using the effective interest rate method and they are presented net of any repurchased share. In the case of operations in own shares, the difference between the cost of repurchasing the securities issued and the value of the amortised cost is charged to the income statement. The subsequent sale of securities previously repurchased is, for accounting purposes, a new placement and therefore there is a change in the average carrying cost of the related liabilities and of the corresponding effective interest.

Liabilities are derecognised when they have expired or been discharged. They are also derecognised if there is a repurchase, even temporary, of previously issued securities.

Any difference between the carrying value of the discharged liability and the amount paid is registered in the income statement under the item “Profits (loss) on disposal or repurchase of: c) financial liabilities”. If, after the repurchase, the treasury shares are returned to the market, this operation is considered as a new issue and the liability is recognised at the new placement price.

Financial liabilities held for trading

The financial instruments in question are recognised as of the subscription date or the issue date, at a value equal to the fair value of the instrument, without considering any transaction costs or income directly attributable to the instruments themselves.

This category of liabilities includes, in particular, trading derivatives with negative fair value, as well as any implied derivatives with negative fair value that are separated from liabilities valued at amortised cost.

All trading liabilities are valued at fair value, with the result of the valuation recognised in the income statement.

Financial liabilities held for trading are removed from the financial statements when the contractual rights relating to the relevant cash flows expire, or when the financial liability is sold, with the essential transfer of all risks and benefits derived from the ownership thereof.

Financial liabilities designated at fair value

As of 31 December 2021 the Group does not hold financial liabilities carried at fair value.

Foreign currency transactions

Foreign currency transactions are recognised at the time of settlement, at the exchange rate for the transaction at the amount in the original currency. Foreign currency assets and liabilities are converted at the spot exchange rates in force on the closing date (ECB official average).

“Off balance sheet” transactions are valued:

- at the spot exchange rate on the closing date if they are cash transactions not yet settled;
- at the forward exchange rate on the above date, for maturities corresponding to those of the valued operations, if they are forward transactions.

Foreign exchange differences arising from the settlement of monetary elements or from the conversion of monetary elements at rates other than those of initial conversion, or of conversion of the previous financial statements, are recognised in the income statement in the period in which they arise.

Insurance assets and liabilities

As of 31 December 2021 the Group did not hold insurance assets or liabilities.

Other information

Impairment of financial instruments

According to IFRS 9, the following assets are subject to impairment provisions:

- financial assets measured at amortised cost;
- financial assets measured at fair value through other comprehensive income other than equity instruments;
- commitments to lend funds and guarantees issued that are not measured at fair value through profit or loss;
- contractual activities resulting from operations covered by the scope of application of IFRS 15.

The quantification of “Expected Credit Losses” (ECL), which are expected losses to be recorded as write-downs/write-backs on the income statement, is determined according to whether or not there is a significant increase in the credit risk of a financial instrument compared to the risk determined on the date of initial recognition.

For that purpose, instruments subject to impairment regulations are usually associated to different stages, which have different criteria to quantify write-downs/write-backs:

- if there is no significant increase in the credit risk compared to the initial recognition, the financial instrument is kept in stage 1 and is written down by the amount of the loss expected over 12 months (or the expected loss resulting from a default on the asset considered possible within 12 months from the date of the reference period);
- if there is a significant increase in the credit risk compared to the initial recognition, the financial instrument is classified in stage 2 or in stage 3 if the instrument is non-performing, and a value adjustment is recorded equal to the amount of the expected lifetime loss (or the expected loss resulting from a default on the asset considered possible during its life cycle).

An exception to this are the "Purchased or originated impaired financial assets" so called POCI, dealt with in the next point of this paragraph.
Any significant increase in credit risk is identified on a case by case basis, using quali-quantitative criteria.

The criteria adopted by the Bank to understand the significant increase in credit risk are shown below.

Quantitative criteria

- Negative change in the rating class (so-called delta notch).

Qualitative criteria

- Rebuttable presumption – 30 days past due;
- Forbearance;
- POCI;
- Watchlist.

For more detailed information on the criteria adopted by the Bank to understand the significant increase in credit risk, reference is made to Part E of the Explanatory Notes to the Consolidated Financial Statements.

Once the financial assets have been classified in the different Stages, for each exposure, it is necessary to determine the relative adjustments/recoveries following the logic of Expected Credit Loss ("ECL"), using appropriate calculation models. The principle on which the ECL is based is to create a connection between improvement or worsening of the risk profile of the exposure compared to the date of initial recognition in the financial statements, respectively with the increase or decrease in the provision funds.

For more detailed information on the criteria adopted by the Bank for the calculation of expected losses on loans classified in stage 1 and stage 2, refer to Part E of the Explanatory Notes to these Financial Statements.

Estimate of expected losses on non-performing positions (stage 3)

Non-performing positions are usually evaluated using analytical techniques. The criteria for estimating the impairment to be made to non-performing loans are based on the discounting of expected cash flows taking into account any supporting guarantees, and any advances received. The fundamental elements in determining the current value of the cash flows are the identification of the estimated receipts, the related due dates, and the discounting rate to be applied. The amount of the adjustment is equal to the difference between the book value of the asset and the current value of the expected future cash flows, discounted at the original effective interest rate, which is updated as necessary in the case of a variable-rate instrument or, for positions classified as bad loans, at the effective interest rate in force on the date of transition to bad loan status.

Depending on the seriousness of the impairment and the materiality of the exposure, estimates of the recovery value will be based on a going concern approach which assumes that the counterparty's business will continue and will continue to generate cash flows, or alternatively on a gone-concern approach. The gone-concern approach is based on the assumption that the business that leads to the only source of cash available to recover the debt, will cease trading and that the underlying guarantees will be called on.

With particular regard to "bad loan" positions, the analytical assessment rules include forward-looking elements:

- in estimating the percentage of reduction in value of the real estate given as guarantee (estimated on the basis of the updated valuation reports or the report of the Court-appointed Expert);
- by introducing recovery scenarios for specific exposures, considering that they are expected to be sold within a reasonable period of time to a third party in order to maximise the cash flow and also based on a specific strategy for managing non-performing loans. Therefore, the estimated expected losses of such positions reflects not only recovery of the debt through ordinary management of the loan but also the presence of a suitably adjusted sale scenario and therefore, of the cash flows arising from this operation.

For more information on the criteria adopted by the Bank for the calculation of expected losses on positions classified in stage 3, refer to the contents of Part E of the Explanatory Notes.

Purchased or originated impaired financial assets (POCI)

Under IFRS 9, loans considered to be non-performing right from initial recognition due to the high level of associated credit risk, are termed Purchased or Originated Credit Impaired Assets (POCI). POCI also include loans acquired as part of sale operations (individual or portfolio sales) and business combinations.

Such loans, when included in the impairment perimeter for the purposes of IFRS 9, are valued by allocating, from the initial recognition date, provisions to cover the losses along the entire lifetime of the loan (Expected Credit Loss lifetime). As these are non-performing loans, the initial recognition takes place in stage 3, but they may be moved during their lifetime to stage 2 if they are no longer impaired, based on an analysis of the credit risk.

These assets are not identified under a specific financial statement item but are classified according to the business model in which the asset is managed, under the following headings:

- "Financial assets measured at fair value through comprehensive income";
- "Financial assets measured at amortised cost".

In terms of the initial recognition, measurement and derecognition criteria, refer to the criteria mentioned in the respective items.

Interest income must be calculated by applying the effective interest rate on the net value of the instrument (therefore also considering expected losses on loans) for POCI.

As for POCI, in some cases the financial asset is considered to be non-performing at the time of initial recognition because the credit risk is very high and in the case of acquisition, it has been acquired at a significant discount. In this case it is necessary to include in the cash flow estimates the expected losses on initial receivables for the purpose of calculating the credit-adjusted effective interest rate (also called "adjusted credit") for financial assets that are considered non-performing financial assets purchased or originated at the time of initial recognition.

Treasury shares

Treasury shares are recognised as a direct reduction of shareholders' equity.

Accruals and deferrals

Items that include costs and income pertaining to the period, accruing on assets and liabilities, are recognised as an adjustment to the assets and liabilities to which they refer.

Costs of leasehold improvements

The costs of refurbishing non-proprietary real estate are capitalised in consideration of the fact that the lessee has control of the property throughout the term of the rental agreement, and can derive future economic benefits from it. The aforementioned costs, classified under Other assets as they are not included in the scope of IFRS 16, as required by the Bank of Italy Instructions, are amortised over a period that never exceeds the duration of the rental agreement.

Employee benefits

Employee benefits are any type of remuneration paid by the company in exchange for work done by employees. Employee benefits are classified as:

- short-term benefits (other than those due to employees for the termination of employment contract, and share ownership benefits), which are expected to be paid in full within twelve months from the end of the year in which the employees did the work, and are recognised entirely in the income statement at the time of accrual (this category includes wages and salaries, and overtime);
- post-employment benefits due after termination of the working relationship, which require the company to make future payments to staff. This type of benefit includes employee severance pay and pension fund which in turn can be divided into defined-contribution plans and defined-benefit plans or company pension schemes;
- early retirement benefits, which are payments made by the company to employees in return for termination of the employment contract following the employee's decision to retire earlier than the normal retirement date;
- long-term benefits other than the above, which are not expected to be paid in full within twelve months after the end of the year in which the employees did the work.

Employee severance pay

Employee severance pay ("TFR") is defined, under IAS 19 "Employee benefits" as a "post-employment benefit".

Following the entry into force of the 2007 Finance Act, which brought forward to 1 January 2007 the supplementary pension reforms in legislative decree no. 252 of 5 December 2005, amounts accruing from 1 January 2007 must be allocated, at the discretion of the employee, either to a supplementary pension fund or be kept within the company. For companies with at least 50 staff, the benefits must be transferred by the company to a fund managed by INPS. The obligation towards employees is considered a:

- "defined contribution plan" for employee severance pay accruing from 1 January 2007 (the date of entry into force of the supplementary pension reforms in legislative decree no. 252 of 5 December 2005) whether the employee opts for a supplementary pension fund or whether the provision is allocated to the INPS Treasury fund. For these amounts, the amount recognised under personnel expenses is determined on the basis of the contributions due, without applying actuarial calculation methods;
- "defined benefit plan" recognised according to the actuarial value determined according to the unitary credit projection method, for the amount of employee severance pay accruing up until 31 December 2006.

According to this method, the amount already accrued must be increased by the current service cost, which is projected into the future until the expected date of termination of the contract, and therefore discounted to the reference date. The current service cost is also determined on the basis of the employee's expected working life.

However in this specific case, the past liability is valued without applying the prorate of the services rendered, as the service cost ("service cost") of the TFR is already accrued in full. The annual provision thus only includes the "interest cost" pertaining to the revaluation of the service expected, as a result of the passage of time.

For discounting purposes, the rate used is determined on the basis of the market yield of the bonds of leading companies taking into account the average residual life of the liabilities, weighted according to the percentage of the amount paid and advanced, for each due date, compared to the total to be paid and advanced until the whole bond is completely discharged.
The costs of servicing the plan are recognised under personnel expenses, while the actuarial gains and losses are recognised on the statement of comprehensive income.

Share-based payments

Share-based personnel remuneration plans are recorded in the income statement, with a corresponding increase in shareholders' equity, based on the fair value of the financial instruments attributed on the assignment date, dividing the burden over the period provided for by the plan. In the presence of options, the fair value of the same is calculated using a model that considers, in addition to information such as the exercise price and the life of the option, the current price of the shares and their expected volatility, the expected dividends and the risk-free interest rate, as well as the specific characteristics of the existing plan. In the valuation model, the option and the probability of realisation of the conditions under which the options were assigned are assessed separately. The combination of the two values provides the fair value of the allocated instrument. Any reduction in the number of financial instruments allocated shall be accounted for as derecognition of part of them.

Recognition of revenues for commission income

The basic principle of IFRS 15 provides for the recognition of revenues when the transfer of control over the contractual goods or services takes place, at an amount that reflects the price that the company receives or expects to receive from the sale (IFRS15-31).
For the purposes of recognising these revenues on the accounts, there is a five-step process:

- Identification of the contract: contract for the sale of goods or services (or a combination of contracts);
- Identification of the performance obligations in the contract;
- Determination of the transaction price: the transaction price of the contract is defined by taking into account its various components;
- Allocation of price to the contract “performance obligations;
- Recognition of income when (or to the extent to which) the performance obligation has been fulfilled.

Business combinations

The accounting standard applicable to business combinations is IFRS 3.

The transfer of control of a company (or of a group of integrated assets and goods, which are managed as a single unit) constitutes a business combination.

Control is considered to have been transferred when the investor is exposed to variable returns or holds rights to such returns due to its relations with the investee company, and can simultaneously affect the returns by exercising its power over the investee.

Identifying the acquirer

IFRS 3 requires that for all business combinations an acquirer is identified. This is the person who obtains the control of another entity, in the sense of the power to determine that entity’s financial and operational policies in order to receive benefits from its activities. If there are business combinations that determine the exchange of shareholdings, the acquirer’s identification will be based on factors such as:

- the number of new ordinary voting shares that will make up the capital of the existing company, post-combination;
- the fair value of the businesses that participate in the combination;
- the composition of the new corporate bodies;
- the entity that issues the new shares.

Determining the cost of the combination

The price transferred in a business combination operation must be determined as a sum of the fair value, on the date of the exchange, of the assets transferred, the liabilities incurred or accepted and the equity instruments issued by the acquirer in exchange for control.

The price transferred by the acquirer in exchange for the acquired entity includes any asset or liability resulting from an agreement on the potential price, to be recorded on the acquisition date based on the fair value. The transferred price may be modified if additional information arises, about facts and events existing on the acquisition date and which can be recognised during the measurement period of the business combination (twelve months from the date of acquisition, as specified below). Any other change arising from any events or circumstances after the acquisition, such as a change for the vendor, linked to the achievement of certain income targets, must be recognised in the income statement.

The costs of the acquisition, including intermediation fees, advisory, legal, accounting and professional expenses, and general administration costs, are recognised in the income statement when they are incurred.

Segment reporting

The operating segment of the Group is identified on the basis of IFRS 8 Operating Segments. This standard requires that information is given about the valuations made by company management in the aggregation of the operating segments, by describing the aggregated segments and performance measures used to determine that the aggregated segments have similar economic characteristics. As regards the above, reference is made to Part L – Segment reporting.

The fair value of financial instruments

The fair value is the price that would be received for a sale of an asset or which would be paid for the transfer of a liability in a normal operation between market operators (in other words, not a forced liquidation or sale below cost) on the valuation date. The fair value is a market valuation criterion, not specific to the entity. An entity needs to assess the fair value of an asset or liability by adopting the assumptions that the market operators would use when determining the price of the asset or liability, assuming that the market operators act to satisfy their own economic interests in the best possible way.

For financial instruments, the fair value is determined by using the market prices, in the case of instruments listed on active markets, or by using valuation models for the other financial instruments. A market is considered active if the listed prices, representing actual, regular market operations carried out during an appropriate reference period, are readily and regularly available on stock exchanges, through intermediaries, companies in the sector, pricing services or authorised entities.
The measurement method for a financial instrument is adopted on a continuing basis, and is only changed if there are significant variations in the market conditions.

Mutual open-end investment funds are considered to be listed on an active market, together with the equivalent investment instruments, spot and forward exchange transactions, futures, options and securities listed on a regulated market. Bonds for which at least two "executable" prices are continuously available on a pricing service are also considered to be listed on an active market, if the difference between the demand and supply price is below a range considered to be fair.
Instruments that do not fall into the above categories are not considered to be listed on an active market.
For financial instruments listed on active markets, the reference prices are used, namely the official closing prices or the prices of liquidation of the contract (always recorded at the end of the trading on the last market trading day in the reference period).

Units in mutual investment funds and similar instruments are valued on the basis of the prices given by the management companies, on dates consistent with the prices of the underlying financial instruments.

If there is no active, liquid market, the fair value of the financial instruments is mainly determined by using valuation techniques aimed at establishing the price of a hypothetical independent transaction motivated by normal market considerations, on the valuation date. In incorporating all the factors considered by the operators when setting the price, the valuation models take into account the financial value of time at the risk free rate, the risks of insolvency, early payment and redemption, volatility of the financial instrument and, applicable, the exchange rates, prices of raw materials and share prices.

For bonds and derivatives, valuation models have been defined that refer to current market values of substantially identical instruments, to the financial value of time and to options pricing models, by making reference to specific elements of the entity being valued and considering the market-observable criteria. These criteria are identified and applied in view of the liquidity, depth and observability of the reference markets, and the changes in the credit ratings of counterparties and issuers.

Tax credits connected with the "Cura Italia" and "Rilancio" Decrees

Decree Laws 18/2020 ("Cura Italia") and 34/2020 ("Rilancio") introduced tax incentives which are commensurate with a percentage of expenditure incurred, and are disbursed as tax credits or tax deductions. Most of the tax credits covered by the tax incentives may be sold to third parties, that will use them according to specific applicable regulations. In fact these receivables are tax credits arising from incentives of which the use, unlike receivables arising from the payment of excess taxes, is governed by the provisions that introduce them.

The receivables in question may be used to offset taxes and contributions or may be further sold to third parties. None of the receivables in question may be refunded (wholly or in party) directly by the State. Moreover, receivables may be used, as applicable, for offsetting, without the possibility of carrying forward or requesting a refund for the part not offset in the reference year due to insufficient balances.

As indicated in the Document of the Bank of Italy/Consob/Ivass no. 9, once acquired from a third party, the specific aspects of the receivables do not allow for them to be immediately attributable to a specific international accounting standard: in fact these receivables are excluded from the provisions of IAS 12 "Income taxes" as they do not come under the taxes that cover the company's ability to generate income; they do not come under the definition of government grants given in IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance", as ownership of the receivable as regards the Revenue Agency only arises following the payment of an amount to the assignor; IFRS 9 Financial Instruments is not directly applicable, as the assets comprising the tax credits acquired do not originate from a contract between the assignee and the Italian government; lastly, IAS 38 "Intangible assets" does not apply as the tax credits in question can be considered as monetary assets, allowing for the payment of tax payables usually settled in cash. Therefore reference must be made to the provisions of IAS 8, which establish the following: In the absence of a Standard or an Interpretation that specifically applies to a transaction, other event or condition, management must use its judgement in developing and applying an accounting policy that results in information that is a) relevant for the economic decisions of users; and b) reliable [...]".

Based on these considerations, the Group considered the following approach applicable:

- Initial recognition: recognition of the tax receivable at the time of purchase for a value corresponding to the fair value, under the item "Other assets";
- Subsequent measurement: application of IFRS 9, which provides for measurement at amortised cost.

With reference to the economic effects of income and expenses arising from the purchase and use of tax credits, this method reflects how financial instruments are managed at amortised cost.

Tax consolidation

illimity Bank S.p.A. has opted to be a part of the national tax consolidation scheme for Corporate Income Tax (IRES), as provided for in Articles 117-129 of the Consolidated Income Tax Act (TUIR). Under this scheme, the taxable income or tax losses of each company which is consolidated are transferred to the consolidating company - along with excess amounts of ACE (economic aid for growth), withheld taxes, tax deductions and receivables - for which a single taxable income or a single tax loss to carry forward is calculated, corresponding to the algebraic sum of the taxable income or tax losses of each company.

Regulations on national tax consolidation establish optional take-up, which is binding for three financial years (with automatic renewal) and is allowed for companies between which control exists as contemplated in Article 2359, paragraph 1) no. 1 of the Italian Civil Code.

For the 2020-2022 period, the companies of the illimity Group joining the national tax consolidation scheme with illimity Bank as the consolidating party were neprix and illimity SGR.

A.3 Information on transfers between portfolios of financial assets

There were no such transfers during the current year.

A.4 Information on fair value

Qualitative information

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

Assessment of non-contributed shares and equity instruments

Items classified as level 3 are shares and equity instruments without market value contributions and for which it is not possible to identify transactions, in particular with reference to the M&A market, that, due to the time from the measurement date or nature of said provide significant information on the instruments being measured, nor are measurement techniques based on observable market multiples applicable.

In these cases, the measurement technique uses estimates of expected cash flows of the assessed entity and their expected value at the measurement date is determined. Significant exposures in non-contributed shares and equity instruments are, currently, ancillary to loan transactions, therefore the measurement techniques are consistent with the model used to measure loan transactions that evaluate the subject's capacity to repay the entire liability, including equity instruments and shares.

Measurement of structured loan products

Structured loan products are attributable to two types. The first relates to the subordinate tranches of securitisations of NPL portfolios, the second, to securitisations of investments in receivables linked to the energy market.

In the first case the exposures are part of an investment strategy that involves the subscription of the senior quota by the bank; as the originator, it is required to subscribe to part of the subordinate tranches. The starting point for the valuation is the purchase transaction; the congruency of the price is based on an analysis of the portfolio's capacity to repay firstly the senior quota and thereafter the underlying tranches, according to a waterfall mechanism. This capacity is then monitored at subsequent payment events, to confirm the recovery expectations that were forecast at the origination stage. In the second case, the exposures are single-tranche notes mandatorily valued at fair value through profit or loss. Lastly, the valuation includes assumptions about the capacity of the underlying asset to generate cash flows, and therefore favours the inclusion of expected cash flows when the realisation of said cash flows has a high probability of occurring.

Valuation of OTC derivatives

Over The Counter (OTC) derivatives, whose value cannot be directly observed on the market, are valued using specific models and inputs pursuant to the asset class and the characteristics of the specific financial product. The valuation of OTC derivatives takes into consideration, as well as the market variables to which the instruments are sensitive, the specific risks pertaining to the counterparties with which they are traded, in particular:

- for transactions negotiated within a netting and margining agreement (CSA), the counterparty risk is considered non-material and the valuation of the instruments is based exclusively on the underlying risk factors, in accordance with the principle of non-arbitrage;
- for transactions negotiated without a netting and margining agreement, the valuation is carried out by adding the valuation of the instrument, as if it were subject to netting and margining, to the adjustments associated with the counterparty risk (i.e. credit valuation adjustment and debt valuation adjustment).

Derivatives in place at the end of the financial year are allocated, on the underlying basis, to the interest rate and foreign exchange rate classes. For both classes, the prevalent model adopted is the discounting cash flow model, with the addition of the Black & Scholes model for the valuation of caps and floors that are ancillary to interest rate swaps.

The table below shows information about the measurement models and non-observable inputs for assets and liabilities measured at level 3 fair value.

Financial assets	Valuation method	Principal non-observable input
Securities and loans	Discounting Cash Flows	Recovery Rate
ABSs	Discounting Cash Flows	Recovery Rate
Fund units	NAV	

A.4.2 Processes and sensitivity of valuations

For a description of the process to measure instruments classified as having a level 3 fair value, reference is made to section A.4.1.

The table below shows the sensitivity of assets and liabilities valued at level 3 fair value with regard to one or more non-observable parameters. Data are reported for instruments measured using models that allow for analysis.

Financial assets	Non-observable parameters	Sensitivity (EUR thousand)	Change in non-observable parameter
FVTPL securities	Credit spread	(6)	1 bp
FVTPL securities	Recovery rate	(77)	(1%)

A.4.3 *Fair value* hierarchy

For transfers between the various fair value levels, the Group uses the following principles:

- the presence or absence of a price on a regulated market;
- the presence or absence of a price on a non-regulated market, or of one or more counterparties willing to commit to price the stock;
- the quantity of the financial instrument held, such that would allow the forecast, or not, of a negative fluctuation in its valuation or price;
- new elements on which a new methodology could be based;
- the timing (date of the event or change, start and end of year) will be common to all the changes among the various valuation classes.

For securities held at fair value level 2:

- no transfers have been made between different fair value levels;
- the method used was the market price (Bloomberg BGN bid on the last available day), without making any modifications or adjustments;

- as the financial instruments are only debt instruments (bonds) at fixed or variable rates, this method reflects the trends in market interest rates and the risk level associated with the instruments' counterparties and issuers;
- this is the same measurement method used last year, for the same securities.

For securities held at fair value level 3:
- no transfers have been made between different fair value levels;
- as the quantity of shares held and the accounting method have not changed, no gains or losses were recorded;
- in the absence of prices on active markets and without any other elements such as the financial statements, the cost method is the only method that approximates the security's fair value.

To summarise the characteristics of the different fair value levels:

Level 1

The measurement is based on observable inputs or listed prices (without adjustment) on active markets for identical assets or liabilities, which the entity can access on the measurement date. The presence of official prices on active market, namely a market where the listed prices reflect ordinary operations (not forced, readily and regularly available), is the best evidence of fair value. These prices are the prices to be used preferentially, for the purposes of an accurate measurement of these financial instruments (the Mark to Market Approach). To determine the fair value of financial instruments listed on an active market, the market prices on the last day of the financial year are used.

Level 2

The measurement takes place using methods used if the instrument is not listed on an active market, and is based on inputs other than those for Level 1. The measurement of the instrument is based on prices taken from the market prices for similar assets, or using measurement techniques whereby all the significant factors are deduced from market-observable parameters. The pricing is non-discretionary as the main parameters used are drawn from the market and the calculation methods replicate the prices on active markets. If there is no active market, the estimation methods will be based on the measurement of listed instruments with similar characteristics, on the amounts recognised in recent comparable transactions, or by using measurement models that discount future cash flows, also taking into account all the risk factors connected to the instruments, and which are based on market-observable data.

Level 3

The measurement methods will value a non-listed instrument using significant non-market observable data and therefore they require the adoption of estimates and assumptions by management (the "Mark to Model Approach").

With reference to the instruments classified at level 3, a sensitivity analysis was carried out which showed that the changes in fair values are not material.

A.4.4 Other information

As of the reporting date there is no information to be given in relation to IFRS 13, paragraphs 51, 93 (i), 96 as:

- there are no assets measured at fair value on the basis of "highest and best use";
- there was no measurement of fair value at the level of total portfolio exposure to take into account the set-off of credit risk and market risk for a certain group of financial assets or liabilities (an exception ex IFRS 13, para. 48).

Qualitative information

A.4.5 *Fair value* hierarchy

Below is the information required by IFRS 7, for portfolios of financial assets and liabilities measured at fair value based on the three-level hierarchy illustrated above.

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

Financial assets / liabilities measured at fair value	31 December 2021			31 December 2020		
	L1	L2	L3	L1	L2	L3
1. Financial assets measured at fair value through profit or loss	98	896	75,685	106	-	18,396
a) financial assets held for trading	-	896	32	7	-	45
b) financial assets at fair value	-	-	-	-	-	-
c) other financial assets mandatorily measured at fair value	98	-	75,653	99	-	18,351
2. Financial assets measured at fair value through other comprehensive income	299,489	-	19	91,357	-	18
3. Hedging derivatives	-	-	-	-	-	-
4. Property and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	**299,587**	**896**	**75,704**	**91,463**	**-**	**18,414**
1. Financial liabilities held for trading	-	59	-	-	-	-
2. Financial liabilities designated at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	**-**	**59**	**-**	**-**	**-**	**-**

Key:

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

Instruments that are measured to a significant extent on the basis of non-observable parameters (Level 3) amount to 16.74% of the total financial assets measured at fair value, and on the reporting date are mainly represented by investments classified in the portfolio of "Financial assets mandatorily measured at fair value", referable to the Distressed Credit and Growth Credit divisions.

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

	Financial assets measured at fair value through profit or loss				Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Property and equipment	Intangible assets
	Total	of which: a) financial assets held for trading	of which: b) financial assets at fair value	of which: c) other financial assets mandatorily measured at fair value				
1. Opening balance	**18,396**	**45**	**-**	**18,351**	**19**	**-**	**-**	**-**
2. Increases	**62,666**	**-**	**-**	**62,666**	**-**	**-**	**-**	**-**
2.1. Purchases	50,437	-	-	50,437	-	-	-	-
2.2. Gains recognised in:	12,229	-	-	12,229	-	-	-	-
2.2.1. Income Statement	12,229	-	-	12,229	-	-	-	-
- of which capital gains	12,229	-	-	12,229	-	-	-	-
2.2.2. Shareholders' equity	-	X	X	X	-	-	-	-
2.3. Transfers from other levels	-	-	-	-	-	-	-	-
2.4. Other increases	-	-	-	-	-	-	-	-
3. Decreases	**5,377**	**13**	**-**	**5,364**	**-**	**-**	**-**	**-**
3.1. Sales	1,454	-	-	1,454	-	-	-	-
3.2. Repayments	3,826	-	-	3,826	-	-	-	-
3.3. Losses recognised in:	84	-	-	84	-	-	-	-
3.3.1. Income Statement	84	-	-	84	-	-	-	-
- of which capital losses	84	-	-	84	-	-	-	-
3.3.2. Shareholders' equity	-	X	X	X	-	-	-	-
3.4. Transfers from other levels	-	-	-	-	-	-	-	-
3.5. Other decreases	13	13	-	-	-	-	-	-
4. Closing balance	**75,685**	**32**	**-**	**75,653**	**19**	**-**	**-**	**-**

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

There are no liabilities measured at fair value on a recurring basis (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 levels of fair value*

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis	31 December 2021				31 December 2020			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets measured at amortised cost	3,229,766	21,496	2,993	3,490,536	2,845,823	4,525	-	2,915,262
2. Property and equipment held for investment	-	-	-	-	-	-	-	-
3. Non-current assets and groups of assets held for disposal	43,117	-	-	-	-	-	-	-
Total	**3,272,883**	**21,496**	**2,993**	**3,490,536**	**2,845,823**	**4,525**	**-**	**2,915,262**
1. Financial liabilities measured at amortised cost	3,752,384	516,329	-	3,423,818	3,410,034	304,716	2,234	3,161,491
2. Liabilities associated with non-current assets held for sale and discontinued operations	-	-	-	-	-	-	-	-
Total	**3,752,384**	**516,329**	**-**	**3,423,818**	**3,410,034**	**304,716**	**2,234**	**3,161,491**

Key:

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

For the other financial instruments recognised at amortised cost and mainly classified among credits to banks or customers and among the financial liabilities, a fair value has been determined for the purposes of the Explanatory Notes, as required by the reference accounting standard, IFRS 7.

A.5 Information on "day one profit/loss"

According to paragraph 28 of IFRS 7, it is necessary to provide evidence of the "day one profit or loss" to be recognised on the income statement at year end, together with a reconciliation compared to the initial balance. "Day one profit or loss" refers to the difference between the fair value of a financial instrument acquired or issued at the time of initial recognition (transaction price) and the amount determined on that date using a valuation technique. There are no cases that require reporting in this section.

Part B – Information on the consolidated statement of financial position

ASSETS

Section 1 - Cash and cash equivalents – Item 10

1.1 Cash and cash equivalents: breakdown

	Total 31/12/2021	Total 31/12/2020
a) Cash and cash equivalents	308	393
b) Current accounts and on-demand deposits with central banks	492,599	944,439
c) Current accounts and on-demand deposits with banks	14,872	8,776
Total	**507,779**	**953,608**

The sub-item "b) On-demand deposits with Central Banks" records the liquidity deposited with the Bank of Italy.

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

2.1 Financial assets held for trading: breakdown

Items/values	Total 31/12/2021			Total 31/12/2020		
	L1	L2	L3	L1	L2	L3
A. Cash assets						
1. Debt securities	-	-	-	-	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	-	-	-	-
2. Equity securities	-	-	-	-	-	-
3. Units of UCIs	-	-	32	7	-	45
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Others	-	-	-	-	-	-
Total (A)	**-**	**-**	**32**	**7**	**-**	**45**
B. Derivatives	**-**	**-**	**-**	**-**	**-**	**-**
1. Financial derivatives	-	896	-	-	-	-
1.1 held for trading	-	896	-	-	-	-
1.2 connected to the fair value option	-	-	-	-	-	-
1.3 others	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 held for trading	-	-	-	-	-	-
2.2 connected to the fair value option	-	-	-	-	-	-
2.3 others	-	-	-	-	-	-
Total (B)	**-**	**896**	**-**	**-**	**-**	**-**
Total (A+B)	**-**	**896**	**32**	**7**	**-**	**45**

Key:

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

2.2 Financial assets held for trading: borrower/issuer/counterparty breakdown

Items/values	Total 31/12/2021	Total 31/12/2020
A. Cash assets		
1. Debt securities	-	-
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
2. Equity securities	-	-
a) Banks	-	-
b) Other financial companies	-	-
of which: insurance companies	-	-
c) Non-financial companies	-	-
d) Other issuers	-	-
3. Units of UCIs	32	52
4. Loans	-	-
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total (A)	**32**	**52**
B. Derivatives		
a) Central counterparties	-	-
b) Others	896	-
Total (B)	**896**	**-**
Total (A+B)	**928**	**52**

2.3 Financial assets at fair value: breakdown by product type

The Group does not hold financial assets carried at fair value.

2.4 Financial assets at fair value: breakdown by borrower/issuer

The Group does not hold financial assets carried at fair value.

2.5 Other financial instruments mandatorily measured at fair value: breakdown

Items/values	Total 31/12/2021			Total 31/12/2020		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**-**	**-**	**61,992**	**-**	**-**	**11,660**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	61,992	-	-	11,660
2. Equity securities	**-**	**-**	**9,875**	**-**	**-**	**6,691**
3. Units of UCIs	**98**	**-**	**3,786**	**99**	**-**	**-**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Others	-	-	-	-	-	-
Total	**98**	**-**	**75,653**	**99**	**-**	**18,351**

Key:

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

Financial instruments mandatorily measured at fair value through profit or loss as of 31 December 2021 amounted to EUR 75.8 million and include investments in equity instruments/earnouts for EUR 9.5 million attributable to the Growth Credit Division, and for EUR 0.8 million attributable to the Distressed Credit Division. The item also includes an energy business operation for EUR 59.0 million, units of an investment fund of illimity SGR for EUR 3.9 million, attributable to the Growth Credit Division, investments in Senior Financing for EUR 2.0 million and in junior and mezzanine notes for EUR 0.6 million.

2.6 Other financial assets mandatorily measured at fair value: breakdown by borrower/issuer

	Total 31/12/2021	Total 31/12/2020
1. Equity securities	**9,875**	**6,691**
of which: banks	-	-
of which: other financial companies	-	-
of which: other non-financial companies	9,875	6,691
2. Debt securities	**61,992**	**11,660**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	32	17
d) Other financial companies	61,483	11,167
of which: insurance companies	-	-
e) Non-financial companies	477	477
3. Units of UCIs	**3,884**	**99**
4. Loans	**-**	**-**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**75,751**	**18,450**

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 type

Items/values	Total 31/12/2021			Total 31/12/2020		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**299,489**	**-**	**-**	**91,357**	**-**	**-**
1.1 Structured securities	2,986	-	-	-	-	-
1.2 Other debt securities	296,503	-	-	91,357	-	-
2. Equity securities	**-**	**-**	**19**	**-**	**-**	**18**
3. Loans	**-**	**-**	**-**	**-**	**-**	**-**
Total	**299,489**	**-**	**19**	**91,357**	**-**	**18**

Key:

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

The debt securities in the financial statement item were issued by governments (EUR 199.2 million), credit institutions (EUR 61.4 million), financial companies (EUR 10.8 million) and non-financial companies (EUR 28.1 million).

Equity instruments classified as “Financial assets measured at fair value through other comprehensive income (IAS)” are represented by equity holdings not qualifying as investments in subsidiaries, associates or joint ventures.

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

Items/values	Total 31/12/2021	Total 31/12/2020
1. Debt securities	**299,489**	**91,357**
a) Central banks	-	-
b) Public administrations	199,177	-
c) Banks	61,375	79,448
d) Other financial companies	10,837	11,909
of which: insurance companies	-	-
e) Non-financial companies	28,100	-
2. Equity securities	**19**	**18**
a) Banks	-	-
b) Other issuers:	19	18
- other financial companies	11	10
of which: insurance companies	-	-
– non-financial companies	8	8
– others	-	-
3. Loans	**-**	**-**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**299,508**	**91,375**

3.3 Financial assets measured at fair value through comprehensive income: gross amount and total write-downs/write-backs

	Gross amount					Total write-downs/write-backs			
	Stage one	of which: Instruments with low credit risk	Stage two	Stage three	Purchased or originated impaired	Stage one	Stage two	Stage three	Purchased or originated impaired
Debt securities	300,510	181,300	-	-	-	1,021	-	-	-
Loans	-	-	-	-	-	-	-	-	-
Total 31/12/2021	**300,510**	**181,300**	**-**	**-**	**-**	**1,021**	**-**	**-**	**-**
Total 31/12/2020	**91,471**	**8,648**	**-**	**-**	**-**	**114**	**-**	**-**	**-**

With regard to the approach used in the representation of the gross amount and total write-downs/write-backs of non-performing financial assets, refer to Part A - Accounting policies.

3.3a Financial assets measured at fair value through comprehensive income receiving COVID-19 support measures: gross amount and total write-downs/write-backs

The Group does not hold financial assets measured at fair value through other comprehensive income subject to COVID-19 support measures.

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

4.1 Financial assets measured at amortised cost: breakdown of amounts due from banks

Type of operations/Values	Total 31/12/2021						Total 31/12/2020					
	Book value			Fair value			Book value			Fair value		
	Stage one and Stage two	Stage three	Purchased or originated impaired	L1	L2	L3	Stage one and Stage two	Stage three	Purchased or originated impaired	L1	L2	L3
A. Due from Central Banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Time deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Reserve requirements	-	-	-	X	X	X	-	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	-	-	-	X	X	X	-	-	-	X	X	X
B. Due from banks	**267,969**	**-**	**-**	**-**	**-**	**268,029**	**522,146**	**-**	**-**	**-**	**-**	**522,281**
1. Loans	267,969	-	-	-	-	268,029	522,146	-	-	-	-	522,281
1.1 Current accounts	-	-	-	X	X	X	-	-	-	X	X	X
1.2. Time deposits	69,792	-	-	X	X	X	114,477	-	-	X	X	X
1.3. Other loans:	198,178	-	-	X	X	X	407,669	-	-	X	X	X
– Reverse repurchase agreements	191,292	-	-	X	X	X	395,167	-	-	X	X	X
– Loans for leasing	-	-	-	X	X	X	-	-	-	X	X	X
– Others	6,885	-	-	X	X	X	12,502	-	-	X	X	X
2. Debt securities	-	-	-	-	-	-	-	-	-	-	-	-
2.1 Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt securities	-	-	-	-	-	-	-	-	-	-	-	-
Total	**267,969**	**-**	**-**	**-**	**-**	**268,029**	**522,146**	**-**	**-**	**-**	**-**	**522,281**

Key:

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

The obligations to maintain the Compulsory reserve are fulfilled indirectly through BFF Bank S.p.A., with the balance recognised in the sub item “Time deposits”. As can be seen from the above table, the financial statement item largely consists of Reverse Repurchase Agreements.

4.2 Financial assets measured at amortised cost: breakdown of loans to customers

Type of operations/ Values	Total 31/12/2021						Total 31/12/2020					
	Book value			Fair value			Book value			Fair value		
	Stage one and Stage two	Stage three	Purchased or originated impaired	L1	L2	L3	Stage one and Stage two	Stage three	Purchased or originated impaired	L1	L2	L3
1. Loans	**1,640,359**	**21,024**	**1,048,358**	**-**	**-**	**2,846,631**	**988,826**	**51,552**	**1,024,612**	**-**	**-**	**2,137,267**
1.1. Current accounts	10,127	5,492	213,507	X	X	X	28,135	4,854	240,981	X	X	X
1.2. Reverse Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
1.3. Mortgages	202,968	5,335	518,561	X	X	X	289,056	45,124	492,831	X	X	X
1.4. Credit cards and personal loans, including wage assignment loans	683	143	2,227	X	X	X	673	57	2,468	X	X	X
1.5 Loans for leases	-	-	111,805	X	X	X	-	-	118,371	X	X	X
1.6. Factoring	350,659	4,868	-	X	X	X	151,850	276	-	X	X	X
1.7. Other loans	1,075,922	5,186	202,258	X	X	X	519,112	1,241	169,961	X	X	X
2. Debt securities	**242,019**	**-**	**10,037**	**21,496**	**2,993**	**375,876**	**249,913**	**-**	**-**	**4,525**	**-**	**325,972**
2.1. Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2. Other debt securities	242,019	-	10,037	21,496	2,993	375,876	249,913	-	-	4,525	-	325,972
Total	**1,882,378**	**21,024**	**1,058,395**	**21,496**	**2,993**	**3,222,507**	**1,238,739**	**51,552**	**1,024,612**	**4,525**	**-**	**2,463,239**

"Other performing debt securities" primarily includes securities connected to securitisation operations for a total of EUR 217.8 million referring to the Distressed Credit division, as well as high-yield bonds for EUR 24.2 million referring to the Growth Credit division. The "Impaired financial assets" item under "Debt securities" also includes EUR 10 million of securities classified as "unlikely-to-pay", relating to the Growth Credit division.

4.3 Financial assets measured at amortised cost: breakdown by borrower/issuer of loans to customers

Type of operations/Values	Total 31/12/2021			Total 31/12/2020		
	Stage one and Stage two	Stage three	Purchased or originated impaired	Stage one and Stage two	Stage three	Purchased or originated impaired
1. Debt securities	**242,019**	**-**	**10,037**	**249,913**	**-**	**-**
a) Public administrations	-	-	-	-	-	-
b) Other financial companies	227,612	-	-	245,760	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	14,407	-	10,037	4,153	-	-
2. Loans to:	**1,640,359**	**21,024**	**1,048,358**	**988,827**	**51,550**	**1,024,612**
a) Public administrations	13,085	35	6	11,409	-	60
b) Other financial companies	393,430	25	19,972	229,431	25	43,090
of which: insurance companies	239	-	-	454	-	-
c) Non-financial companies	1,196,391	18,646	894,905	702,884	48,652	853,157
d) Households	37,452	2,318	133,476	45,103	2,873	128,305
Total	**1,882,378**	**21,024**	**1,058,395**	**1,238,740**	**51,550**	**1,024,612**

4.4 *Financial assets measured at amortised cost: gross amount and total adjustments/recoveries*

	Gross amount					Total write-downs/write-backs			
	Stage one	of which: Instruments with low credit risk	Stage two	Stage three	Purchased or originated impaired	Stage one	Stage two	Stage three	Purchased or originated impaired
Debt securities	241,293	-	2,024	-	10,037	1,181	118	-	-
Loans	1,854,484	369,205	63,082	39,554	1,048,358	8,788	450	18,530	337
Total 31/12/2021	**2,095,777**	**369,205**	**65,106**	**39,554**	**1,058,395**	**9,969**	**568**	**18,530**	**337**
Total 31/12/2020	**1,713,150**	**149,793**	**58,525**	**69,897**	**1,025,169**	**9,473**	**1,318**	**18,347**	**557**

4.4a *Loans measured at amortised cost receiving COVID-19 support measures: gross amount and total adjustments/recoveries*

	Gross amount					Total write-downs/write-backs			
	Stage one	of which: Instruments with low credit risk	Stage two	Stage three	Purchased or originated impaired	Stage one	Stage two	Stage three	Purchased or originated impaired
1. Loans granted in accordance with GL	-	-	-	-	-	-	-	-	-
2. Loans subject to moratorium measures no longer in accordance with GL and not valued as forborne	-	-	-	-	-	-	-	-	-
3. Loans subject to other forbearance measures	12,294	-	8,023	367	-	52	116	81	-
4. New funding	487,451	-	20,546	5,222	-	2,436	107	739	-
Total 31/12/2021	**499,745**	**-**	**28,569**	**5,589**	**-**	**2,488**	**223**	**821**	**-**
Total 31/12/2020	**225,680**	**-**	**6,187**	**6,397**	**-**	**1,799**	**179**	**314**	**-**

With regard to the approach used in the representation of the gross amount and total write-downs/write-backs related to impaired financial assets, refer to Part A – Accounting policies.

Section 5 - Hedging derivatives - Item 50

The Group has no hedge accounting operations.

Section 6 - Fair value change of financial assets in hedged portfolios - Item 60

The Group has no hedge accounting operations.

Section 7 - Equity investments - Item 70

7.1 Equity investments: information on shareholding relationships

Name	Registered office	Operational headquarters	Type of relationship	Ownership relationship		Votes %
				Held by	Holding %	
A. Jointly-owned subsidiaries						
Hype S.p.A.	Biella	Biella	Joint control	illimity Bank S.p.A.	50%	50%
B. Companies in which significant influence is exercised						
SpicyCo S.r.l.	Milan	Milan	Significant influence	illimity Bank S.p.A.	49%	49%
SpicyCo 2 S.r.l.	Milan	Milan	Significant influence	illimity Bank S.p.A.	49%	49%

illimity acquired a 50% stake in Hype, as part of a joint venture with the Sella Group. The partnership was established at the beginning of 2021, with the aim of creating and developing a digital platform for financial and payment services that is more innovative than traditional banking models. The price paid was determined by the parties based on their shared targets for the growth and development of the partnership. Due to the life cycle stage of the company and of the joint venture project on which the investment is based, at the time the stake in Hype was acquired, no intangible assets could be identified that were distinguishable from goodwill, i.e. from the overall expectations of the future economic benefits generated by the investment in the context of the partnership. Consequently, the transaction generated implied goodwill of EUR 65.1 million.

The impairment test, governed by accounting standard IAS 36, is aimed at verifying that the recoverable value of an asset is not lower than its book value on the reference date. If the test shows a recoverable value that is less than the book value, the difference constitutes an impairment loss to be recognised in the income statement by aligning the book value with the recoverable value determined.

For the purposes of the impairment test, the recoverable value is defined as the greater of Value in Use and Fair Value net of sales costs. Value in Use expresses the current value of the future cash flows expected to be generated by the continued "use" of the asset. Fair Value represents the price that would be received for the sale of the asset in a regular transaction between market operators on the valuation date, less sales costs.

Pursuant to IAS 36, it is not always necessary to determine both configurations of recoverable value, if one of the two is greater than the book value. It is therefore sufficient for at least one of the two configurations of recoverable value to be greater than the book value for the impairment test to be considered to have been passed.

In the case in question, taking into account the company's specific business model, its current life cycle stage and the availability of preliminary projections, which are in the process of being drawn up and finalised by management, the impairment test was carried out by referring to the configuration of recoverable value based on value in use, estimated using the Excess Capital variant of the Dividend Discount Model.

In order to corroborate the results of the impairment test achieved by estimating the value in use, the fair value net of sales costs was also estimated, using (i) the Stock Market Multiples method and (ii) the Transaction Multiples method.

The impairment test yielded positives results using both the Dividend Discount Model and the control methods.

7.2 *Significant shareholdings: book values, fair values and dividends received*

Name	Book value	Fair value	Dividends received
A. Jointly-owned subsidiaries			
Hype S.p.A.	79,514	N/A	-
B. Companies in which significant influence is exercised			
SpicyCo S.r.l.	438	N/A	-
SpicyCo 2 S.r.l.	1	N/A	-
Total	**79,953**	**N/A**	**-**

7.3 *Significant shareholdings: accounting information*

Name	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues	Net interest margin	Write-downs/ write-backs on property and equipment and intangible assets	Profit (loss) from continuing operations before tax	Profit (loss) from continuing operations after tax	Profit (loss) from groups of assets held for sale, after tax	Profit (loss) for the year (1)	Other income components, after taxes (2)	Comprehensive income (3) = (1)+(2)
A. Jointly-owned associates														
Hype S.p.A.	328,084	944	26,287	312,448	16,056	12,783	(29)	(1,532)	(21,752)	(16,375)	-	(16,375)	-	(16,375)
B. Companies in which significant influence is exercised													-	
SpicyCo S.r.l.	6,093	-	31	4,714	842	1,273	(192)	-	1,450	1,273	-	1,273	-	1,273
SpicyCo 2 S.r.l.	10	-	-	-	5	-	-	-	(5)	(5)		(5)		(5)

7.4 *Non-significant shareholdings: accounting information*

The Group does not hold such shareholdings as of the reporting date.

7.5 *Equity investments: annual changes*

	Total 31/12/2021	Total 31/12/2020
A. Opening balance	**-**	**-**
B. Increases	**88,144**	**-**
B.1 Purchases	87,706	-
– from business combinations	-	-
B.2 Write-backs	-	-
B.3 Revaluations	-	-
B.4 Other changes	438	-
C. Decreases	**-**	**-**
C.1 Sales	-	-
– from business combinations	-	-
C.2 Write-downs	-	-
C.3 Impairment	-	-
C.4 Other changes	(8,191)	-
D. Closing balance	**79,953**	**-**
E. Total revaluations	**-**	**-**
F. Total write-downs	**-**	**-**

Section 8 - Reinsurance Technical Reserves - Item 80

The Group does not conduct insurance business.

Section 9 - Property and equipment – Item 90

9.1 Property and equipment with functional use: breakdown of assets measured at cost

Assets/Values	Total 31/12/2021	Total 31/12/2020
1. Proprietary assets	**1,159**	**2,531**
a) land	-	-
b) buildings	-	943
c) furniture and fittings	578	715
d) electronic systems	509	700
e) other	72	173
2. Rights of use acquired through lease agreements	**19,321**	**19,754**
a) land	-	-
b) buildings	18,133	18,422
c) furniture and fittings	-	-
d) electronic systems	-	-
e) other	1,188	1,332
Total	**20,480**	**22,285**
of which: obtained by enforcement of guarantees received	-	-

9.2 Property and equipment held for investment: breakdown of assets measured at cost

The Group does not hold Property and equipment measured at cost and held for investment as of the reporting date.

9.3 Property and equipment with functional use: breakdown of revalued assets

The Group does not hold Property and equipment with functional use as of the reporting date.

9.4 Property and equipment held for investment: breakdown of assets measured at fair value

The Group does not hold Property and equipment held for investment measured at fair value as of the reporting date.

9.5 *Inventories of property and equipment governed by IAS 2: breakdown*

Assets/Values	Total 31/12/2021	Total 31/12/2020
1. Inventories of property and equipment obtained through enforcement of guarantees received	**48,255**	**56,148**
a) land	-	-
b) buildings	48,255	56,148
c) furniture and fittings	-	-
d) electronic systems	-	-
e) others	-	-
2. Other assets inventories	**-**	**-**
Total	**48,255**	**56,148**
of which: measured at fair value net of costs to sell	-	-

9.6 Property and equipment with functional use: annual changes

	Land	Buildings	Furnishings	Electronic systems	Others	Total
A. Gross opening balance	**-**	**23,227**	**1,768**	**2,182**	**2,343**	**29,520**
A.1 Total net write-downs	-	3,862	1,053	1,482	838	7,235
A.2 Net opening balance	**-**	**19,365**	**715**	**700**	**1,505**	**22,285**
B. Increases:	**-**	**1,678**	**22**	**51**	**433**	**2,184**
B.1 Purchases	-	1,678	22	51	375	2,126
– from business combinations	-	-	(2)	-	1	(1)
B.2 Capitalised expenditure on improvements	-	-	-	-	-	-
B.3 Write-backs	-	-	-	-	-	-
B.4 Increases in fair value charged to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Exchange rate gains	-	-	-	-	-	-
B.6 Transfers from properties held for investment	-	-	X	X	X	-
B.7 Other changes	-	-	-	-	58	58
C. Decreases:	**-**	**2,910**	**159**	**242**	**676**	**3,987**
C.1 Sales	-	600	-	-	2	602
– from business combinations	-	-	-	-	-	-
C.2 Depreciation	-	1,776	159	242	622	2,799
C.3 Write-downs from impairment charged to	-	331	-	-	-	331
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	331	-	-	-	331
C.4 Decreases in fair value charged to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Exchange rate losses	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) property and equipment held for investment	-	-	X	X	X	-
b) non-current assets and asset groups held for sale	-	-	-	-	-	-
C.7 Other changes	-	203	-	-	54	257
D. Net closing balance	**-**	**18,133**	**578**	**509**	**1,260**	**20,480**
D.1 Total net write-downs	-	4,841	1,209	1,724	1,401	9,175
D.2 Gross closing balance	**-**	**22,974**	**1,787**	**2,233**	**2,661**	**29,655**
E. Measurement at cost	**-**	**-**	**-**	**-**	**-**	**-**

9.7 Property and equipment held for investment: annual changes

The Group does not hold Property and equipment held for investment as of the reporting date.

9.8 Inventories of Property and equipment regulated by IAS 2: annual changes

	Inventories of assets obtained by the enforcement of guarantees received					Other assets inventories	Total
	Land	Buildings	Furnishings	Electronic systems	Others		
A. Opening balance	**-**	**56,148**	**-**	**-**	**-**	**-**	**56,148**
B. Increases	**-**	**2,318**	**-**	**-**	**-**	**-**	**2,318**
B.1 Purchases	-	2,318	-	-	-	-	2,318
B.2 Write-backs	-	-	-	-	-	-	-
B.3 Exchange rate gains	-	-	-	-	-	-	-
B.4 Other changes	-	-	-	-	-	-	-
C. Decreases	**-**	**10,211**	**-**	**-**	**-**	**-**	**10,211**
C.1 Sales	-	10,211	-	-	-	-	10,211
C.2 Write-downs from impairment	-	-	-	-	-	-	-
C.3 Exchange rate losses	-	-	-	-	-	-	-
C.4 Other changes	-	-	-	-	-	-	-
D. Closing balance	**-**	**48,255**	**-**	**-**	**-**	**-**	**48,255**

9.9 Commitments to purchase property and equipment

The Group does not hold commitments to purchase property and equipment as of the reporting date.

Section 10 - Intangible assets – Item 100

10.1 Intangible assets: breakdown

Assets/Values	Total 31/12/2021		Total 31/12/2020	
	Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life
A.1 Goodwill	**X**	**36,257**	**X**	**36,224**
A.1.1 attributable to the group	X	36,254	X	36,224
A.1.2 attributable to minorities	X	3	X	-
A.2 Other intangible assets	**48,992**	**-**	**33,158**	**-**
of which software	40,440	-	30,445	-
A.2.1 Assets measured at cost:	48,992	-	33,158	-
a) intangible assets generated internally	5,557	-	3,903	-
b) other assets	43,435	-	29,255	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) intangible assets generated internally	-	-	-	-
b) other assets	-	-	-	-
Total	**48,992**	**36,257**	**33,158**	**36,224**

Identification of the CGU of the illimity Group

The estimate of the value in use, for impairment testing purposes, in keeping with provisions in IAS 36, of intangible assets with an indefinite life (including goodwill), that do not generate cash flows unless with the contribution of other company assets, requires the preliminary allocation of such intangible assets to organisational units that are fairly autonomous in management terms, that can generate flows of financial resources widely independent of those produced by other areas of activities, but interdependent within the organisational unit generating them. According to IFRS, these organisational units are called *Cash Generating Units* (CGU).

According to IAS 36, when identifying whether incoming cash flows originating from an asset (or group of assets) are widely independent of those arising from other assets (or groups of assets), the entity considers various factors, including the way in which company management controls the operations of the entity or

how company management takes decisions on keeping the goods and assets of the entity operational or on their disposal.
In line with provisions in IAS 36, the level at which goodwill is tested must be correlated with the level of *reporting* within which management controls the dynamics that increase and decrease this value. Under this profile, the definition of such a level depends closely on the organisational models and allocation of management responsibilities for the purposes of defining guidance for operating activities and consequent monitoring. The organisational models may leave aside the structure of the legal entities through which operations take place and, very often, are closely related to the definition of operating segments used in the segment reporting contemplated in IFRS 8.
Moreover, each CGU or group of CGUs to which goodwill is allocated must:

a) represent the minimum level within the entity at which the goodwill is monitored for internal operational purposes; and
b) must not be larger than an operating segment, as defined in section 5 of IFRS 8, before the combination.

Paragraph 5 of IFRS 8 indicates that an operating segment is a component of an entity:

a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses concerning transactions with other components of the same entity);
b) whose operating results are reviewed regularly by the entity's chief operating decision maker for the purposes of adopting decisions on resources to allocate to the sector and evaluating results; and
c) for which discrete financial information is available.

Based on the regulatory references in the aforementioned IAS 36 and IFRS 8, a factor to consider in identifying CGUs is the organisation of the IT system outlined by the entity in keeping with IFRS 8 for *management* to evaluate results achieved by various operating segments and in order for strategic decisions to be taken.
The illimity Group, in accordance with IFRS 8 - *Operating Segments*, presents certain consolidated financial information, in line with the procedures used periodically by the entity's chief operating decision maker for the purposes of adopting decisions on resources to allocate to individual sectors and the assessment of results.
The operating segments were identified taking into consideration the procedures whereby the Bank opted for an organisation also based on the differences in products and services offered.
In view of the above, the illimity Group identified operating segments in accordance with provisions in IFRS 8 and, subsequently determined the segments with the characteristics of a CGU. As described in Part L - Segment reporting, the following operating segments were identified: (i) Distressed Credit; (ii) Growth Credit; (iii) Direct Banking; (iv) Corporate Center; and (v) SGR.
Considering the quantitative and qualitative analyses carried out, the operating segments with the characteristics of a CGU correspond to the operating divisions that will generate incoming cash flows for the Bank and benefit from the synergies arising from business combinations. For that reason, the Bank identified the following CGUs: (i) Distressed Credit; (ii) Growth Credit; (iii) Digital Banking, (iv) SGR and (v) Investment Banking – the latter deriving from the changes to the organisational structure with effect from 1 January 2022.

Allocation of goodwill to the CGUs identified

Following the completion of the process to define the organisation of the information system outlined by the Bank, for *management* to assess the results achieved by various operating segments and consequently to adopt strategic decisions, in compliance with IFRS 8 and analyses to understand which operating segments have the characteristics of CGUs, five CGUs were identified that correspond to the operating divisions that generate incoming cash flows for the Bank and benefit from the synergies arising from business combinations, as mentioned above. In view of the fact that the Investment Banking CGU derives from the Corporate Center, and that the latter CGU was not allocated any goodwill, the management also decided not to allocate any goodwill to the Investment Banking CGU.

In light of this, the goodwill arising from the *purchase price allocation* (PPA) process for the purchase price of Banca Interprovinciale, equal to EUR 21.6 million, previously attributed to a single CGU by the illimity Bank Group, was reallocated to the CGUs Distressed Credit (EUR 17.6 million) and Growth Credit (EUR 4 million) based on the percentage of the *value in use* of each CGU during PPA.

The reallocation was carried out in compliance with paragraph 87 of IAS 36, according to which when an entity changes the composition of the CGUs, the reallocation must be based on a criterion of the relative

value, at the reorganisation date (similarly to that used when an entity disposes of an asset which is part of the unit generating cash flows), unless the entity can demonstrate that other methods better reflect the goodwill associated with the reorganised units.
Goodwill resulting from the *purchase price allocation* process for the purchase price of the IT Auction Group, equal to EUR 14.6 million, was allocated in full to the CGU Distressed Credit, based on the organisational and operational integration of activities acquired with those of the DC division.
A similar analysis was carried out in the allocation of goodwill arising from the acquisition of controlling stakes in the securitisation vehicles Aporti S.r.l., Doria SPV S.r.l., Friuli SPV S.r.l., Pitti SPV S.r.l. and River SPV S.r.l., for a total of EUR 33 thousand.
The specific intangible assets arising from the acquisition of IT Auction S.r.l., which was merged into neprix S.r.l. with effect from the 2021 financial year, were allocated in full to the CGU Distressed Credit. The effects on the economy caused by the COVID-19 pandemic, including the introduction of restrictions on movement and the closure of some production activities by the Government, as well as the suspension of auctions for some months, point to possible indicators of *impairment*. At the same time as the activities required by IFRS 3 were completed, the carrying amount of these specific intangible assets was first tested individually; this testing confirmed the values assigned to the intangible assets identified. Subsequently, these intangible assets were included in the carrying amount of the DC CGU and tested during the *impairment testing* of this CGU.

The next table shows the allocation of goodwill to the CGUs of the illimity Group.

	Distressed Credit	Growth Credit	Total
Goodwill arising from the BIP and Spaxs business combination	17,643	4,000	**21,643**
Goodwill arising from the acquisition of IT Auction	14,581	-	**14,581**
Goodwill arising from the acquisition of equity investments in securitisation vehicles	33	-	**33**
Total Goodwill	**32,257**	**4,000**	**36,257**

Impairment Tests

The *impairment test* is governed by accounting standard IAS 36 – *Impairment of Assets*, which requires that, at least annually and, in any case, whenever events arise suggesting a potential impairment, a test must be carried out to verify the adequacy of the value of goodwill subject to recognition.

The *impairment test* is carried out identifying the units generating financial flows (CGU) to which goodwill is allocated and, if the value of goodwill is lower than its recoverable value (determined as its value in use), any losses in value must be recognised in the income statement, they are not susceptible to future value recoveries. As required by IAS 36, goodwill was *tested* for *impairment* to check for evidence that its recognition value may not be fully recoverable.

The process of recognising impairment requires checking *impairment* indicators and determining any impairment losses. There are essentially two categories of impairment indicators: qualitative indicators such as a negative profit/loss result or a significant deviation from the budget targets or the targets in long-term plans announced to the market, the announcement/start of insolvency proceedings or restructuring plans; quantitative indicators show a carrying amount of the entity's net assets higher than its market capitalisation, or a carrying amount of the investment in the separate financial statement higher than the carrying amount of the net assets and goodwill of the subsidiary on the consolidated financial statement, or the distribution by the latter of a dividend that is higher than its total income.

The illimity Group carries out first level *impairment testing*, individually considering the cash flows of the CGUs to which the goodwill was allocated (Distressed Credit and Growth Credit), and second level *impairment testing*, considering the overall cash flows of the Bank, in order to ensure the recoverability of all net assets of the Bank.

This approach is consistent with the guidelines suggested by the Italian Valuation Authority that defines second level *impairment testing* as the comparison between the carrying amount and the recoverable value of the business considered as a whole.

The CGUs Direct Banking, SGR and Investment Banking were not considered for impairment testing purposes as they did not hold non-current assets as of 31 December 2021, nor had goodwill or other intangibles excluded from the scope of IAS 36 allocated. Any current assets allocated to them were measured separately according to main applicable IFRS.

Criteria for the determination of Value in Use

The value in use was determined using the *Discounted Dividend Model*, in the *"Excess Capital"* variant, commonly used in valuation practices in the financial industry, on the basis of which the economic value is equal to the sum of the following elements:

- the current value of the dividends potentially available for distribution over a certain period of time, maintaining a minimum level of capitalisation consistent with the growth of the business and with the regulatory requirements;
- the current value of a perpetual yield defined on the basis of a sustainable dividend for the years following the planning period.

For the purposes of the consolidated financial statements as of 31 December 2021, the prospective financial information used to determine the value in use was inferred from the financial position as of 31 December 2021 and the 2022-2025 prospective data relating to the individual CGUs.

Estimates of cash flows

To extrapolate the cash flows beyond the analytical forecasting period, consideration was given to the market context in which the forward-looking scenario is defined. With regard to the *impairment test* of 31 December 2021 (consistent with the methodology adopted in the previous financial year), in order to determine the *terminal value*, the cash flows for 2025, the last year of the analytical forecast, were projected in perpetuity based on a growth factor g determined as the average rate of growth of Italy's nominal GDP, which is equal to 1.5%.

In accordance with provisions in section 33 of IAS 36, new initiatives not yet started at the *test* date were excluded from the estimate of financial flows. Instead, initiatives already underway at the reporting date were included.

The projections for the key economic, financial and regulatory data and KPIs for each individual CGU of the illimity Group have taken into account the factors and assumptions that form the basis of the 2022-2025 Business Plan drawn up by the Group's management.

As regard provisions of prudential supervision, in the development of *business* volumes for the various divisions, the Bank assumed a capitalisation profile with a CET1 ratio equal to 15%, higher than that reported in the latest SREP letter, for the 2022-2025 time horizon, in order to develop projections.

Cash flow discounting rate

In determining the value in use, cash flows have to be discounted at a rate that reflects the current market valuations, the current value of money, and the specific risks of the business. In the case of a banking business, it is estimated using the *"equity side"* approach, which means considering only the cost of own capital (Ke), in line with the method used to determine the cash flows which, as mentioned, include the cash flows from the financial assets and liabilities.

The cost of capital was determined by using the *"Capital Asset Pricing Model"* (CAPM). According to that model, the cost of capital is determined as the sum of the return on risk-free investments and of a risk premium, which in turn depends on the specific risk of the activity (which means the risk level of the operating unit and the geographical risk level, which is the so-called "country risk").

The cost of capital is determined after taxes, to be consistent with the discounted cash flows. As the cash flows have been determined in nominal terms, the discounted rates have also been determined in the same way, in other words by incorporating the expectations on inflation.

Looking in detail at the various components that go towards determining the discounting rate, the following decisions were made:

1. as regards the *risk free* rate, the average monthly yield (average of the preceding 12 months) on 10-year Italian government bonds (BTP) was used;
2. with regard to the *market risk premium*, which represents the premium that an investor would require when investing in the equities market compared to the risk-free rate, the data in the international databases generally used for such valuations, were utilised;
3. with regard to the beta coefficient, which measures the specific risk of an individual company, this was determined by identifying a sample of comparable businesses (in terms of *business*), and the average beta recorded was then utilised by means of weekly observations over a five-year period.

The Ke discounting rate used for the *impairment test* for the year ending 31 December 2021 was 7.54% (9.67% as of 31 December 2020).

Carrying amount of the CGUs

To carry out first level *impairment testing*, the *carrying amount* of each CGU of the illimity Group was determined considering the *equity attribution framework* as the reference, determining the value of each CGU based on the RWA assigned to each CGU multiplied by the *Fully Loaded CET1 ratio*, i.e. the level of capitalisation assigned to each CGU, and to the goodwill directly or indirectly attributable to each CGU, or the specific intangibles allocated to it.

To carry out second level *impairment testing*, the *carrying amount* at a Group CGU level is represented by the shareholders' equity arising from the consolidated financial statements as of 31 December 2021, representing the value of the group's *net assets*. This approach is consistent with IAS 36, which requires the *impairment testing* of net assets which, in the Bank's second level *test*, refer entirely to shareholders' equity.

The next table shows the carrying amount of the CGUs of the illimity Group.

	First level impairment testing		Second level impairment testing
	Distressed Credit	Growth Credit	illimity Group
Carrying amount	455	206	**773**

Results of the impairment tests

The results of first level *impairment testing* showed that the value in use of the *cash generating units* Distressed Credit and Growth Credit is higher than the *carrying amount*. Similar conclusions were also reached in the second level test, with reference to the Bank as a whole. Therefore, no write-down was necessary for the purposes of the financial statement for the year ended as of 31 December 2021.

The criteria and information used for the *impairment tests* are significantly influenced by the macroeconomic scenario and by the trends on the financial markets, which could show changes that are not currently foreseeable. If the macroeconomic scenario does deteriorate compared to the current forecast, this would impact the estimates of cash flows and the main assumptions, which could lead to results other than those prospected in these accounts, over the coming years.

Sensitivity tests

As the value in use is determined by using estimates and assumptions that may contain uncertainties, sensitivity tests were carried out as required by IAS/IFRS, aimed at verifying the sensitivity of the results obtained, if certain parameters or underlying assumptions should vary.

In particular, an impact was verified on the value in use of the CGUs of a change of up to 50 bps for the discounting rates, the g growth coefficient used to determine cash flows for the purposes of the *terminal value*, and the capital requirement. The sensitivity analysis also included scenarios in which the terminal value net profit is subject to a contraction of 5%. None of the scenarios considered revealed any cases of impairment.

The tables below show the *sensitivity analysis* of the value in use of the CGUs, to a change in the rate of growth g or in the discounting rate.

TABLE 1 - SENSITIVITY ANALYSIS OF THE DISTRESSED CREDIT CGU

		Ke		
		7.63%	8.13%	8.63%
g	1.00%	3%	-5%	-11%
	1.50%	9%	0%	-7%
	2.00%	15%	6%	-3%

TABLE 2 - SENSITIVITY ANALYSIS OF THE GROWTH CREDIT CGU

		Ke		
		6.51%	7.01%	7.51%
g	1.00%	5%	-6%	-15%
	1.50%	12%	0%	-10%
	2.00%	21%	7%	-5%

TABLE 3 - SENSITIVITY ANALYSIS OF THE CGU ILLIMITY GROUP

		Ke		
		7.04%	7.54%	8.04%
g	1.00%	3%	-6%	-13%
	1.50%	10%	0%	-9%
	2.00%	19%	7%	-3%

From a *stress test* perspective, analyses were carried out in order to highlight the limit values of main assumptions, beyond which the *impairment tests* would require an impairment of assets to be recognised; in particular, the rate of growth g and the discounting rate that would, assuming the same flows to be discounted, lead to values in use that would be reduced but still significantly greater than the recognition values in the financial statements, both at CGU level and at the level of the Bank as a whole.

Furthermore, in order to develop a method of control, in the context of second level impairment testing analyses, the progress of the illimity Group's market capitalisation and the relative implied Price/Book Value multiple were observed. In this case, once again, the results revealed a positive outcome of the second level impairment testing.

10.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: internally generated		Other intangible assets: others		Total
		DEF	INDEF	DEF	INDEF	
A. Opening balance	**36,224**	**4,898**	**-**	**35,873**	**-**	**76,995**
A.1 Total net write-downs	-	995	-	6,618	-	7,613
A.2 Net opening balance	36,224	3,903	-	29,255	-	69,382
B. Increases	**33**	**3,682**	**-**	**23,405**	**-**	**36,385**
B.1 Purchases	33	2,170	-	18,585	-	24,739
– from business combinations	-	1	-	-	-	3,952
B.2 Increases in internal intangible assets	X	-	-	-	-	-
B.3 Write-backs	X	-	-	-	-	-
B.4 Increases in fair value	-	-	-	-	-	-
– to shareholders' equity	X	-	-	-	-	-
– to the income statement	X	-	-	-	-	-
B.5 Exchange rate gains	-	-	-	-	-	-
B.6 Other changes	-	1,512	-	4,820	-	11,647
C. Decreases	**-**	**2,028**	**-**	**9,225**	**-**	**20,519**
C.1 Sales	-	-	-	-	-	-
– from business combinations	-	-	-	-	-	-
C.2 Write-downs	-	913	-	6,687	-	7,600
- Amortisation	X	913	-	6,687	-	7,600
- Impairment	-	-	-	-	-	-
+ shareholders' equity	X	-	-	-	-	-
+ income statement	-	-	-	-	-	-
C.3 Decreases in fair value:	-	-	-	-	-	-
– to shareholders' equity	X	-	-	-	-	-
– to the income statement	X	-	-	-	-	-
C.4 Transfers to non-current assets held for sale	-	-	-	-	-	-
C.5 Exchange rate losses	-	-	-	-	-	-
C.6 Other changes	-	1,115	-	2,538	-	12,919
D. Net closing balance	**36,257**	**5,557**	**-**	**43,435**	**-**	**85,249**
D.1 Total net write-downs	-	1,908	-	13,305	-	15,213
E. Gross closing balance	**36,257**	**7,465**	**-**	**56,740**	**-**	**100,462**
F. Measurement at cost	**-**	**-**	**-**	**-**	**-**	**-**

Legend
DEF: definite useful life
INDEF: indefinite useful life

10.3 Other information

The following information is provided in accordance with IAS 38:

1) there are no revalued intangible assets nor impediments to the distribution of the related gains to shareholders;
2) there are no intangible assets acquired through government concession;
3) there are no intangible assets provided as a guarantee to secure own liabilities nor commitments to buy such assets;
4) there are no leases pertaining to intangible assets.

SECTION 11 – Tax assets and tax liabilities – Item 110 of assets and Item 60 of liabilities

11.1 Deferred tax assets: breakdown

Tax assets amounted to approximately EUR 41 million as of 31 December 2021, up from the EUR 32 million recognised as of 31 December 2020. Details of the breakdown of tax assets are shown below.

Main deductible temporary differences: IRES	31 December 2021	31 December 2020
Depreciation of loans and receivables with customers	1,324	1,573
Tax losses	663	11,437
ACE	-	5,469
Write-down of securities HTCS/FVOCI	2,696	134
Goodwill	7,971	8,566
Others	21,258	2,887
Total	**33,912**	**30,066**

Main deductible temporary differences: IRAP	31 December 2021	31 December 2020
Depreciation of loans and receivables with customers	163	194
Write-down of securities HTCS/FVOCI	546	27
Goodwill	1,510	1,631
Others	4,373	279
Total	**6,592**	**2,131**

Deferred tax assets are recognised on the basis of the probability of their recovery or the possibility of there being sufficient future taxable income.

In support of the reasonable certainty of the future recovery of the deferred tax assets that justifies their recognition in the financial statements pursuant to IAS 12, a so-called probability test was conducted. The test consists of simulating the ability to recover the deductible temporary differences and tax losses accrued at the reporting date using future taxable income. The probability test conducted on the basis of the Bank's income plans yielded positive results, indicating that deferred tax assets would be reabsorbed by 2022.

The rates used for advance taxes for IRES and IRAP purposes are 27.50% (including the supplement) and 5.57% respectively.

11.2 Deferred tax liabilities: breakdown

As regards tax liabilities, relating to deferred taxes, as of 31 December 2021 they amounted to Euro 1.1 million, compared to Euro 0.7 million as of 31 December 2020.

Main taxable temporary differences: IRES	31 December 2021	31 December 2020
Gains by instalments	-	-
Revaluation of securities FVOCI	32	55
Others	936	586
Total	**968**	**641**

Main taxable temporary differences: IRAP	31 December 2021	31 December 2020
Revaluations of FVOCI securities	7	11
Others	125	95
Total	**132**	**106**

Deferred tax liabilities are recognised to reflect the temporary differences between the book value of an asset or liability, and its fiscal value. This recognition takes place in accordance with current tax laws.

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

	Total 31/12/2021	Total 31/12/2020
1. Initial amount	**30,089**	**29,485**
2. Increases	**25,059**	**14,348**
2.1 Deferred tax assets recognised during the year		14,348
a) related to previous years	-	-
b) due to changes in accounting criteria	-	-
c) write-backs	-	-
d) others	25,059	14,348
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**19,468**	**13,744**
3.1 Deferred tax assets cancelled during the year	19,468	13,690
a) reversals	19,468	13,690
b) written off as irrecoverable	-	-
c) changes in accounting criteria	-	-
d) others	-	-
3.2 Reductions in tax rates	-	-
3.3 Other reductions:	-	54
a) conversion into tax credits pursuant to Law no. 214/2011	-	54
b) others	-	-
4. Final amount	**35,680**	**30,089**

11.4 Changes in deferred tax assets pursuant to Law no. 214/2011

	Total 31/12/2021	Total 31/12/2020
1. Initial amount	**1,767**	**1,821**
2. Increases	**-**	**-**
3. Decreases	**279**	**54**
3.1 Reversals	279	-
3.2 Conversion into tax credits	-	54
a) arising from losses for the year	-	54
b) arising from tax losses	-	-
3.3 Other reductions	-	-
4. Final amount	**1,488**	**1,767**

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

	Total 31/12/2021	Total 31/12/2020
1. Initial amount	**15**	**3**
2. Increases	**234**	**38**
2.1 Deferred taxes recognised during the year	-	38
a) related to previous years	-	-
b) due to changes in accounting criteria	-	-
c) other	234	38
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**89**	**26**
3.1 Deferred taxes derecognised during the year	-	
a) reversals	-	-
b) due to changes in accounting criteria	-	-
c) other	89	26
3.2 Reductions in tax rates	-	-
3.3 Other reductions	-	-
4. Final amount	**160**	**15**

11.6 Changes in deferred tax assets (recognised in shareholders' equity)

	Total 31/12/2021	Total 31/12/2020
1. Initial amount	**2,108**	**2,450**
2. Increases	**3,718**	**359**
2.1 Deferred tax assets recognised during the year	3,718	359
a) related to previous years	-	-
b) due to changes in accounting criteria	-	-
c) other	3,718	359
2.2 New taxes or increases in tax rates		-
2.3 Other increases	-	-
3. Decreases	**1,002**	**701**
3.1 Deferred tax assets cancelled during the year	1,002	701
a) reversals	1,002	701
b) written off as irrecoverable	-	-
c) due to changes in accounting criteria	-	-
d) others	-	-
3.2 Reductions in tax rates	-	-
3.3 Other reductions	-	-
4. Final amount	**4,824**	**2,108**

11.7 Changes in deferred taxes (recognised in shareholders' equity)

	Total 31/12/2021	Total 31/12/2020
1. Initial amount	**733**	**714**
2. Increases	**300**	**780**
2.1 Deferred taxes recognised during the year	300	780
a) related to previous years	-	-
b) due to changes in accounting criteria	-	-
c) other	300	780
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**93**	**761**
3.1 Deferred taxes derecognised during the year	93	761
a) reversals	-	-
b) due to changes in accounting criteria	-	-
c) other	-	761
3.2 Reductions in tax rates	-	-
3.3 Other reductions	93	-
4. Final amount	**940**	**733**

11.8 Other information

Current taxes for the year and for prior years, where unpaid, are recognised as liabilities; any surplus paid in terms of an advance on the amount due, is recognised as an asset. The current fiscal liabilities (assets) for the current year and for prior years are determined at the value expected to be paid/recovered from the tax authorities, applying the current tax rates and regulations. Current fiscal assets and liabilities are cancelled in the year in which the assets are realised or the liabilities are discharged.

The tables below show the amounts of the current fiscal assets and liabilities.

Current fiscal assets: breakdown

Type of operations/Values	31 December 2021	31 December 2020
Deferred taxes paid to tax authority	4,726	1,995
Withholding taxes	1	1
Other receivables from the Treasury	441	1,210
Total	**5,168**	**3,206**

Current fiscal liabilities: breakdown

Main taxable temporary differences: IRAP	31 December 2021	31 December 2020
Balance for the previous year	3,460	53
Provision for taxes	19,156	3,460
Withdrawals to pay taxes	(3,460)	(53)
Total	**19,156**	**3,460**

Section 12 – Non-current assets held for sale and discontinued operations and associated liabilities - Item 120 of assets and Item 70 of liabilities

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

	Total 31/12/2021	Total 31/12/2020
A. Assets held for sale		
A.1 Financial assets	43,117	-
A.2 Equity investments	-	-
A.3 Property and equipment	-	-
of which: obtained by enforcement of guarantees received	-	-
A.4 Intangible assets	-	-
A.5 Other non-current assets	-	-
Total (A)	**43,117**	**-**
of which measured at cost	43,117	-
of which measured at level 1 fair value	-	-
of which measured at level 2 fair value	-	-
of which measured at level 3 fair value	-	-
B. Discontinued operations		
B.1 Financial assets measured at fair value through profit or loss	-	-
- financial assets held for trading	-	-
- financial assets designated at fair value	-	-
- other financial assets mandatorily measured at fair value	-	-
B.2 Financial assets measured at fair value through other comprehensive income	-	-
B.3 Financial assets measured at amortised cost	-	-
B.4 Equity investments	-	-
B.5 Property and equipment	-	-
of which: obtained by enforcement of guarantees received	-	-
B.6 Intangible assets	-	-
B.7 Other assets	-	-
Total (B)	**-**	**-**
of which measured at cost	-	-
of which measured at level 1 fair value	-	-
of which measured at level 2 fair value	-	-
of which measured at level 3 fair value	-	-
C. Liabilities associated with assets held for sale		
C.1 Payables	-	-
C.2 Securities	-	-
C.3 Other liabilities	-	-
Total (C)	**-**	**-**
of which measured at cost	-	-
of which measured at level 1 fair value	-	-
of which measured at level 2 fair value	-	-
of which measured at level 3 fair value	-	-
D. Liabilities associated with discontinued operations		
D.1 Amounts due to customers	-	-
D.2 Financial liabilities held for trading	-	-
D.3 Financial liabilities designated at fair value	-	-
D.4 Funds	-	-
D.5 Other liabilities	-	-
Total (D)	**-**	**-**
of which measured at cost	-	-
of which measured at level 1 fair value	-	-
of which measured at level 2 fair value	-	-
of which measured at level 3 fair value	-	-

Section 13 – Other assets – Item 130

13.1 Other assets: breakdown

Items	
Ecobonus tax credits	91,982
Miscellaneous items	66,399
Various borrowers	33,964
Items being processed	29,734
Accrued income and prepaid expenses	1,079
Leasehold improvements	974
Total 31/12/2021	**224,132**
Total 31/12/2020	**42,538**

The item is largely composed of ecobonus tax credits, miscellaneous items and items being processed, linked to normal banking operations, which will be properly recorded in the days following their generation, and balances due from various borrowers.

LIABILITIES

Section 1 – Amounts due to customers – Item 10

1.1 Amounts due to customers: breakdown of amounts due to banks

Type of operations/Values	Total 31/12/2021				Total 31/12/2020			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Due to central banks	**182,355**	**X**	**X**	**X**	**184,721**	**X**	**X**	**X**
2. Due to banks	**228,959**	**X**	**X**	**X**	**349,624**	**X**	**X**	**X**
2.1 Current accounts and on-demand deposits	1	X	X	X	81	X	X	X
2.2 Time deposits	37,843	X	X	X	30,353	X	X	X
2.3 Loans	190,674	X	X	X	308,551	X	X	X
2.3.1 Repurchase agreements - payable	190,649	X	X	X	308,546	X	X	X
2.3.2 Others	25	X	X	X	5	X	X	X
2.4 Liabilities in respect of commitments to repurchase equity instruments	-	X	X	X	-	X	X	X
2.5 Payables for leases	-	X	X	X	-	X	X	X
2.6 Other payables	441	X	X	X	10,639	X	X	X
Total	**411,314**	**-**	**-**	**411,314**	**534,345**	**-**	**-**	**534,345**
Total	**411314**				**534345**			

Key:

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

The explanation of the criteria for determining fair value is reported in Part A – Accounting policies. Repurchase agreements payables against financial assets sold and not derecognised are detailed in Part E – Section E of the Explanatory notes.

1.2 Amounts due to customers: breakdown of amounts due to customers

Type of operations/Values	Total 31/12/2021				Total 31/12/2020			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and on-demand deposits	919,139	X	X	X	770,556	X	X	X
2. Time deposits	1,888,701	X	X	X	1,769,012	X	X	X
3. Loans	7,636	X	X	X	10,418	X	X	X
3.1 Repurchase agreements - payable	-	X	X	X	-	X	X	X
3.2 Others	7,636	X	X	X	10,418	X	X	X
4. Debt for commitments to repurchase equity instruments	-	X	X	X	-	X	X	X
5. Payables for leasing	23,110	X	X	X	22,547	X	X	X
6. Other payables	2,696	X	X	X	2,176	X	X	X
Total	**2,841,282**	**-**	**-**	**2,998,583**	**2,574,709**	**-**	**-**	**2,627,146**

Key:

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

1.3 Amounts due to customers: breakdown of securities issued

Type of securities/Values	Total 31/12/2021				Total 31/12/2020			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. bonds	499,788	516,329	-	13,921	300,980	304,716	2,234	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 others	499,788	516,329	-	13,921	300,980	304,716	2,234	-
2. other securities	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 others	-	-	-	-	-	-	-	-
Total	**499,788**	**516,329**	**-**	**13,921**	**300,980**	**304,716**	**2,234**	**-**

Key:

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

Securities issued amounted to EUR 499.8 million, compared with EUR 301 million as of 31 December 2020, following new bond issues carried out during the course of 2021.

1.4 Breakdown of subordinated payables/securities

	31 December 2021	31 December 2020
A.1 Subordinated payables	**-**	**-**
- banks	-	-
- customers	-	-
A.2 Non-subordinated payables	**-**	**-**
- banks	-	-
- customers	3,252,596	3,109,054
B.1 Subordinated securities	**200,432**	**-**
- banks	-	-
- customers	200,432	-
B.2 Non-subordinated securities	**299,356**	**300,980**
- banks	-	-
- customers	299,356	300,980
Total	**499,788**	**300,980**

1.6 Lease liabilities

At the reporting date, the Group had outstanding payables for leases equal to EUR 23.1 million, divided between EUR 21.9 million relating to property and EUR 1.2 million relating to company cars.

Section 2 – Financial liabilities held for trading – Item 20

2.1 Financial liabilities held for trading: breakdown by product type

Type of operations/Values	Total 31/12/2021					Total 31/12/2020				
	Net Value	Fair Value			Fair Value	Net Value	Fair Value			Fair Value
		L1	L2	L3			L1	L2	L3	
A. On-balance sheet liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Amounts due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	X	-	-	-	-	X
3.1 Bonds	-	-	-	-	X	-	-	-	-	X
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2. Other securities	-	-	-	-	X	-	-	-	-	X
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Others	-	-	-	-	X	-	-	-	-	X
Total (A)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivatives										
1. Financial derivatives	X	-	59	-	X	X	-	-	-	X
1.1 Held for trading	X	-	59	-	X	X	-	-	-	X
1.2 Connected to the fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Others	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	X	-	-	-	X	X	-	-	-	X
2.1 Held for trading	X	-	-	-	X	X	-	-	-	X
2.2 Connected to the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Others	X	-	-	-	X	X	-	-	-	X
Total (B)	**X**	**-**	**59**	**-**	**X**	**X**	**-**	**-**	**-**	**X**
Total (A+B)	**X**	**-**	**59**	**-**	**X**	**X**	**-**	**-**	**-**	**X**

Key:

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

Section 3 - Financial liabilities designated at fair value - Item 30

The Group does not hold such liabilities on the reporting date.

Section 4 - Hedging derivatives – Item 40

The Group does not hold such derivatives on the reporting date.

Section 5 - Fair value change of financial liabilities in hedged portfolio - Item 50

The Group does not hold financial liabilities in hedged portfolio on the reporting date.

Section 6 - Tax liabilities - Item 60

For details of tax liabilities, see *Section 11 – Tax assets and tax liabilities – Item 110 of assets and Item 60 of liabilities*

Section 7 - Liabilities associated with non-current assets held for sale and discontinued operations - Item 70

The Group did not hold liabilities associated with non-current assets held for sale and discontinued operations at the balance sheet date.

Section 8 – Other liabilities – Item 80

8.1 Other liabilities: breakdown

Items	
Miscellaneous items	41,555
Due to suppliers	32,174
Due to the Treasury	14,089
Due to employees	10,420
Accrued expenses and deferred income	3,963
Due to social security and welfare bodies	3,394
Total 31/12/2021	**105,595**
Total 31/12/2020	**121,789**

The item consists mainly of trade payables due to suppliers, payables due to the Treasury and payables due to employees. As well as accrued expenses and deferred income, and payables due to social security and welfare bodies, this item as of 31 December 2021 also includes miscellaneous items related to normal banking operations.

Section 9 – Employee severance pay – Item 90

Following the reforms to supplementary pensions in legislative decree no. 252 of 5 December 2005, post-employment benefits accruing from 1 January 2007 can be allocated either to supplementary pension schemes or transferred to the INPS pension fund, at the employee's discretion. The provisions take into account the actuarial valuations.

9.1 Employee severance pay: annual changes

	Total 31/12/2021	Total 31/12/2020
A. Opening balance	**2,656**	**1,097**
B. Increases	**1,469**	**1,660**
B.1 Provisions for the year	1,366	697
B.2 Other changes	103	963
- from business combinations	1	580
C. Decreases	**430**	**101**
C.1 Payments made	81	97
C.2 Other changes	349	4
- from business combinations	-	-
D. Closing balances	**3,695**	**2,656**
Total	**3,695**	**2,656**

The following criteria were used to calculate the TFR for IAS purposes:

SUMMARY OF TECHNICAL ECONOMIC ASSUMPTIONS

	31 December 2021	31 December 2020
Annual discount rate	1.09%	0.53%
Annual inflation rate	1.75%	0.80%
Annual rate of TFR increase	2.81%	2.10%
Annual rate of salary increase	1.00%	1.00%

It should be noted that:

- the annual discount rate used to determine the current value of the obligation is taken, in accordance with paragraph 83 of IAS 19, from the Iboxx Corporate A index with a duration of 10+ as recorded on the measurement date. The yield with a comparable duration to that of the collective body of workers being valued was chosen for this purpose;
- the annual rate of increase in TFR as provided for in Article 2120 of the Italian civil code is 75% of inflation +1.5 percentage points;
- the annual salary increase rate applied exclusively to companies with on average fewer than 50 staff during 2006 was determined in accordance with the information provided by the Company's Managers.

The technical demographic assumptions used are illustrated below.

SUMMARY OF TECHNICAL DEMOGRAPHIC ASSUMPTIONS

Death	RG 48 mortality tables published by the State General Accounting Office
Incapacity	INPS tables by age and gender
Retirement	100% on reaching the AGO requirements

9.2 Other information

No information other than that already provided in the previous sections is reported.

Section 10 - Allowances for risks and charges – Item 100

10.1 Allowances for risks and charges: breakdown

Items/Components	Total 31/12/2021	Total 31/12/2020
1. Allowances for credit risk relating to commitments and financial guarantees given	4,482	3,296
2. Provisions for other commitments and guarantees issued	-	-
3. Post-employment benefits and similar commitments	18	7
4. Other allowances for risks and charges	1,281	1,178
4.1 legal and tax disputes	612	14
4.2 personnel costs	609	674
4.3 others	60	490
Total	**5,781**	**4,481**

10.2 Allowances for risks and charges: annual changes

	Provisions for other commitments and guarantees issued	Pension/ retirement funds	Other allowances for risks and charges	Total
A. Opening balance	**-**	**7**	**1,178**	**1,185**
B. Increases	**269**	**11**	**1,218**	**1,498**
B.1 Provision for the year	-	11	148	159
B.2 Changes due to the passage of time	-	-	-	-
B.3 Changes due to variations in the discount rate	-	-	-	-
B.4 Other changes	269	-	1,070	1,339
– from business combinations	-	-	-	-
C. Decreases	**-**	**-**	**1,115**	**1,115**
C.1 Utilisations for the year	-	-	400	400
C.2 Changes due to variations in the discount rate	-	-	-	-
C.3 Other changes	-	-	715	715
– from business combinations	-	-	-	-
D. Closing balances	**269**	**18**	**1,281**	**1,568**

10.3 Allowances for credit risk relating to commitments and financial guarantees given

	Provisions for credit risk relating to financial commitments and guarantees given				
	Stage one	Stage two	Stage three	Purchased or originated impaired	Total
Commitments to disburse funds	57	-	-	4,130	4,187
Financial guarantees	280	10	5	-	295
Total	**337**	**10**	**5**	**4,130**	**4,482**

10.4 Allowances for other commitments and guarantees issued

The Group does not make any provision for other commitments and guarantees issued as of the reporting date.

10.5 Defined-benefit pension funds

Company retirement funds, amounting to EUR 18 thousand, refer to the supplementary benefits of agents of a Group company.

10.6 Allowances for risks and charges – other provisions

The item mainly includes other allowances for risks and charges undertaken in the year related to operations of the Distressed Credit and Growth Credit Divisions.

Section 11 – Technical Reserves - Item 110

The Group does not conduct insurance business.

Section 12 – Redeemable shares - Item 130

The Group does not hold redeemable shares as of the reporting date.

Section 13 – Group's shareholders' equity - Items 120, 130, 140, 150, 160, 170 and 180

13.1 "Capital" and "Treasury shares": breakdown

At 31 December 2021, the Bank's share capital amounted to EUR 54,189,951.66, of which EUR 52,619,881.24 was subscribed and paid up, divided into 79,300,100 ordinary shares and 1,440,000 special shares without par value.

13.2 Capital – Number of parent company shares: annual changes

Items/Type	Ordinary	Others
A. Shares as of the beginning of the year	**66,083,417**	**1,440,000**
– fully paid up	66,083,417	1,440,000
– not fully paid up	-	-
A.1 Treasury shares (-)	(98,505)	-
A.2 Shares issued: initial balance	**65,984,912**	**1,440,000**
B. Increases	**13,216,683**	**-**
B.1 New issues	13,216,683	-
against payment:	13,096,168	-
– bonds converted	-	-
– warrants exercised	-	-
– other	13,096,168	-
free:	120,515	-
– for employees	120,515	-
– for directors	-	-
– other	-	-
B.2 Sales of treasury shares	-	-
B.3 Other changes	-	-
C. Decreases	**-**	**-**
C.1 Cancellation	-	-
C.2 Purchase of treasury shares	-	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Shares issued: closing balance	**79,103,090**	**1,440,000**
D.1 Treasury shares (+)	98,505	-
D.2 Shares existing at the end of the year	79,201,595	1,440,000
– fully paid up	79,201,595	1,440,000
– not fully paid up	-	-

13.3 Capital: other information

See Part B - Explanatory notes of the parent company illimity Bank S.p.A. – Section 12 – Bank assets – Items 110, 130, 140, 150, 160, 170 and 180 – "12.3 Capital: other information", which is fully disclosed here.

13.4 Profit reserves: other information

	Balance as of 31/12/2021
Legal reserve	1,590
Extraordinary reserve	10,521
Other Provisions	17,690
Total	**29,801**

13.5 Equity instruments: breakdown and annual changes

The Group does not hold equity instruments.

13.6 Other information

Basic and diluted earnings (loss) per consolidated share

The basic earnings (loss) per share is calculated by dividing the Group's net profit (loss) for the year by the weighted average number of ordinary shares in issue during the year.

Basic and diluted earnings per share	Net profit/loss for the year	Average number of shares	Basic and diluted earnings per share
Period ended 31 December 2021	65,591	74,768,897	0.88
Period ended 31 December 2020	31,086	65,700,601	0.47

Diluted earnings (loss) per share	Net profit/loss for the year	Average number of shares	Diluted earnings (loss) per share
Period ended 31 December 2021	65,591	75,377,813	0.87
Period ended 31 December 2020	31,086	65,700,601	0.47

The table below gives a reconciliation of the shareholders' equity and the result of illimity Bank S.p.A. with the respective data for the Group as of 31 December 2021:

	Shareholders' equity	Result
illimity Bank S.p.A.	**777,947**	**69,123**
Effect of consolidation of subsidiaries	(7,598)	-
Result of subsidiaries	3,914	3,914
Consolidation adjustments	6,305	312
Dividends	-	-
Effect of measuring associates and joint ventures using the equity method	(7,753)	(7,758)
Group	**772,815**	**65,591**

Section 14 – Equity of minority interests – Item 190

Company names	Total 31/12/2021	Total 31/12/2020
Investments in consolidated subsidiaries with significant minority interests	-	-
Other equity investments	5	-
Total	**5**	**-**

Other Information

1. Commitments and financial guarantees issued

	Nominal value on commitments and financial guarantees issued				Total 31/12/2021	Total 31/12/2020
	Stage one	Stage two	Stage three	Purchased or originated impaired		
1. Commitments to disburse funds	**43,702**	**752**	**81,671**	**-**	**126,125**	**114,469**
a) Central banks	-	-	-	-	-	-
b) Public administrations	-	-	-	-	-	-
c) Banks	1,766	-	-	-	1,766	-
d) Other financial companies	12,601	-	15,809	-	28,410	366
e) Non-financial companies	27,199	729	65,585	-	93,513	111,447
f) Households	2,136	23	277	-	2,436	2,656
2. Financial guarantees issued	**4,274**	**908**	**1,249**	**-**	**6,431**	**7,022**
a) Central banks	-	-	-	-	-	-
b) Public administrations	-	-	-	-	-	-
c) Banks	-	-	-	-	-	-
d) Other financial companies	-	-	12	-	12	96
e) Non-financial companies	4,234	908	1,235	-	6,377	6,797
f) Households	40	-	2	-	42	129

2. Other commitments and guarantees issued

	Nominal value Total 31/12/2021	Nominal value Total 31/12/2020
1. Other guarantees issued		
of which: non-performing loans	-	-
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
2. Other commitments		
of which: non-performing loans	2,447	186
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	11,159	5,654
e) Non-financial companies	67,068	32,591
f) Households	-	-

3. Assets given as collateral for own liabilities and commitments

Portfolios	Amount 31/12/2021	Amount 31/12/2020
1. Financial assets measured at fair value through profit or loss	98	99
2. Financial assets measured at fair value through other comprehensive income	107,121	68,964
3. Financial assets measured at amortised cost	69,300	211,215
4. Property and equipment	-	-
of which: Property and Equipment held as inventories	-	-

4. Breakdown of investments against unit-linked and index-linked policies

There are no investments against *unit-linked* and *index-linked* policies.

5. Administration and brokerage for third parties

Type of service	Amount
1. Execution of orders for customers	**-**
a) purchases	-
1. settled	-
2. not settled	-
b) sales	-
1. settled	-
2. not settled	-
2. Portfolio management	**-**
a) individual	-
b) collective	-
3. Custody and administration of securities	**2,607,803**
a) third-party securities held in deposit: relating to depositary bank activities (excluding portfolio management)	-
1. securities issued by companies included in the consolidation	-
2. other securities	-
b) third party securities deposited (excluding portfolio management): others	228,078
1. securities issued by companies included in the consolidation	-
2. other securities	228,078
c) third party securities deposited with third parties	103,323
d) proprietary securities deposited with third parties	2,276,402
4. Other transactions	**-**

6. *Assets subject to offsetting in financial statements, or subject to master netting agreements or similar agreements*

Technical formats	Gross amount of financial assets (a)	Amount of financial liabilities offset in the financial statements (b)	Net amount of financial assets reported in the financial statements (c=a-b)	Related amounts not offset in the financial statements		Net amount (f=c-d-e) 31/12/2021	Net amount 31/12/2020
				Financial instruments (d)	Cash deposits received as guarantees (e)		
1. Derivatives	-	-	-	-	-	-	-
2. Repurchase agreements	191,292	-	191,292	191,292	-	-	-
3. Loan of securities	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-
Total 31/12/2021	**191,292**	**-**	**191,292**	**191,292**	**-**	**-**	**X**
Total 31/12/2020	**395,167**	**-**	**395,167**	**395,167**	**-**	**X**	**-**

7. *Financial liabilities subject to offsetting in financial statements, or subject to master netting agreements and or similar agreements*

Technical formats	Gross amount of financial liabilities (a)	Amount of financial assets offset in the financial statements (b)	Net amount of financial liabilities reported in the financial statements (c=a-b)	Related amounts not subject to accounting offsetting		Net amount (f=c-d-e) 31/12/2021	Net amount 31/12/2020
				Financial instruments (d)	Cash deposits as guarantees (e)		
1. Derivatives	-	-	-	-	-	-	-
2. Repurchase agreements	190,649	-	190,649	190,649	-	-	-
3. Loan of securities	-	-	-	-	-	-	-
4. Other transactions	-	-	-	-	-	-	-
Total 31/12/2021	**190,649**	**-**	**190,649**	**190,649**	**-**	**-**	**X**
Total 31/12/2020	**308,546**	**-**	**308,546**	**308,546**	**-**	**X**	**-**

8. *Securities lending transactions*

illimity Bank is active in securities lending transactions with institutional counterparties, potentially for both active loans (in which illimity lends securities) and passive loans (in which illimity receives securities); in 2021 the Bank carried out active securities lending transactions, lending government securities to institutional counterparties in exchange for the payment of a commission. The transactions in question were loans of unsecured securities governed by a GMSLA.

9. *Disclosure on joint control activities*

The 2021 financial year saw Hype S.p.A. enter the illimity Group's scope of consolidation using the equity method, pursuant to the Bank's 50% stake in the company.

The information pursuant to IFRS 12, paragraphs 3 and 21 a), is provided in sections 7.1 and 7.3 of part B (statement of financial position - assets) of these Explanatory Notes.

PART C – information about the consolidated income statement

Section 1 – Interest - Items 10 and 20

1.1 Interest income and similar income: breakdown

Items/Technical forms	Debt securities	Loans	Other transactions	Total 31/12/2021	Total 31/12/2020
1. Financial assets measured at fair value through profit or loss:	**1,329**	**-**	**-**	**1,329**	**112**
1.1 Financial assets held for trading	80	-	-	80	-
1.2 Financial assets at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	1,249	-	-	1,249	112
2. Financial assets measured at fair value through other comprehensive income	**4,191**	**-**	**X**	**4,191**	**2,434**
3. Financial assets measured at amortised cost:	**11,491**	**173,891**	**X**	**185,382**	**142,688**
3.1 Due from banks	-	591	X	591	517
3.2 Loans to customers	11,491	173,300	X	184,791	142,171
4. Hedging derivatives	**X**	**X**	**-**	**-**	**-**
5. Other assets	**X**	**X**	**580**	**580**	**5**
6. Financial liabilities	**X**	**X**	**X**	**2,806**	**744**
Total	**17,011**	**173,891**	**580**	**194,288**	**145,983**
of which: interest income on impaired assets	89	134,497	-	134,586	99,690
of which: interest income on finance leasing	X	-	X	-	-

1.2 Interest income and similar income: other information

1.2.1 Interest income on assets denominated in foreign currency

Items/values	31 December 2021	31 December 2020
Interest income on assets denominated in foreign currency	377	311

1.3 Interest expense and similar charges: breakdown

Items/Technical forms	Debt	Securities	Other transactions	Total 31/12/2021	Total 31/12/2020
1. Amounts due to customers	(41,912)	(15,521)	X	(57,433)	(39,086)
1.1 Amounts due to central banks	(27)	X	X	(27)	(17)
1.2 Amounts due to banks	(4,386)	X	X	(4,386)	(5,685)
1.3 Amounts due to customers	(37,499)	X	X	(37,499)	(32,671)
1.4 Securities issued	X	(15,521)	X	(15,521)	(713)
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities designated at fair value	-	-	-	-	-
4. Other liabilities and provisions	X	X	-	-	(510)
5. Hedging derivatives	X	X	-	-	-
6. Financial assets	X	X	X	(3,790)	(2,609)
Total	**(41,912)**	**(15,521)**	**-**	**(61,223)**	**(42,205)**
of which: interest expense relative to leasing liabilities	(1,490)	X	X	(1,490)	(1,553)

1.4 Interest expense and similar charges: other information

1.4.1 Interest expense on liabilities denominated in foreign currency

Items/values	31 December 2021	31 December 2020
Interest expenses on liabilities denominated in foreign currency	(75)	(2)

1.5 Differentials arising from hedging transactions

As of 31 December 2021 there were no hedging transactions.

Section 2 – Commission – Items 40 and 50

2.1 Fee and commission income: breakdown

Type of service/Amounts	Total 31/12/2021	Total 31/12/2020
a) Financial instruments	3	7
1. Placement of securities	3	7
1.1 With underwriting and/or on the basis of an irrevocable commitment	-	-
1.2 Without an irrevocable commitment	3	7
2. Receipt and transmission of orders and execution of orders for customers	-	-
2.1 Receipt and transmission of orders of one or more financial instruments	-	-
2.2 Execution of orders for customers	-	-
3. Other fees and commissions connected with activities related to financial instruments	-	-
of which: proprietary trading	-	-
of which: individual portfolio management	-	-
b) Corporate finance	3,559	-
1. Consultancy on mergers and acquisitions	-	-
2. Treasury services	-	-
3. Other fees and commissions connected with corporate finance services	3,559	-
c) Investment consultancy activities	-	-
d) Netting and settlement	-	-
e) Collective portfolio management	1,683	-
f) Custody and administration	1	2
1. Custodian bank	-	-
2. Other fees and commissions related to custody and administration activities	1	2
g) Central administrative services for collective portfolio management	-	-
h) Fiduciary activities	-	-
i) Payment services	1,131	760
1. Current accounts	405	293
2. Credit cards	323	192
3. Debit cards and other payment cards	81	59
4. Bank transfers and other payment orders	105	86
5. Other fees and commissions related to payment services	217	130
j) Distribution of third party services	133	118
1. Collective portfolio management	-	-
2. Insurance products	5	2
3. Other products	128	116
of which: individual portfolio management	-	-
k) Structured finance	-	-
l) Servicing activities for securitisation operations	13	-
m) Commitments to disburse funds	-	-
n) Financial guarantees issued	68	85
of which: credit derivatives	-	-
o) Financing operations	15,514	9,116
of which: for factoring operations	3,401	1,848
p) Currency trading	48	25
q) Goods	-	-
r) Other fee and commission income	18,130	8,417
of which: for management of multilateral trading systems	-	-
of which: for management of organised trading systems	-	-
Total	**40,283**	**18,529**

The item “r) Other fee and commission income” refers primarily to ecobonus commissions (operations carried out by the Bank), as well as those deriving from the specific business of the Group companies relating to neprix and neprix Agency – and, in particular, commissions from auctions and associated services accrued for the use of the companies’ property portals.

2.2 Fee and commission expenses: breakdown

Service/Amount	Total 31/12/2021	Total 31/12/2020
a) Financial instruments	(198)	-
of which: trading in financial instruments	(198)	-
of which: placement of financial instruments	-	-
of which: individual portfolio management	-	-
– Proprietary	-	-
– Delegated to third parties	-	-
b) Netting and settlement	-	-
c) Collective portfolio management	-	-
1. Proprietary	-	-
2. Delegated to third parties	-	-
d) Custody and administration	(156)	(124)
d) Collection and payment services	(1,067)	(769)
of which: credit cards, debit cards and other payment cards	(764)	(535)
f) Servicing activities for securitisation operations	(1,838)	(1,963)
g) Commitments to receive funds	-	-
h) Financial guarantees received	(1)	(2)
of which: credit derivatives	-	-
i) Off-site distribution of financial instruments, products and services	-	-
l) Currency trading	-	-
m) Other fee and commission expense	(2,448)	(2,155)
Total	**(5,708)**	**(5,013)**

Section 3 – Dividends and similar income – Item 70

No dividends were collected during the year.

Section 4 – Profits (losses) on trading – Item 80

4.1 Profits (losses) on trading: breakdown

Transaction/Income items	Capital gains (A)	Profits from trading (B)	Losses (C)	Losses from trading (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading	**-**	**425**	**(13)**	**(141)**	**271**
1.1 Debt securities	-	15	-	-	15
1.2 Equity instruments	-	-	-	-	-
1.3 UCITS units	-	410	(13)	(141)	256
1.4 Loans	-	-	-	-	-
1.5 Others	-	-	-	-	-
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Others	-	-	-	-	-
3. Financial assets and liabilities: foreign exchange differences	**X**	**X**	**X**	**X**	**502**
4. Derivatives	**4,631**	**180**	**(2,320)**	**(99)**	**2,394**
4.1 Financial derivatives:	4,631	180	(2,320)	(99)	2,394
– On debt securities and interest rates	4,631	180	(2,320)	(99)	2,392
– On equity securities and share indices	-	-	-	-	-
– On currencies and gold	X	X	X	X	2
– Others	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedging related to the fair value option	X	X	X	X	-
Total	**4,631**	**605**	**(2,333)**	**(240)**	**3,167**

Section 5 – Fair value adjustments in hedge accounting – Item 90

No hedging transactions were recorded during the year.

Section 6 – Profits (Losses) on disposal/repurchase – Item 100

6.1 Profits (Losses) on disposal/repurchase: breakdown

Item/Income item	Total 31/12/2021			Total 31/12/2020		
	Profit	Loss	Net profit/ loss	Profit	Loss	Net profit/ loss
Financial assets						
1. Financial assets measured at amortised cost	306	(4)	302	2,410	(547)	1,863
1.1 Due from banks	-	-	-	-	-	-
1.2 Loans to customers	306	(4)	302	2,410	(547)	1,863
2. Financial assets measured at fair value through other comprehensive income	6,268	(1,177)	5,091	10,120	(4,283)	5,837
2.1 Debt securities	6,268	(1,177)	5,091	10,120	(4,283)	5,837
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**6,574**	**(1,181)**	**5,393**	**12,530**	**(4,830)**	**7,700**
Amounts due to customers	**-**	**-**	**-**	**-**	**-**	**-**
1. Due to banks	-	-	-	-	-	-
2. Amounts due to customers	-	-	-	-	-	-
3. Securities issued	-	-	-	-	(1)	(1)
Total liabilities (B)	**-**	**-**	**-**	**-**	**(1)**	**(1)**

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

7.1 Profit (loss) on other financial assets and liabilities measured at fair value through profit or loss: breakdown of financial assets and liabilities designated at fair value

Group did not record any profits or losses from such financial assets or liabilities at fair value in 2021.

7.2 Profit (loss) on other financial assets and liabilities measured at fair value through profit or loss: breakdown of other financial assets mandatorily measured at fair value

Transaction/Income items	Capital gains (A)	Realised profits (B)	Losses (C)	Losses on disposal (D)	Net result [(A+B) - (C+D)]
1. Financial assets	**8,319**	**3,910**	**(84)**	**(2,111)**	**10,034**
1.1 Debt securities	5,069	1	(83)	(1)	4,986
1.2 Equity instruments	3,184	3,819	-	-	7,003
1.3 UCITS units	66	90	(1)	(2,110)	(1,955)
1.4 Loans	-	-	-	-	-
2. Financial assets: foreign exchange differences	**X**	**X**	**X**	**X**	**-**
Total	**8,319**	**3,910**	**(84)**	**(2,111)**	**10,034**

Section 8 – Net losses/recoveries for credit risk – Item 130

8.1 Net losses/recoveries for credit risk relating to financial assets measured at amortised cost: breakdown

Transaction/Income items	Write-downs/write-backs (1)						Recoveries (2)				Total 31 December 2021	Total 31 December 2020
	Stage one	Stage two	Stage three		Purchased or originated impaired		Stage one	Stage two	Stage three	Purchased or originated impaired		
			Write-offs	Others	Write-offs	Others						
A. Due from banks	**(165)**	**-**	**-**	**-**	**-**	**-**	**73**		**-**	**-**	**(92)**	**104**
- Loans	(165)	-	-	-	-	-	73	-	-	-	(92)	104
- Debt securities	-	-	-	-	-	-	-	-	-	-	-	-
B. Receivables due from customers	**(2,087)**	**(139)**	**-**	**(5,600)**	**-**	**(124,382)**	**1,723**	**832**	**3,307**	**169,943**	**43,597**	**40,078**
- Loans	(1,259)	(21)	-	(5,600)	-	(124,382)	1,708	832	3,307	169,943	44,528	40,083
- Debt securities	(828)	(118)	-	-	-	-	15	-	-	-	(931)	(5)
Total	**(2,252)**	**(139)**	**-**	**(5,600)**	**-**	**(124,382)**	**1,796**	**832**	**3,307**	**169,943**	**43,505**	**40,182**

The sub-item "purchased or originated *impaired* financial assets" refers to the amount of write-downs/ write-backs of loans classified as purchased or originated *impaired* financial assets as a result of receipts or revisions of business plans.

8.1a Net losses/recoveries for credit risk relating to loans measured at amortised cost subject to COVID-19 support measures: breakdown

Transaction/Income items	Net write-downs/write-backs						Total 31/12/2021	Total 31/12/2020
	Stage one	Stage two	Stage three		Purchased or originated impaired			
			Write-offs	Others	Write-offs	Others		
1. Loans granted in accordance with GL	-	-	-	-	-	-	-	**(168)**
2. Loans subject to moratorium measures no longer in accordance with GL and not valued as forborne	-	-	-	-	-	-	-	**-**
3. Loans subject to other forbearance measures	50	54	-	(51)	-	-	53	**(58)**
4. New funding	(1,680)	(35)	-	(739)	-	-	(2,454)	**(1,746)**
Total 31/12/2021	**(1,630)**	**19**	**-**	**(790)**	**-**	**-**	**(2,401)**	**(1,972)**

8.2 Net losses/recoveries for credit risk relating to financial assets measured at fair value through other comprehensive income: breakdown

Transaction/Income items	Write-downs/write-backs						Recoveries				Total 31/12/2021	Total 31/12/2020
	Stage one	Stage two	Stage three		Purchased or originated impaired		Stage one	Stage two	Stage three	Purchased or originated impaired		
			Write-offs	Others	Write-offs	Others						
A. Debt securities	(2,344)	-	-	-	-	-	1,437	-	-	-	(907)	82
B. Loans	-	-	-	-	-	(106)	-	-	-	643	537	-
- To customers	-	-	-	-	-	(106)	-	-	-	643	537	-
- To banks	-	-	-	-	-	-	-	-	-	-	-	-
Total	**(2,344)**	**-**	**-**	**-**	**-**	**(106)**	**1,437**	**-**	**-**	**643**	**(370)**	**82**

8.2a Net losses/recoveries for credit risk relating to loans measured at fair value through other comprehensive income which are receiving COVID-19 support measures: breakdown

The Group does not hold financial assets measured at fair value through other comprehensive income subject to COVID-19 support measures.

Section 9 – Profits/losses on changes in contracts without derecognition – item 140

Profits (losses) on changes in contracts without derecognition amounted to EUR 196 thousand as of 31 December 2021.

Section 10 – Net premiums – Item 160

The Group does not conduct insurance business.

Section 11 – Other net insurance income (expense) – Item 170

The Group does not conduct insurance business.

Section 12 – Administrative expenses - Item 190

12.1 Personnel expenses: breakdown

Type of expense/Amount	Total 31/12/2021	Total 31/12/2020
1) Employees	(69,427)	(48,303)
a) wages and salaries	(38,709)	(28,319)
b) social security contributions	(10,868)	(8,009)
c) provision for employee severance pay	-	-
d) pension costs	-	(710)
e) provision for employee severance pay	(1,359)	(1,174)
f) provision for post-employment benefits and similar provisions:	(78)	-
– defined contribution	(78)	-
– defined benefit	-	-
g) payments to external supplementary pension funds:	(1,085)	(810)
– defined contribution	(1,085)	(810)
– defined benefit	-	-
h) costs related to share-based payments	(474)	(114)
i) other employee benefits	(16,854)	(9,167)
2) Other personnel in service	(1,962)	(1,705)
3) Directors and statutory auditors	(2,174)	(1,936)
4) Early retirement costs	-	-
Total	**(73,563)**	**(51,944)**

12.2 Average number of employees per category

Category	2021
a) senior managers	61
b) middle managers	288
c) other employees	317
Total employees	**666**
Other personnel	**45**

12.3 Defined-benefit pension funds: costs and revenues

This item includes retirement funds for supplementary benefits of agents of a Group company.

12.4 Other employee benefits

The other benefits to employees mainly relate to provisions made to the MBO incentive system, which covered canteen vouchers and the costs of staff training, as well as various insurance policies.

12.5 Other administrative expenses: breakdown

Type of expense/Amount	31.12.2021
Insurance	(3,268)
Various consulting services	(8,911)
Sundry contributions	(5,089)
Cost of services	(3,365)
Financial information	(2,630)
Adverts and advertising	(2,669)
Financial statement audit	(722)
IT and software expenses	(21,214)
Legal and notary's fees	(5,480)
Property management expenses	(2,061)
Expenses for professional services	(13,979)
Utilities and services	(1,437)
Other indirect taxes and duties	(11,741)
Others	(1,590)
Total 31/12/2021	**(84,156)**
Total 31/12/2020	**(73,110)**

Section 13 – Net allowances for risks and charges – Item 200

13.1 Net provisions for credit risk relating to commitments to disburse funds and financial guarantees given: breakdown

Items / values	Write-downs/write-backs			Recoveries			Total 31/12/2021	Total 31/12/2020
	Stage one and Stage two	Stage three	Impaired	Stage one and Stage two	Stage three	Impaired		
Guarantees issued	(39)	-	-	63	1	-	25	(1,011)
Irrevocable commitments to disburse funds	(193)	-	(3,213)	315	-	662	(2,429)	30
Total	**(232)**	**-**	**(3,213)**	**378**	**1**	**662**	**(2,404)**	**(981)**

13.2 Net provisions relating to other commitments and guarantees issued: breakdown

The Group did not make any net provisions relating to other commitments and guarantees issued over the course of the year.

13.3 Net allowances for other funds for risks and charges: breakdown

The item Net Provisions to other funds for risks and charges, the balance of which amounts to 218 thousand euros, includes allocations and releases for the year that mainly related to passive causes and provisions for personnel expenses, see Part B of the Explanatory Notes for more details.

Section 14 – Net adjustments/recoveries on property and equipment - Item 210

14.1 Net write-downs/write-backs on property and equipment: breakdown

Asset/Income items	Depreciation (a)	Write-downs/ write-backs for impairment (b)	Write-backs (c)	Net profit/loss (a + b - c)
A. Property and equipment				
1 For business use	(2,802)	(330)	-	(3,132)
– Owned	(449)	(330)	-	(779)
– Rights of use acquired through lease agreements	(2,353)	-	-	(2,353)
2 Held for investment	-	-	-	-
– Owned	-	-	-	-
– Rights of use acquired through lease agreements	-	-	-	-
3 Inventories	X	-	-	-
Total	**(2,802)**	**(330)**	**-**	**(3,132)**

Section 15 – Net adjustments/recoveries on intangible assets – Item 220

15.1 Net write-downs/write-backs on intangible assets: breakdown

Asset/Income item	Depreciation (a)	Write-downs/ write-backs for impairment (b)	Write-backs (c)	Net profit/loss (a + b - c)
A. Intangible assets				
of which: software	(7)	-	-	(7)
A.1 Owned	(7,584)	-	-	(7,584)
– Generated internally by the company	(913)	-	-	(913)
– Other	(6,671)	-	-	(6,671)
A.2 Rights of use acquired through lease agreements	(16)	-	-	(16)
B. Assets held for sale	X	-	-	-
Total	**(7,600)**	**-**	**-**	**(7,600)**

Section 16 – Other operating expenses/income – Item 230

16.1 Other operating expenses: breakdown

Items/Technical forms	31 December 2021	31 December 2020
Amortisation of expenses for improvements on third party assets	(87)	(73)
Other operating expenses	(886)	(654)
Total	**(973)**	**(727)**

16.2 Other operating income: breakdown

Items/Technical forms	31 December 2021	31 December 2020
Recoveries of expenses from other customers	5,180	3,802
Other income	14,281	967
Rental income	2,933	3,723
Total	**22,394**	**8,492**

Other operating income derives mainly from the amount received from ION to use the licence on the IT platform developed by illimity, and sales revenues generated primarily by neprix and the other Group companies. Other main components refer to rental income for the management of real-estate complexes, recognised under Property and Equipment, acquired through the NPL business.

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

17.1 Profits (losses) on equity investments: breakdown

Income items/Sectors	Total 31/12/2021	Total 31/12/2020
1) Jointly controlled companies		
A. Income	-	-
1. Revaluations	-	-
2. Gains on disposal	-	-
3. Recoveries	-	-
4. Other income	-	-
B. Costs	(8,187)	-
1. Write-downs	(8,187)	-
2. Write-downs/write-backs for impairment	-	-
3. Losses on disposal	-	-
4. Other charges	-	-
Net profit/loss	**(8,187)**	**-**
2) Companies in which significant influence is exercised		
A. Income	433	-
1. Revaluations	-	-
2. Gains on disposal	-	-
3. Recoveries	-	-
4. Other income	433	-
B. Costs	(4)	-
1. Write-downs	-	-
2. Write-downs/write-backs for impairment	-	-
3. Losses on disposal	-	-
4. Other charges	(4)	-
Net profit/loss	**429**	**-**
Total	**(7,758)**	**-**

Section 18 – Net gains/losses on the measurement at fair value of property and equipment and intangible assets - Item 260

The Group did not hold property and equipment and intangible assets measured at fair value during the year.

Section 19 – Write-downs/write-backs of goodwill – Item 270

There is no write-down/write-back of goodwill.

Section 20 – Profits (losses) on disposal of investments – Item 280

20.1 Profits (losses) on disposal: breakdown

Income items/Sectors	Total 31/12/2021	Total 31/12/2020
A. Property	6,066	-
- Gains on disposal	6,066	-
- Losses on disposal	-	-
B. Other assets	2,278	-
- Gains on disposal	2,278	-
- Losses on disposal	-	-
Net profit/loss	**8,344**	**-**

Section 21 – Income tax for the year on continuing operations – Item 300

21.1 Income tax for the year on continuing operations: breakdown

Items/Components	Total 31/12/2021	Total 31/12/2020
1. Current tax (-)	(20,917)	(8,431)
2. Adjustment to current taxes for prior years (+/-)	-	-
3. Reduction of current taxes for the year (+)	-	-
3.bis Reduction of current tax for the year due to tax credits (Law 214/2011 (+))	-	-
4. Change in deferred tax assets (+/-)	5,901	699
5. Change in deferred taxes (+/-)	(145)	126
6. Tax expense for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(15,161)	(7,606)

During the course of the year, pursuant to Article 15, paragraphs 10-bis and 10-ter of Legislative Decree 185/2008, the effect of tax relief was recognised in relation to the acquisition of the 30% stake in IT Auction%, and to the acquisition of the stake in Hype S.p.A. as part of a joint control arrangement. Specifically, in relation to the amount pertaining to substitute tax, corresponding to 16% of the higher values recognised in the financial statements for goodwill and other intangible assets, totalling EUR 11.7 million, prepaid taxes (corporate income tax and regional production tax - IRES and IRAP) of EUR 22.7 million were recognised. These prepaid taxes will be released in five annual instalments, simultaneously with lower current taxes.

21.2 Reconciliation of theoretical tax charge with actual tax charge

Items/Components	31.12.2021
Profit (loss) from continuing operations before tax	**80,500**
IRES - theoretical tax charge (27.5%)	(22,138)
– effect of lower rate	193
– effect of non-deductible expenses and other increases - permanent	(2,752)
– effect of non-taxable income and other decreases - permanent	3,665
– non-current IRES	17,174
IRES - actual tax charge	**(21,032)**
IRAP - theoretical tax charge (5.57%)	(4,484)
– effect of lower rate	118
– effect of income/charges that to not contribute to the taxable base	(1,623)
– non-current IRAP	(76)
IRAP - actual tax charge	**(5,988)**
Other taxes	**11,860**
Financial statements actual tax charge	**(15,160)**

The theoretical tax charge, considered on an individual basis, was equal to 33.07% (27.5% ordinary and additional IRES and 5.57% IRAP), for banks and financial entities, and equal to 27.9% (24% ordinary and additional IRES and 3.9% IRAP) for industrial and service companies. The effective tax rate in 2021 was 18.8%. The tax rate for the year was positively affected, in particular, by the tax relief on the goodwill recognised the consolidated financial statements, arising from the acquisition of equity investments in IT Auction S.r.l., equal to 30%, and in Hype S.p.A., equal to 50%.

Section 22 – Profit (loss) from discontinued operations after tax – Item 320

22.1 – Profit (loss) from discontinued operations after tax: breakdown

Income items/Sectors	Total 31/12/2021	Total 31/12/2020
1. Income	391	-
2. Costs	(121)	-
3. Result of the valuations of the asset group and associated liabilities	-	-
4. Profits/losses on disposals	79	-
5. Taxes and duties	(96)	-
Profit (loss)	**253**	**-**

22.2 Breakdown of income taxes relating to discontinued operations

	Amount 31/12/2021	Amount 31/12/2020
1. Current taxes (-)	(96)	-
2. Change in deferred tax assets (+/-)	-	-
3. Change in deferred taxes (-/+)	-	-
4. Income taxes for the year (-1+/-2+/-3)	**(96)**	**-**

Section 23 – Profit (loss) for the financial year attributable to minority interests - Item 340

23.1 Breakdown of item 340 "Profit (loss) for the financial year attributable to minority interests"

The Group has no profits/(losses) to be attributed to third parties. On the reporting date, there were no third-party interests.

Section 24 – Other information

No information other than that already provided in the previous sections is reported.

Section 25 – Earnings per share

25.1 Average number of ordinary shares with diluted capital

The basic earnings (loss) per share is calculated by dividing the Group's net profit (loss) for the year by the weighted average number of ordinary shares in issue during the year.

Basic and diluted earnings per share	Net profit/loss for the year	Average number of shares	Basic and diluted earnings per share
Period ended 31 December 2021	65,591	74,768,897	0.88
Period ended 31 December 2020	31,086	65,700,601	0.47

Diluted earnings (loss) per share	Net profit/loss for the year	Average number of shares	Diluted earnings (loss) per share
Period ended 31 December 2021	65,591	75,377,813	0.87
Period ended 31 December 2020	31,086	65,700,601	0.47

25.2 Other information

There is no other information as of the reporting date.

PART D – Consolidated comprehensive income

ANALYTICAL STATEMENT OF THE CONSOLIDATED COMPREHENSIVE INCOME

		31.12.2021	31.12.2020
10.	**Profit (loss) (+/-) for the year**	**65,591**	**31,086**
	Other income components not transferred to the income statement		
20.	Equity instruments measured at fair value through other comprehensive income	1	(1)
	a) fair value changes	1	(1)
	b) transfers to other items of shareholders' equity	-	-
30.	Financial liabilities designated at fair value through profit or loss (changes in creditworthiness)	-	-
	a) fair value changes	-	-
	b) transfers to other items of shareholders' equity	-	-
40.	Hedging of equity instruments measured at fair value through other comprehensive income	-	-
	a) fair value changes (hedged instrument)	-	-
	b) fair value changes (hedging instrument)	-	-
50.	Property and equipment	-	-
60.	Intangible assets	-	-
70.	Defined-benefit plans	(137)	(61)
80.	Non-current assets held for sale and discontinued operations	-	-
90.	Share of valuation reserves for equity investments measured at equity	6	-
100.	Other income components without recycling to the income statement	36	15
	Other income components with recycling to the income statement		
110.	Hedging of foreign investments	-	-
	a) fair value changes	-	-
	b) reclassification through income statement	-	-
	c) other changes	-	-
120.	Foreign exchange differences	-	-
	a) fair value changes	-	-
	b) reclassification through income statement	-	-
	c) other changes	-	-
130.	Cash flow hedges	-	-
	a) fair value changes	-	-
	b) reclassification through income statement	-	-
	c) other changes		
	of which: result of net positions	-	-
140.	Hedging instruments (undesignated elements)	-	-
	a) fair value changes	-	-
	b) reclassification through income statement	-	-
	c) other changes	-	-
150.	Financial assets (other than equities) measured at fair value through other comprehensive income	(8,493)	(1,752)
	a) fair value changes	(9,236)	(3,086)
	b) reclassification through income statement	743	1,334
	– write-downs for credit risk	907	(82)
	– profits/losses on disposals	(164)	1,416
	c) other changes	-	-
160.	Non-current assets and asset groups held for sale:	-	-
	a) fair value changes	-	-
	b) reclassification through income statement	-	-
	c) other changes	-	-
170.	Share of valuation reserves for equity investments measured at equity:	-	-
	a) fair value changes	-	-
	b) reclassification through income statement	-	-
	– write-downs from impairment	-	-
	– profits/losses on disposals	-	-
	c) other changes	-	-
180.	Income taxes relating to other income components with recycling to the income statement	2,808	582
190.	**Total other income components**	**(5,779)**	**(1,217)**
200.	**Other comprehensive income (Item 10+190)**	**59,812**	**29,869**
210.	Consolidated comprehensive income attributable to minority interests	-	-
220.	**Consolidated comprehensive income attributable to the Parent Company**	**59,812**	**29,869**

PART E – INFORMATION ON RISKS AND RELATED HEDGING POLICIES

Preamble

Risk Management Process and Internal Control System

The illimity Group has a structured Risk Management Process (PGR), used as a reference model in the organisational and procedural development and systematic performance of all operations and business activities put in place - which may be standard, or non-systematic or contingent. In line with the mission assigned, strategies and objectives pursued, these operations and activities entail undertaking and continually managing risks, in order to contribute to a sustainable value creation process, while also ensuring regulatory compliance and, among others, a coordinated use of human resources, technologies and methodologies.
In fact, at a general level, the Group implements the aforementioned process through an organisation model that requires the coordinated use of human resources, technologies and methodologies based on a set of internal rules that define the structure of management controls, the policies (rules, authorities, objectives and limits in governing risks of various operating and business segments), and the processes in which the activities are carried out, including the control activities.

The Board of Directors of the Parent Company plays a fundamental role in risk control. It sets the strategic guidelines, approves the risk management policies and assesses the level of efficiency and adequacy of the Internal Control System. The Board of Directors relies on the Risks Committee and the Management Committee to carry out the preparatory and advisory work relating to internal control and the monitoring of business risks. In collaboration with the Chief Executive Officer, it is also responsible for the implementation of strategic guidelines, the Risk Appetite Framework ("RAF") and risk governance policies.

The Board of Statutory Auditors, in its control capacity, oversees the efficiency and adequacy of the risk management and control system and of internal auditing, as well as compliance with the regulations that govern banking business and the functioning and adequacy of the overall System of Internal Controls. It is also appointed by the Group as the body in charge of monitoring the functioning of and compliance with the Organisation and Management Model (also known as the Model pursuant to Legislative Decree 231/2001) that the Group has adopted and, precisely, verifying the efficiency, effectiveness and adequacy of the model itself with respect to the prevention of the commission of the crimes provided for by the decree in question.

The Chief Risk Officer (CRO) oversees the so-called second level control activities as a Risk Management Function, ensuring, through the support of the technical functions concerned, constant control of the risks assumed by the Group in terms of both monitoring and control and governance.

The Compliance & AML (Anti-Money Laundering) Department oversees the so-called second level control activities in terms of the Regulatory Compliance Function and the Anti-Money Laundering and Prevention of Terrorist Financing Function, with a view to preventing and managing the risk of incurring legal or administrative penalties, major financial losses or damage to reputation resulting from violations of mandatory regulations or self-regulation, or preventing and combating violations of regulations on money laundering and terrorist financing. In addition, it fulfils the Group's legal obligations regarding the processing of personal data by appointing a Data Protection Officer in accordance with current legislation.

The Internal Audit Department oversees the so-called "third level" control activities as the Internal Audit Function. Specifically, it monitors the regular performance of operations and the evolution of risks as well as assesses the completeness, adequacy, functionality, reliability of the components of the internal control system and information system, the risk management process, the RAF, thereby contributing to the improvement of the effectiveness and efficiency of the organisation, control processes, policies and risk management processes.

To ensure that the Risk Management Process functions efficiently and effectively, and can fully cover all existing or potential risks, also in accordance with regulatory requirements, the Group has implemented:

- a system of risk limits and objectives (Risk Appetite Framework, or RAF) that represents an organic and structured approach, which has implications on integrated risk management and governance processes and widespread impacts on all company functions. It is structured and expressed at operational level for the Division and operational teams, and covers escalation processes, metrics and quantitative limits, as well as qualitative guidelines set out annually in the Risk Appetite Statement (RAS).

The formalisation, through the definition of the RAF, of risk limits and objectives that reflect the maximum acceptable risk, the business model and strategic guidelines, are essential in determining and adopting a risk governance policy and risk management process based on the principles of sound, prudent company management.

- the Internal Capital Adequacy Assessment Process (ICAAP), a process for the self-assessment of the liquidity profile (so-called ILAAP). The objective of the ICAAP and ILAAP processes is to provide an internal assessment of the current and forward-looking adequacy, under ordinary and stress conditions, of available assets in relation to exposure to operational risks, and of the operational liquidity and structural profile in relation to related reserves.
- a process for the ex ante assessment of Major Transactions (OMR), with a prior opinion on their sustainability at a credit and income level and coherence with the RAF.

In conjunction with these processes, adopted by the Group to manage and control risk (risk management framework) in normal operating conditions, the Group has implemented a Recovery Plan, the instrument that governs the management of crisis situations, and strategies designed to restore ordinary operation, as well as the Contingency Funding Plan procedure, that defines the emergency plan to manage liquidity in crisis situations.

In accordance with the prudential regulatory provisions, the Group has defined the way in which information is provided to the public about its capital adequacy, risk exposure and the general characteristics of the systems it uses to identify, measure, manage and control these risks (so-called Third pillar of Basel 2 – "Pillar 3"), a separate report in addition to the information given in this financial report. The report is published in accordance with the rules laid down by the Bank of Italy on its website at www.illlimity.com (Investor Relations section).

The Group has defined, codified and continually adopted an operational risk mapping process based on quali-quantitative metrics and rules shared within the organisation, which identifies the individual types of risk that the Group is or might be exposed to, and also assesses these risks according to specific drivers which may represent the materiality of the risk itself.

The result of the identification process is contained in the "Risk Radar" risk map, the objective of which is to represent, in relative terms, the risks inherent in the Group's operations, and to structure them according to the business lines that generate these risks in order to determine the overall risk exposure.
The process (at least annual) to identify material risks for the Group is overseen by the Chief Risk Officer (CRO), together with the CFO & Central Functions and the support of other organisational units of the Parent Company and subsidiaries.

The results of this process represent the assessment and input measures used to develop processes related to the ICAAP and ILAAP, i.e. the Strategic Plan, Budget and RAF, and are therefore validated by top management, discussed and analysed by the Risks Committee, and subject to approval by the Board of Directors of the Parent Company.

Below is specific information about the risk management system and specific information about material risks, indicated below, and the related management, control and hedging policies adopted by the Group:

- credit risk (which also includes concentration risk);
- market risk (interest rate risk and price risk - regulatory trading portfolio);
- interest rate (interest rate risk and price risk of banking portfolio);
- liquidity risk;
- operational risk;
- IT risk;
- ESG risk (for further information, please refer to the information published in the Consolidated Non-Financial Statement of the illimity Group (pursuant to Italian Legislative Decree 254/2016)).

The other risks considered relevant as a result of the risk mapping process described above are subsequently reported and defined.
The Group also has a system of quantitative limits with reference to assets at risk towards related parties and others. In accordance with the relevant supervisory provisions, indication of the level of risk appetite required by the provisions for the determination and formalisation by banks and banking entities was planned, defined in terms of the maximum limit of the lines of credit granted to related parties deemed acceptable in relation to the total lines of credit granted by illimity Bank.
Further limits are envisaged with reference to the exposures granted to subjects in conflict of interest pursuant to Article 2391 of the Italian civil code, bankruptcy proceedings, as well as stricter limits than the regulations for the individual borrower or connected group.

For details on the objectives and strategies of individual risks in the new context of the epidemiological crisis, reference is made to the specific section in Part A – Risks, uncertainties and impacts of the *COVID-19* epidemic.

Section 1 – Accounting consolidation risks

Quantitative information

A. Credit quality

A.1 Performing and non-performing credit exposures: amounts, adjustments, changes, and economic breakdown

A.1.1 Breakdown of financial assets by portfolio and credit quality (book value)

Portfolio/quality	Bad loans	Unlikely-to-pay	Non-performing past due exposures	Performing past due exposures	Other performing exposures	Total
1. Financial assets measured at amortised cost	704,416	374,868	136	3,410	2,146,936	3,229,766
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	299,489	299,489
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	61,991	61,991
5. Financial assets held for sale	-	-	-	-	43,117	43,117
Total 31/12/2021	**704,416**	**374,868**	**136**	**3,410**	**2,551,533**	**3,634,363**
Total 31/12/2020	**750,367**	**322,959**	**506**	**10,618**	**1,864,390**	**2,948,840**

A.1.2 Breakdown of financial assets by portfolio and credit quality (gross and net amounts)

Portfolio/quality	Non-performing				Performing			Total (net exposure)
	Gross exposure	Total write-downs/ write-backs	Net exposure	Total partial write-offs(*)	Gross exposure	Total write-downs/ write-backs	Net exposure	
1. Financial assets measured at amortised cost	1,097,949	(18,529)	1,079,420	-	2,161,218	(10,872)	2,150,346	3,229,766
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	300,510	(1,021)	299,489	299,489
3. Financial assets designated at fair value	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	X	X	61,991	61,991
5. Financial assets held for sale	-	-	-	-	43,117	-	43,117	43,117
Total 31/12/2021	**1,097,949**	**(18,529)**	**1,079,420**	**-**	**2,504,845**	**(11,893)**	**2,554,943**	**3,634,363**
Total 31/12/2020	**1,092,179**	**(18,347)**	**1,073,832**	**-**	**1,874,815**	**(11,468)**	**1,875,008**	**2,948,840**

(*) Values to be stated for information purposes.

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

The Group does not have any structured entities as of the reporting date.

Section 2 – Prudential consolidation risks

1.1 Credit risk

Qualitative information

1. General aspects

Credit risk is the risk of incurring losses due to the breach of contractual obligations by a counterparty unable to repay interest and/or capital (default risk), expressed as the difference between the value of the credit and the value effectively recovered, or losses associated with impairment of the counterparty's credit rating (risk of migration).
Credit risk also includes the case of risk of concentration, arising from exposures to counterparties including central counterparties, groups of related parties and parties operating in the same economic sector, in the same geographical region, or exercising the same activity or dealing in the same goods, and from the application of techniques to mitigate credit risk including risks of indirect exposures, such as those towards individual guarantors. There are two main components of concentration risk:

- single name, arising from the fact that significant parts of the portfolio are allocated to a single counterparty (or groups of counterparties that share specific characteristics in terms of legal and economic ties);
- geo-sectorial, arising from concentrations with counterparties that have a high correlation terms of the default risk as they come from the same economic sector or the same geographical area.

The Group attributes great importance to the control of credit risk and to the relative control systems, which are necessary to create the conditions to:
ensure a structural, significant creation of value in a controlled risk environment;

- protect the Group's asset and financial solidity, as well as its image and reputation;
- allow a proper, transparent representation of the risk level inherent in its lending portfolio.

The main operational factors that contribute to determining and managing credit risk relate to:

- loan application processes;
- credit risk management;
- monitoring of exposures;
- debt recovery.

The quality of the lending portfolio is preserved by adopting specific operational methods at every stage of the loan management process (contact, application stage, decision and disbursement, monitoring and litigation). Credit risk is controlled right from the first stage of the application process, by means of:

- checking creditworthiness, with particular attention to the customer's current and forward-looking capacity to produce income and, above all, sufficient cash flows to honour the debt;
- an assessment of the nature and scope of the required loan in relation to the actual needs and the financial and economic capacity of the applicant, the performance of the account if already in existence, and the sources of repayment;
- the membership in Legal and Economic Groups.

Surveillance and monitoring activity is based on a system of internal controls aimed at optimising the management of credit risk. This is done by using measurement and control methods called "performance". These methods take into consideration every aspect of the customer relationship, such as the general details (information about the customer's place of residence, business, legal status, the last decision taken on their account, adverse events, corporate structure, irregularities in the Central Risk Register, status and doubtful outcome, the persons managing the account and finally, information about whether the account has been in default), information about credit facilities (form of loan, authorised credit limit, overdraft credit line, utilisation, overrun/availability and credit expiry date), details of the guarantees backing the loans, plus information about any other significant factors. "Performance" monitoring interacts with the credit control

and management procedures, making the credit monitoring process more efficient by allowing valorisation of the information available, and makes the recovery process more effective.
The opening and granting of a new line of credit is based on a process of analysing the applicant's financial and business data supported by qualitative information about their company, the purpose of the loan, the market they operate in, and the presence and assessment of any collateral guarantees.
With regard to the Risk Appetite Framework, the Group verifies aspects including the following, in relation to the risk in question and certain aspects of the relative concentration risk:

- the ratio of the volume of non-performing exposures to the total portfolio;
- the level of concentration, with regard to exposures to a counterparty or group of connected counterparties (single name exposures), and at sectoral level;
- the collections made compared with those forecast with regard to non-performing exposures;
- the limits on "Large Risks";
- the Bank's level of exposure to related parties (IAS 24) and parties in conflict of interests (pursuant to Article 2391 of the Italian Civil Code);
- observance of the limits provided for by the supervisory regulations.

For the purposes of determining internal capital in relation to credit risk, the Group uses the standardised methodology adopted for the calculation of prudential requirements in relation to said risk.

Impacts of the COVID-19 pandemic

The illimity Group's credit risk management strategy has adopted, on the one hand, measures introduced by the legislator in response to the epidemiological emergency in order to provide liquidity for companies affected by the crisis through the banking system, and specifically suspensions and moratoria/remodulations relative to loans and credit lines of SME with contractual expiry (Decree Law 18/2020, "Cura Italia Decree"), and the disbursement of loans with extensive public guarantees (Decree Law 23/2020, "Liquidity Decree").
To assess forward-looking credit risk scenarios related, in particular, with suspension or moratoria measures being stopped, the *business* areas began specific monitoring of credit lines (suspension pursuant to Decree Law 18/2020 and/or ABI moratoria) and contracts with affected customers, to verify whether, in future, there could be problems with resuming payments, so as to take prompt management measures (e.g., the preparation of *forbearance* measures, classification as higher risk, etc.).
Measures involving the restructuring of customer debt positions, involving the granting of guaranteed loans, have been defined for larger positions.

As regards risk measurement and control systems, and in relation to the measurement of expected losses, the methodological choices that underpinned the models used to determine the probability of default for the fourth quarter of 2020 were maintained. In particular, the improvement in the economic cycle forecast for 2022 has been minimised from a prudential perspective, since the moratoria have delayed the manifestation of the economic crisis in terms of companies' solvency.

In addition, the analysis models and tools used for second level risk management controls and relative reporting processes continued their consolidation in 2021, along with the analysis of main drivers determining the asset quality of the credit portfolio.

2. Credit risk management policies

2.1 Organisational aspects

Refer to the following paragraph.

2.2 Management, measurement and control systems

Growth Credit Division

The objective of the Growth Credit Division is to serve businesses, usually medium-sized, with a credit standing that is not necessarily high, but that have a good industrial potential and which, due to the complex nature of operations to finance, or their financial difficulties, require a specialist approach to supporting business development programmes or plans to rebalance and relaunch industrial activities.

Therefore the Division mainly focuses on structuring detailed funding operations that meet the complex needs of its clients, directly supporting companies and, if considered appropriate, acquiring credit positions with third-party banks, mainly at a discount, for *turnaround* operations.

The Growth Credit Division is active in the following segments:
- Factoring: financing of the supply chain of the operators of Italian chains and industrial districts through the activity of recourse and non-recourse purchasing of customers' trade receivables, through a dedicated digital channel;
- Crossover & Acquisition Finance: financing to high-potential businesses with a suboptimal financial structure and/or with a low rating or no rating; the crossover segment also includes financing solutions dedicated to acquisition activities (so-called acquisition finance);
- Turnaround: the purchase of loans classified as unlikely-to-pay (UTP) and disbursement of new performing financing, with the aim of recovering and restoring them to performing status by identifying optimal financial solutions, which may include new loans or the purchase of existing loans.

The Growth Credit Division is organised by specialised business areas, on the basis of the segments and products defined above, each of which is responsible for managing activities for its own customers. Each Area is tasked with analysing the customers and sector within its portfolio to design the optimal financing solution, assess the risk level of each position, define product pricing or transaction specifications, interface with customers to monitor the risk profiles of counterparties and intervene promptly, where necessary, in the event of problems, in coordination with the Bank unit responsible for monitoring loans.

These areas, specialised by Business segment, are flanked by dedicated units, supporting business activities: the Legal SME area supports the business areas regarding legal and contractual aspects; the Business Operations & Credit Support area manages the annual reporting of the Division, monitors relations with tutors, manages the Modena branch and oversees the portfolio of the former Banca Interprovinciale regarding progressive divestment.

Distressed Credit Division

The Distressed Credit Division is the business area operating in the following segments:
- purchase of secured and unsecured corporate distressed loans in competitive processes or off-market purchases, on both the primary and secondary markets;
- financing services, mainly in the form of senior financing, to investors in distressed loans;
- management (servicing) of corporate NPL portfolios and underlying assets, through a specialised servicing platform developed internally or under commercial agreements with specialised operators.

The Distressed Credit Division has the following structure:

1) Portfolios, Senior Financing, Special Situations – Real Estate and Special Situations – Energy Areas, responsible for the origination of the investment opportunities in NPL portfolios and Senior Financing, as well as the coordination of the entire negotiation and bidding process, until the final closing phase;
2) The Servicing Area, responsible for performing due diligence procedures and for adapting, implementing and monitoring recovery strategies through the coordination of internal and external servicers. The Servicing Unit neprix, tasked with debt recovery, reports to the Area;
3) The Portfolio Optimisation Area, which is responsible for optimising portfolio and single name management by identifying market opportunities for their sale, in accordance with the thresholds set by the Bank, while coordinating the entire process, from the initial analysis phase to post-sales;
4) The Pricing Area, responsible, under the supervision of the Risk Management Function, for developing, implementing and maintaining the pricing models of portfolios/single name (special situations)/ senior financing and the capital structure of all investments, as well as the activities of Due Diligence Coordination;
5) The Business Operations Area, tasked with coordinating and monitoring the Division's activities, overseeing relations with other Bank units and decision-making bodies, providing legal advice related to individual investment opportunities and initiatives, and monitoring the Division's performance;
6) The Data Architecture & Analytics Area, responsible for governing and managing the process of acquiring, transforming and using the data originated and used by the Distressed Credit Division in business processes; it is also responsible for managing the onboarding process.

In more detail, the "Investments" perimeter, which includes the organisational units Portfolios, Special Situations – Real Estate and Special Situations – Energy, is responsible for overseeing the market for opportunities to acquire distressed credit assets (financial receivables classified as bad loans or UTPs) from corporate counterparties, partly backed by first-degree mortgage guarantees or leased assets ("secured") and partly devoid of underlying real estate or secured by second-degree mortgages ("unsecured"). Credits are acquired both in the so-called "primary" market, i.e. directly from the credit intermediaries that originally granted the credit to the counterparties, and in the "secondary" market, i.e. from other investors who in turn purchased the credits from the aforementioned credit intermediaries.

The Investments perimeter is divided into three organisational units, described below:

a) Portfolios, aimed at investments in distressed credit portfolios, mainly or totally represented by the corporate type (any retail receivables purchased are destined for sale on the secondary market);
b) Special Situations – Real Estate, aimed at investment opportunities in so-called "single name" receivables, meaning exposures to a single borrower or, at most, a cluster of corporate counterparties, both secured and unsecured;
c) Special Situations – Energy, aimed at investment opportunities in single name loans involving corporate counterparties operating in the renewable energy sector.

On the other hand, the Senior Financing Area is responsible for overseeing, both at the commercial and product level, the market of asset-backed financing opportunities to third-party investors who purchase or have purchased non-performing loans (bad loans/UTPs) and for monitoring the related operations in their structuring and throughout all phases until finalisation of the contractual documentation and disbursement.

At the organisational level, the aforementioned areas report to the Head of the Distressed Credit Division and interact with the other areas of the Division (Pricing, Business Operations, Servicing, Data Architecture & Analytics) and the Bank's structures (General Counsel, Administration & Accounting, Finance, Risk, Budget & Control, Compliance & AML), acting as an interface between internal units and investors.

In line with illimity's business model of internalising the entire value chain, the Bank is supported by neprix for the management of distressed loans, and forms commercial agreements with servicers selected from time to time on the basis of the characteristics of the assets acquired.

neprix, the company where servicing activities for NPLs acquired by illimity, are centralised, relies on the services of professionals with specific experience and know how in due diligence and in managing non-performing loans. Following the merger with IT Auction (the company acquired by the Group in 2020 and merged into neprix with legal effect from 1 February 2021), the neprix Sales Area was created, for managing and selling property and capital goods originating from insolvency proceedings and foreclosure, through its own network of platforms/online auctions and a network of professionals operating nationwide.

To carry out its operations concerning distressed credit, illimity works with the vehicles Aporti, Friuli SPV, Doria SPV, River SPV, Pitti SPV and Beagle SPE and with the companies Soperga RE, Friuli LeaseCo, Doria LeaseCo, River LeaseCo, Pitti LeaseCo, River Immobiliare, SpicyCo and SpicyCo 2.

Chief Risk Officer and CFO & Central Functions

The pricing structure of all credit transactions proposed, prepared by specific areas of the business, is first submitted to the CRO for an independent assessment of the main underlying risks, in ordinary and stress conditions, and also considering the regulatory compliance and reputational factors, and the connected impact on RAF indicators (Risk Opinion), with the formalisation of sustainability and coherence analyses, in particular for Major Transactions. The CFO & Central Functions are also involved in considerations on the control and compliance with the capital and liquidity limits allocated to each Division, the funding structure associated with the transaction and accounting treatment of the transaction, as well as the start of the income recognition phase according to the accounting principle of amortised cost adjusted for credit risk.

The approval of the above pricing structure to be submitted to the decision-making body identified on the basis of the approval thresholds is the responsibility of the head of the proposing business Division.
The controls and relative reporting of the CRO also operate, an overall Group portfolio level, as regards compliance with the credit risk limits and objectives defined in the RAF, through indicators referred to different analysis profiles (for example the cost of credit, expected loss, hedging rates, effectiveness of the recovery process, the concentration profiles of credit exposures).
For management purposes in order to support the assessment of own client reliability, as well as for the calculation of collective write-downs related to performing loans, internal rating models are used.

The Chief Risk Officer also carries out second-level controls, through the Risk Management and Risk Strategy Areas, for example in terms of portfolio quality evolution (transition matrices), capital absorptions, monitoring compliance with the objectives and risk limits (RAF) and effectiveness of the recovery process (comparing the estimated recovery rates and those achieved).

2.3 Methods of measuring expected losses

Among the main elements characterising this principle are:

- the classification of credits into three different levels (or "Stages") to which different methods of calculating the losses to be recognised correspond: Stage 1 includes performing positions that have not undergone a significant increase in credit risk since they were disbursed, Stage 2 includes performing exposures that have undergone a significant increase in credit risk compared to their first entry in the Bank's books and Stage 3 includes all exposures classified as non-performing;
- for Stage 2 exposures, it is necessary to assess the expected loss over the entire residual life of the credit (i.e. and not only with a time horizon of one year as for Stage 1 exposures);
- whereas, it is necessary to take into account the conditions of the current business cycle (Point in Time) in place of a calibration of parameters along the business cycle (Through the Cycle) required for regulatory purposes;
- the introduction of forecast information regarding the future dynamics of the macroeconomic factors (forward looking) considered potentially able to influence the situation of the borrower.

The staging methodology has been defined on the basis of qualitative and quantitative drivers, identified for the analysis of the significant increase in credit risk and, therefore, for the identification of the exposures to be included in the different stages. It should be noted that, when verifying the increase in credit risk compared to origination, no account is taken of the guarantees that assist the individual exposure, which play a key role in determining write-downs/write-backs. Below are the criteria adopted by the Group to capture the significant increase in credit risk.

Changes due to COVID-19

As regards changes in the models to assess and measure financial instruments connected with the pandemic, with particular reference to aspects concerning the adoption of IFRS 9, the following is noted:

- assessment of the significant increase in risk (SICR): staging criteria adopted (management of the transition from stage 1 to stage 2), and in particular the adoption of the "principle of the significant increase in risk" (SICR), were not changed as a result of the COVID-19 pandemic. In adopting the SICR, the Group carries out an analytical assessment, position by position, taking into account both the outlook of each borrower and impact of the government support measures (e.g. moratoria), in the light of the specific internal policy governing the adoption of criteria to classify forborne loans in the context of a systemic crisis;
- measurement of expected losses: the economic scenarios supplied by the info provider Oxford Economics and used in the process of calculating collective impairment were examined in 2021, but the methodological choices that underpinned the models used to determine the probability of default for the fourth quarter of 2020 were maintained. In particular, the improvement in the economic cycle forecast for 2022 has been minimised from a prudential perspective, since the moratoria have delayed the manifestation of the economic crisis in terms of companies' solvency;
- financial assets covered by business renegotiations and exposures subject to concessions: the effect of measures supporting the economy is included in the process to assess SICR, by adopting a forborne policy, as mentioned previously, that regulates the various types of concession granted to customers as a result of temporary financial difficulties caused by the pandemic, in order to define cases in which these concessions must be considered as forbearance measures or otherwise.

Significant increase in credit risk

Below are the criteria adopted by the Group to capture the significant increase in credit risk.

Quantitative criteria

Negative change in the rating class (so-called delta notch): in order to identify the "significant increase in credit risk", for the exposures of the credit portfolio, an approach was used that determines the classification in Stage 2 if the change in rating classes between the origination and the detection date shows a worsening above certain thresholds.

Qualitative criteria

- Rebuttable presumption - 30 days past due: consistent with IFRS9, there is a relative presumption that the credit risk of the financial asset has increased significantly – compared to the initial recognition – when contractual payments have expired for more than 30 days. The accounting standard provides that this presumption can be contradicted in the presence of reasonable information demonstrating that the credit risk has not significantly increased since the initial recognition, even if the contractual payments have expired for more than 30 days. To date, the Group has not used this possibility;
- Forbearance: this criterion provides that a credit exposure is allocated to Stage 2 when a concession measure (forbearance) is granted for that exposure;
- POCI: now-performing credit exposure classified as "Purchased or Originated Credit Impaired" is classified in Stage 2;
- Watchlist: the management classification (so-called Watchlist) aims to identify, on the basis of expert based indications, situations of significant increase in credit risk.

Once the financial assets have been classified in the different Stages, for each exposure, it is necessary to determine the relative write-downs/write-backs following the logic of Expected Credit Loss ("ECL"), using appropriate calculation models. The principle on which the ECL is based is to create a connection between improvement or worsening of the risk profile of the exposure compared to the date of initial recognition in the financial statements, respectively with the increase or decrease in the provision funds.

IFRS 9 defines loss on a financial instrument as the present value of the difference between the contractual cash flows due to the entity and the cash flows it expects to receive. The average of all losses weighted for the respective default risk represents the value of the expected loss.

The calculation method provides for two different measurement criteria based on the time horizon for calculating expected losses:

- limit to a time horizon of 12 months, if the financial assets are classified in Stage 1 (ECL 12 months);
- residual life of the financial asset, for positions classified in Stage 2 (Lifetime ECL).

With reference to debt securities, the methodology used by the Group for the allocation of relationships in the different Stages is based, contrary to the above for credit exposures, only on quantitative drivers (so-called delta notch) as well as on a practical rule expressly permitted by IFRS 9 (Low Credit Risk Exemption). With respect to the latter, the legislation provides that an entity may use its own internal credit risk ratings or other methodologies consistent with a globally shared definition of low credit risk to determine whether a financial instrument is low credit risk, taking into account the risks and type of financial instruments being measured. In particular, an exposure is considered to have "low credit risk" if the financial instrument presents a low risk of default, i.e. if the borrower has a strong ability to meet its obligations regarding short-term contractual cash flows and if unfavourable changes in longer-term economic and commercial conditions could reduce, but will not necessarily reduce, the borrower's ability to meet its obligations regarding contractual cash flows.

Consistent with the provisions of the standard, the Group has decided to adopt, even in the presence of information on credit risk measures at the date of origination, the assumption according to which the credit quality of a government "investment grade" rating can be assumed not to have significantly deteriorated, thus making use of the Low Credit Risk Exemption (LCRE) option. Therefore, only securities that, on the reporting date, have an "investment grade" rating are allocated to Stage 1, while single-tranche notes associated with defaulting securities are classified in Stage 3.

Specifically, the impairment calculation formula for Stage 1 and 2 tranches of securities is consistent with the approach adopted for credit exposures. The Stage allocation of performing debt securities presupposes the use of an external rating of the issue; the classification in the Stages is defined according to specific criteria related to this type of portfolio. Debt securities exposures are classified in Stage 3 in cases where credit risk has deteriorated to the point where the security is to be considered non-performing, i.e. classified as non-performing.

In accordance with IFRS9, the Group has defined a specific methodological framework aimed at modelling the following risk parameters, which are relevant for the calculation of IFRS 9 impairment:

- Probability of Default (PD);
- Loss Given Default (LGD);
- Exposure at Default (EAD);
- stage allocation criteria;
- calculation of expected losses including point-in-time elements.

The methodologies developed for the estimation and calibration of the above parameters have been defined taking into account the current and prospective complexity of the Group's portfolio. In fact, illimity Bank's credit portfolio is divided between the new exposures originated by illimity and the legacy portfolio originated by the former Banca Interprovinciale, which have very different characteristics in terms of, for example, size, risk profile, management rules.

For this purpose, for the 2021 financial statements, the illimity Bank Group has maintained the modelling system it used in 2020, a model (hereinafter, the "Main Model") that implements the following approaches, differentiated by type of portfolio:

- application of an evolved model for the shadow rating of exposures originating from illimity, and attribution of the relative probabilities of default based on the expected default rates for Italian Growth Credit, also considering the expected macroeconomic scenario;
- application of an external rating to the remaining exposures (former Banca Interprovinciale Portfolio) and attribution of the relative probabilities of default based on historical default rates and expectations also linked to the macroeconomic scenario, using the PD forward looking Model;
- adoption of the new LGD model based on the estimate of recovery percentages in the case of bad loans calibrated based on the business plans of bad loans of the Distressed Credit Division.
- application of a model for collective impairment of factoring portfolios that uses ratings provided by the rating agency Crif as inputs. The Risk Management function has developed an engine for calculating Expected Credit Loss, which will make it possible to manage in house any methodological choice relating to the application of Probability of Default (PD) and Loss Given Default (LGD) parameters, in line with the continuous developments in terms of business practices and obtaining greater alignment with the portfolio's risk profile.

2.4 Credit risk mitigation techniques

To mitigate credit risk, when the loan is granted, various types of guarantee are usually required. These mainly consist of secured guarantees on property or assets, and personal guarantees, consortium guarantees or other types of commitments and covenants related to the structure and reason for the operation.

In general, the decision to obtain a guarantee is based on the customer's credit rating and the characteristics of the operation. After that, it may be appropriate to obtain additional guarantees to mitigate the risk, taking into account the presumed recoverable value offered by the guarantee.

The value of secured financial guarantees is periodically monitored. This involves comparing the current value of the guarantee with the initial value to allow the manager to intervene promptly if there is a significant reduction in the amount of the guarantee.

Throughout 2021 the illimity Bank Group considerably increased the share of its portfolio represented by loans backed by state guarantees, taking advantage of the measures put in place by the government in light of the pandemic. Furthermore, with regard to the scope of factoring exposures, an insurance system has been defined that is admissible for the purposes of *credit risk mitigation*.

3. Non-performing credit exposures

3.1 Strategies and management policies – 3.2 Write-offs – 3.3 Purchased or originated credit impaired financial assets

The default portfolio is classified according to the regulatory definitions. In particular:

- non-performing past due exposures;
- unlikely-to-pay positions;
- bad loans.

The "non-performing past due exposures" correspond to on-balance sheet credit exposures other than those classified under bad loans or unlikely-to-pay positions, which on the reporting date were past-due or have been overrun continuously for more than 90 days.

The "unlikely-to-pay" positions, rather, correspond to exposures for which it is considered unlikely that the borrower will fulfil their loan obligations without the recourse to actions such as enforcement of guarantees. This assessment is made regardless of whether or not there are any amounts or instalments overdue and unpaid. There is thus no need to wait for an express signal such as non-repayment, if there are factors that imply a risk of the borrower defaulting (for example a crisis in the industry they operate in). The total on- and off-balance sheet exposures to the same borrower in the above situation will be termed an unlikely to pay position unless there are conditions for classifying the borrower among bad loans.

Finally, “bad loans” correspond to on- and off-balance sheet exposures to a borrower in a state of insolvency (even when not recognised in a court of law) or in an essentially similar situation, regardless of any loss forecasts made by the Group. They do not, therefore, take into account any secured or personal guarantees given in respect of the loan. They exclude exposures where the irregularity relates to country risk aspects.

The EBA’s Implementing Technical Standard (ITS) also introduced the concept of “forborne” which refers to exposures where a concession has been granted, in other words a change to the previous contractual conditions and/or a partial or total refinancing of the debt, given the customer’s financial difficulties at the time of the concession.

When implementing the EC regulation, the Bank of Italy introduced, with reference to non-performing loans, what is known as “non-performing forborne exposures” means individual on-balance sheet exposures and revocable and irrevocable commitments to disburse funds, which are subject to a concession that meets the rules in paragraph 180 of the ITS. These exposures are cross-category and depending on the situation, they are included in bad loans, unlikely-to-pay positions or non-performing past due exposures. They do not form a separate category of non-performing assets.

The main forborne exposures or support measures are:
- changes to the terms and conditions of a loan that the counterparty cannot repay, by including new conditions that would not have been granted if the customer had not been in financial difficulty;
- total or partial refinancing, meaning the use of a loan disbursement intended to ensure the full or partial repayment of other existing loan agreements, which would not have been granted if the counterparty had not been in financial difficulty.

It should be noted that the forborne attribution distinguishes the individual line of credit and may relate to performing or non-performing lines.

In addition, as indicated by IFRS 9, in some cases a financial asset is considered to be non-performing at the time of initial recognition because the credit risk is very high and, in the case of acquisition, it has been acquired at a large discount compared to the initial loan value. If the financial assets in question, based on the application of the classification driver (the SPPI test and Business model), can be classified among assets measured at amortised cost or at fair value through other comprehensive income, they are classified as “Purchased or Originated Credit Impaired Asset” and undergo a special treatment with regard to the impairment process. In addition, for assets classified as POCI, a credit-adjusted effective interest rate is calculated on the date of initial recognition, the so-called “credit-adjusted effective interest rate”, which requires the inclusion of the expected initial losses, in the estimates of cash flows. To apply the amortised cost and the resulting calculation of interest, this credit-adjusted effective interest rate is applied.

The Group structures that manage the relationship with the borrower use objective and subjective criteria for the purpose of proposing the classification of credit exposures to non-performing exposures. The first objective criteria are triggered by the overrun of specific limits (as defined in the Bank of Italy Circular 272), while the second subjective criteria relate to other irregularities on the credit relationship, such as adverse events, central risk register irregularities, other sources of information, etc.

In 2021 criteria (sometimes stricter than in the past) required by prudential regulations for the identification of exposures in default were introduced. Among others, these include materiality thresholds for past due exposures, a criterion for onerous restructuring, and a prohibition on netting different credit lines. The impact of the new regulation on the cost of credit for the illimity group has been very limited.

Bad loans correspond to on- and "off-balance sheet" credit exposures to a borrower in a state of insolvency (even when not recognised in a court of law) or in an essentially similar situation, independently of any loss forecasts made by the Group.

These two statuses described above are determined independently of any consideration about the nature and extent of any guarantees supporting the loans. The write-downs/write-backs, which are valued in detail on each account, reflect prudential criteria relating to the possibility of recovery, which may also relate to any collateral guarantees. They are periodically verified.

A loan account will be reclassified as performing in accordance with the legal provisions.

4. Financial assets subject to commercial negotiations and forborne exposures

Reference is made to the section "Changes due to COVID-19", reported above.

Quantitative information

A. Credit quality

A.1. Performing and non-performing credit exposures: amounts, adjustments, changes, and economic breakdown

A.1.1 Prudential consolidation – Breakdown of financial assets by past due brackets (book value)

Portfolios/risk stages	Stage one			Stage two			Stage three			Purchased or originated impaired		
	Between 1 and 30 days	Between 30 and 90 days	More than 90 days	Between 1 and 30 days	Between 30 and 90 days	More than 90 days	Between 1 and 30 days	Between 30 and 90 days	More than 90 days	Between 1 and 30 days	Between 30 and 90 days	More than 90 days
1. Financial assets measured at amortised cost	966	105	1,532	103	215	48	284	111	7,420	3,675	3,843	1,011,621
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-	-	-	-	-	-	-
Total 31/12/2021	**966**	**105**	**1,532**	**103**	**215**	**48**	**284**	**111**	**7,420**	**3,675**	**3,843**	**1,011,621**
Total 31/12/2020	**6,007**	**93**	**1,629**	**112**	**2,322**	**455**	**73**	**235**	**9,281**	**7,892**	**4,916**	**234,207**

A.1.2 Prudential consolidation – Financial assets, commitments to disburse funds and financial guarantees issued: trend in total write-downs/write-backs and total provisions

p.1

Descriptions/risk stages	Total write-downs/write-backs																	
	Assets in stage one						Assets in stage two						Assets in stage three					
	Due from banks and central banks on demand	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which individual write-downs	of which collective write-downs	Due from banks and central banks on demand	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which individual write-downs	of which collective write-downs	Due from banks and central banks on demand	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which individual write-downs	of which collective write-downs
Opening total adjustments	**8**	**9,472**	**114**	**-**	**-**	**9,594**	**-**	**1,318**	**-**	**-**	**-**	**1,318**	**-**	**17,937**	**-**	**-**	**18,193**	**155**
Increases in purchased or originated financial assets	-	4,474	1,017	-	-	5,492	-	180	-	-	-	180	-	2,523	-	-	2,487	36
Derecognitions other than write-offs	-	(2,413)	(111)	-	-	(2,523)	-	(665)	-	-	-	(665)	-	(2,659)	-	-	(2,543)	(116)
Net losses/recoveries for credit risk	-	(896)	-	-	-	(896)	-	(288)	-	-	-	(288)	-	(942)	-	-	(908)	(35)
Contractual amendments without derecognitions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in estimate methodology	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs not recognised directly in the income statement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other changes	9	(670)	-	-	-	(661)	-	23	-	-	-	23	-	1,261	-	-	1,258	3
Final total adjustments	**17**	**9,967**	**1,020**	**-**	**-**	**11,006**	**-**	**568**	**-**	**-**	**-**	**568**	**-**	**18,120**	**-**	**-**	**18,487**	**43**
Recoveries from receipts on written-off financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs recognised directly in the income statement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.1.2 Prudential consolidation – Financial assets, commitments to disburse funds and financial guarantees issued: trend in total write-downs/write-backs and total provisions

p.2

Descriptions/risk stages	Total write-downs/write-backs									
	Financial assets purchased or originated impaired						Stage two	Stage three	Commitments to disburse funds and financial guarantees issued purchased or originated impaired	Total
	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which individual write-downs	of which collective write-downs	Stage one				
Opening total adjustments	**3,106**	**-**	**-**	**-**	**557**	**418**	**74**	**6**	**2,798**	**35,251**
Increases in purchased or originated financial assets	X	X	X	X	X	229	-	-	3,686	12,109
Derecognitions other than write-offs	-	-	-	-	-	(350)	(36)	-	(2,333)	(8,567)
Net losses/ recoveries for credit risk	(278)	-	-	-	(278)	(30)	(1)	-	(18)	(2,453)
Contractual amendments without derecognitions	-	-	-	-	-	-	-	-	-	-
Changes in estimate methodology	-	-	-	-	-	-	-	-	-	-
Write-offs not recognised directly in the income statement	-	-	-	-	-	-	-	-	-	-
Other changes	58	-	-	-	58	70	(27)	(1)	(2)	721
Final total adjustments	**2,886**	**-**	**-**	**-**	**337**	**337**	**10**	**5**	**4,131**	**37,061**
Recoveries from receipts on written-off financial assets	-	-	-	-	-	-	-	-	-	721
Write-offs recognised directly in the income statement	-	-	-	-	-	-	-	-	-	-

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

Portfolios/risk stages	Gross exposure/nominal value					
	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
1. Financial assets measured at amortised cost	28,189	4,240	3,447	181	452	-
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	1,179	5,964	-	-	-	10
Total 31/12/2021	**29,368**	**10,204**	**3,447**	**181**	**452**	**10**
Total 31/12/2020	**34,067**	**6,918**	**985**	**497**	**8,556**	**112**

A.1.3a Loans subject to COVID-19 support measures: transfers between the various credit risk stages (gross values)

Portfolio/quality	Gross values / nominal value					
	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
A. Loans valued at amortised cost	**-**	**-**	**-**	**-**	**-**	**-**
A.1 subject to forbearance in accordance with GL	-	-	-	-	-	-
A.2 subject to moratorium measures no longer in accordance with GL and not valued as forborne	-	-	-	-	-	-
A.3 subject to other forbearance measures	-	-	-	-	-	-
A.4 new loans	-	-	-	-	-	-
B. Loans measured at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**
B.1 subject to forbearance in accordance with GL	-	-	-	-	-	-
B.2 subject to moratorium measures no longer in accordance with GL and not valued as forborne	-	-	-	-	-	-
B.3 subject to other forbearance measures	-	-	-	-	-	-
B.4 new loans	-	-	-	-	-	-
Total 31/12/2021	**-**	**-**	**-**	**-**	**-**	**-**
Total 31/12/2020	**5,573**	**1,071**	**96**	**-**	**6,397**	**40**

A.1.4 Prudential consolidation - On and off-balance sheet credit exposures to banks: gross and net

Type of exposures/values	Gross exposure					Total write-downs/write-backs and total provisions					Net exposure	Total partial write-offs (*)
		Stage one	Stage two	Stage three	Purchased or originated impaired		Stage one	Stage two	Stage three	Purchased or originated impaired		
A. ON-BALANCE SHEET CREDIT EXPOSURES												
A.1 ON DEMAND	**14,688**	**14,688**	**-**	**-**	**-**	**17**	**17**	**-**	**-**	**-**	**14,671**	**-**
a) Non-performing	-	X	-	-	-	-	X	-	-	-	-	-
b) Performing	14,688	14,688	-	X	-	17	17	-	X	-	14,671	-
A.2 OTHER	**329,705**	**329,705**	**-**	**-**	**-**	**331**	**331**	**-**	**-**	**-**	**329,374**	**-**
a) Bad loans	-	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	-	X	-	-	-	-	X	-	-	-	-	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	-
d) Performing past due exposures	26	26	-	X	-	1	1	-	X	-	25	-
- of which: forborne exposures	-	-	-	X	-	-	-	-	X	-	-	-
e) Other performing exposures	329,679	329,679	-	X	-	330	330	-	X	-	329,349	-
- of which: forborne exposures	-	-	-	X	-	-	-	-	X	-	-	-
TOTAL (A)	**344,393**	**344,393**	**-**	**-**	**-**	**348**	**348**	**-**	**-**	**-**	**344,045**	**-**
B. OFF-BALANCE SHEET CREDIT EXPOSURES												
a) Non-performing	-	X	-	-	-	-	X	-	-	-	-	-
b) Performing	2,048	2,048	-	X	-	-	-	-	X	-	2,048	-
TOTAL (B)	**2,048**	**2,048**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,048**	**-**
TOTAL (A+B)	**346,441**	**346,441**	**-**	**-**	**-**	**348**	**348**	**-**	**-**	**-**	**346,093**	**-**

(*) Values to be stated for information purposes.

A.1.5 Prudential consolidation - On and off-balance sheet credit exposures to customers: gross and net

Type of exposures/values	Gross exposure					Total write-downs/write-backs and total provisions					Net exposure	Total partial write-offs (*)
		Stage one	Stage two	Stage three	Purchased or originated impaired		Stage one	Stage two	Stage three	Purchased or originated impaired		
A. ON-BALANCE SHEET CREDIT EXPOSURES												
a) Bad loans	718,443	X	-	19,014	699,429	14,027	X	-	14,027	-	704,416	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	-
b) Unlikely-to-pay	379,336	X	-	20,370	358,966	4,468	X	-	4,468	-	374,868	-
- of which: forborne exposures	22,266	X	-	4,277	17,989	1,269	X	-	1,269	-	20,997	-
c) Non-performing past due exposures	170	X	-	170	-	34	X	-	34	-	136	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	-
d) Performing past due exposures	3,450	2,591	368	X	491	65	13	2	X	50	3,385	-
- of which: forborne exposures	25	-	25	X	-	-	-	-	X	-	25	-
e) Other performing exposures	2,233,682	2,166,046	64,739	X	2,897	11,498	10,644	566	X	288	2,222,184	-
- of which: forborne exposures	18,752	-	18,752	X	-	116	-	116	X	-	18,636	-
TOTAL (A)	**3,335,081**	**2,168,637**	**65,107**	**39,554**	**1,061,783**	**30,092**	**10,657**	**568**	**18,529**	**338**	**3,304,989**	**-**
B. OFF-BALANCE SHEET CREDIT EXPOSURES												
a) Non-performing	69,559	X	-	69,559	-	4,136	X	-	4,136	-	65,423	-
b) Performing	140,073	136,194	3,879	X	-	273	263	10	X	-	139,800	-
TOTAL (B)	**209,632**	**136,194**	**3,879**	**69,559**	**-**	**4,409**	**263**	**10**	**4,136**	**-**	**205,223**	**-**
TOTAL (A+B)	**3,544,713**	**2,304,831**	**68,986**	**109,113**	**1,061,783**	**34,501**	**10,920**	**578**	**22,665**	**338**	**3,510,212**	**-**

(*) Values to be stated for information purposes.

A.1.5a On-balance sheet credit exposures to customers subject to COVID-19 support measures: gross and net

Type of exposures/Values	Gross exposure					Total write-downs/write-backs and total provisions					Net exposure	Total partial write-offs (*)
		Stage one	Stage two	Stage three	Purchased or originated impaired		Stage one	Stage two	Stage three	Purchased or originated impaired		
A. BAD LOANS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Subject to forbearance in accordance with GL	-	-	-	-	-	-	-	-	-	-	-	-
b) Subject to moratorium measures no longer in accordance with GL and not valued as forborne	-	-	-	-	-	-	-	-	-	-	-	-
c) Subject to other forbearance measures	-	-	-	-	-	-	-	-	-	-	-	-
d) New loans	-	-	-	-	-	-	-	-	-	-	-	-
B. LOANS UNLIKELY TO PAY	**5,589**	**-**	**-**	**5,589**	**-**	**(820)**	**-**	**-**	**(820)**	**-**	**4,769**	**-**
a) Subject to forbearance in accordance with GL	-	-	-	-	-	-	-	-	-	-	-	-
b) Subject to moratorium measures no longer in accordance with GL and not valued as forborne	-	-	-	-	-	-	-	-	-	-	-	-
c) Subject to other forbearance measures	367	-	-	367	-	(81)	-	-	(81)	-	286	-
d) New loans	5,222	-	-	5,222	-	(739)	-	-	(739)	-	4,483	-
C. NON-PERFORMING PAST DUE LOANS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Subject to forbearance in accordance with GL	-	-	-	-	-	-	-	-	-	-	-	-
b) Subject to moratorium measures no longer in accordance with GL and not valued as forborne	-	-	-	-	-	-	-	-	-	-	-	-
c) Subject to other forbearance measures	-	-	-	-	-	-	-	-	-	-	-	-
d) New loans	-	-	-	-	-	-	-	-	-	-	-	-
D. OTHER PERFORMING LOANS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Subject to forbearance in accordance with GL	-	-	-	-	-	-	-	-	-	-	-	-
b) Subject to moratorium measures no longer in accordance with GL and not valued as forborne	-	-	-	-	-	-	-	-	-	-	-	-
c) Subject to other forbearance measures	-	-	-	-	-	-	-	-	-	-	-	-
d) New loans	-	-	-	-	-	-	-	-	-	-	-	-
E. OTHER PERFORMING LOANS	**528,314**	**499,745**	**28,569**	**-**	**-**	**(2,711)**	**(2,488)**	**(223)**	**-**	**-**	**525,603**	**-**
a) Subject to forbearance in accordance with GL	-	-	-	-	-	-	-	-	-	-	-	-
b) Subject to moratorium measures no longer in accordance with GL and not valued as forborne	-	-	-	-	-	-	-	-	-	-	-	-
c) Subject to other forbearance measures	20,317	12,294	8,023	-	-	(168)	(52)	(116)	-	-	20,149	-
d) New loans	507,997	487,451	20,546	-	-	(2,543)	(2,436)	(107)	-	-	505,454	-
TOTAL (A+B+C+D+E)	533,903	499,745	28,569	5,589	-	(3,531)	(2,488)	(223)	(820)	-	530,372	-

(*) Values to be stated for information purposes.

A.1.6 Prudential consolidation – On-balance sheet credit exposures to banks: trend in gross non-performing exposures

There are no on-balance sheet exposures to banks non-performing as initial and/or final exposures for the year, nor have they occurred during the year.

A.1.6bis Prudential consolidation – On-balance sheet credit exposures to banks: trend of the gross forborne exposures, distinguished by credit quality

There are no forborne on-balance sheet exposures to banks.

A.1.7 Prudential consolidation – On-balance sheet credit exposures to customers: trend in gross non-performing exposures

Descriptions/Categories	Bad loans	Unlikely-to-pay	Non-performing past due exposures
A. Opening balance - gross exposure	**764,247**	**327,399**	**532**
– of which: assets sold but not derecognised	-	-	-
B. Increases	**337,024**	**287,601**	**2,000**
B.1 transfers from performing exposures	9	10,843	1,957
B.2 transfers from purchased or originated credit impaired financial assets	98,822	160,728	-
B.3 transfers from other non-performing exposures	4,342	599	-
B.4 changes in contracts without derecognition	-	-	-
B.5 other increases	233,851	115,431	43
C. Decreases	**382,829**	**235,665**	**2,362**
C.1 transfers to performing exposures	-	695	2,086
C.2 write-offs	-	-	-
C.3 collections	252,712	204,275	97
C.4 proceeds from disposals	-	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other non-performing exposures	421	4,341	179
C.7 changes in contracts without derecognition	-	-	-
C.8 other decreases	129,696	26,354	-
D. Closing balance - gross exposure	**718,442**	**379,335**	**170**
– of which: assets sold but not derecognised	-	-	-

A.1.7 On-balance sheet credit exposure to customers: trend in non-performing exposures (of which POCI)

Descriptions/Categories	Bad loans	Unlikely-to-pay	Non-performing past due exposures
A. Opening balance - gross exposure	**744,259**	**277,942**	**79**
– of which: assets sold but not derecognised	-	-	-
B. Increases	**335,410**	**277,007**	**-**
B.1 transfers from performing exposures	-	5,176	-
B.2 transfers from purchased or originated credit impaired financial assets	98,822	160,728	-
B.3 transfers from other non-performing exposures	2,745	80	-
B.4 changes in contracts without derecognition	-	-	-
B.5 other increases	233,843	111,023	-
C. Decreases	**380,241**	**195,984**	**79**
C.1 transfers to performing exposures	-	-	-
C.2 write-offs	-	-	-
C.3 collections	250,545	166,885	-
C.4 proceeds from disposals	-	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other non-performing exposures	-	2,745	79
C.7 changes in contracts without derecognition	-	-	-
C.8 other decreases	129,696	26,354	-
D. Closing balance - gross exposure	**699,428**	**358,965**	**-**

A.1.7 On-balance sheet credit exposure to Customers: trend of non-performing exposures (excluding POCI)

Descriptions/Categories	Bad loans	Unlikely-to-pay	Non-performing past due exposures
A. Opening balance - gross exposure	**19,988**	**49,457**	**453**
– of which: assets sold but not derecognised	-	-	-
B. Increases	**1,614**	**10,594**	**2,000**
B.1 transfers from performing exposures	9	5,667	1,957
B.2 transfers from purchased or originated credit impaired financial assets	-	-	-
B.3 transfers from other non-performing exposures	1,597	519	-
B.4 changes in contracts without derecognition	-	-	-
B.5 other increases	8	4,408	43
C. Decreases	**3,285**	**39,681**	**2,283**
C.1 transfers to performing exposures	-	695	2,086
C.2 write-offs	-	-	-
C.3 collections	2,167	37,390	97
C.4 proceeds from disposals	697	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other non-performing exposures	421	1,596	100
C.7 changes in contracts without derecognition	-	-	-
C.8 other decreases	-	-	-
D. Closing balance - gross exposure	**18,317**	**20,370**	**170**

A.1.7bis Prudential consolidation – On-balance sheet credit exposures to customers: trend of the gross forborne exposures, distinguished by credit quality

Descriptions/Quality	Forborne exposures: non-performing	Forborne exposures: performing
A. Opening balance - gross exposure	**8,410**	**26,160**
– of which: assets sold but not derecognised	-	-
B. Increases	**61,809**	**4,382**
B.1 transfers from non-performing exposures not forborne	611	2,422
B.2 transfers from performing forborne exposures	444	X
B.3 transfers from non-performing forborne exposures	X	185
B.4 inflows from non-performing, non forborne exposures	-	-
B.4 other increases	60,754	1,775
C. Decreases	**47,953**	**11,765**
C.1 transfers to performing exposures not forborne	X	-
C.2 transfers to performing forborne exposures	185	X
C.3 outflows towards non-performing forborne exposures	X	444
C.4 write-offs	-	-
C.5 collections	13,636	11,321
C.6 proceeds from disposals	-	-
C.7 losses on disposal	-	-
C.8 other decreases	34,132	-
D. Closing balance - gross exposure	**22,266**	**18,777**
– of which: assets sold but not derecognised	-	-

A.1.8 Prudential consolidation – On-balance sheet non-performing credit exposures to banks: trend of the total write-downs/write-backs

There are no on-balance sheet exposures to banks non-performing as initial and/or final exposures for the year, nor have they occurred during the year.

A.1.9 Prudential consolidation – On-balance sheet non-performing credit exposures to customers: trend of the total write-downs/write-backs

Descriptions/Categories	Bad loans		Unlikely-to-pay		Non-performing past due exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Total opening adjustments	**13,880**	**-**	**4,440**	**624**	**27**	**-**
– of which: assets sold but not derecognised	-	-	-	-	-	-
B. Increases	**2,015**	**-**	**2,932**	**1,568**	**309**	**-**
B.1 write-downs/write-backs from purchased or originated credit impaired financial assets	-	X	-	X	-	X
B.2 other write-downs/write-backs	971	-	2,027	1,566	309	-
B.3 losses on disposal	-	-	-	-	-	-
B.4 transfers from other non-performing exposures	1,044	-	234	-	-	-
B.5 changes in contracts without derecognition	-	-	-	-	-	-
B.6 other increases	-	-	671	2	-	-
C. Decreases	**1,868**	**-**	**2,904**	**923**	**302**	**-**
C.1 write-backs from measurement	431	-	420	416	8	-
C.2 write-backs from recoveries	328	-	1,324	507	7	-
C.3 gains on disposal	-	-	-	-	-	-
C.4 write-offs	-	-	-	-	-	-
C.5 transfers to other non-performing exposures	209	-	1,043	-	26	-
C.6 changes in contracts without derecognition	-	-	-	-	-	-
C.7 other decreases	900	-	117	-	261	-
D. Total closing adjustments	**14,027**	**-**	**4,468**	**1,269**	**34**	**-**
– of which: assets sold but not derecognised	-	-	-	-	-	-

A.2 Classification of exposures based on internal and external ratings

For the purposes of calculating the capital requirement for credit risk, illimity Bank uses the external rating agency (ECAI) Fitch Ratings only for positions included in the "Exposures to central governments or central banks" and "Exposures to institutions" classes; no external ratings are used for other asset classes.

A.2.1 Prudential consolidation - Distribution of financial assets, commitments to disburse funds and financial guarantees issued: by classes of external ratings (gross values)

Exposures	External rating classes						No rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets measured at amortised cost	**111,358**	**80**	**85,629**	**3,849**	**-**	**-**	**3,058,254**	**3,259,170**
– Stage one	111,358	80	85,629	3,849	-	-	1,891,808	2,092,724
– Stage two	-	-	-	-	-	-	65,107	65,107
– Stage three	-	-	-	-	-	-	39,554	39,554
– Purchased or originated impaired	-	-	-	-	-	-	1,061,785	1,061,785
B. Financial assets measured at fair value through other comprehensive income	**2,137**	**-**	**69,703**	**51,289**	**2,575**	**-**	**174,806**	**300,510**
– Stage one	2,137	-	69,703	51,289	2,575	-	174,806	300,510
– Stage two	-	-	-	-	-	-	-	-
– Stage three	-	-	-	-	-	-	-	-
– Purchased or originated impaired	-	-	-	-	-	-	-	-
C. Financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**43,117**	**43,117**
– Stage one	-	-	-	-	-	-	43,117	43,117
– Stage two	-	-	-	-	-	-	-	-
– Stage three	-	-	-	-	-	-	-	-
– Purchased or originated impaired	-	-	-	-	-	-	-	-
Total (A+B + C)	**113,495**	**80**	**155,332**	**55,138**	**2,575**	**-**	**3,276,177**	**3,602,797**
D. Commitments to disburse funds and financial guarantees given	**-**	**21**	**177**	**-**	**-**	**-**	**104,289**	**104,487**
– Stage one	-	21	177	-	-	-	35,517	35,715
– Stage two	-	-	-	-	-	-	1,660	1,660
– Stage three	-	-	-	-	-	-	67,112	67,112
– Purchased or originated impaired	-	-	-	-	-	-	-	-
Total (D)	**-**	**21**	**177**	**-**	**-**	**-**	**104,289**	**104,487**
Total (A+B+C+D)	**113,495**	**59**	**155,155**	**55,138**	**2,575**	**-**	**3,171,888**	**3,498,310**

A.2.2 Prudential consolidation - Distribution of financial assets, commitments to disburse funds and financial guarantees issued by category of internal rating (gross values)

p.1

Exposures	Internal rating classes							
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	Class 7	Class 8
A. Financial assets measured at amortised cost	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
– Stage one	-	-	-	-	-	-	-	-
– Stage two	-	-	-	-	-	-	-	-
– Stage three	-	-	-	-	-	-	-	-
– Purchased or originated impaired	-	-	-	-	-	-	-	-
B. Financial assets measured at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
– Stage one	-	-	-	-	-	-	-	-
– Stage two	-	-	-	-	-	-	-	-
– Stage three	-	-	-	-	-	-	-	-
– Purchased or originated impaired	-	-	-	-	-	-	-	-
C. Financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
– Stage one	-	-	-	-	-	-	-	-
– Stage two	-	-	-	-	-	-	-	-
– Stage three	-	-	-	-	-	-	-	-
– Purchased or originated impaired	-	-	-	-	-	-	-	-
Total (A+B + C)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
D. Commitments to disburse funds and financial guarantees given	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
– Stage one	-	-	-	-	-	-	-	-
– Stage two	-	-	-	-	-	-	-	-
– Stage three	-	-	-	-	-	-	-	-
– Purchased or originated impaired	-	-	-	-	-	-	-	-
Total (D)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B+C+D)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

A.2.2 Prudential consolidation - Distribution of financial assets, commitments to disburse funds and financial guarantees issued by category of internal rating (gross values)

p.2

Exposures	Internal rating classes							Total
	Class 9	Class 10	Class 11	Class 12	Class 13	Class 14	No rating	
A. Financial assets measured at amortised cost	**-**	**-**	**-**	**-**	**-**	**-**	**3,259,170**	**3,259,170**
– Stage one	-	-	-	-	-	-	2,092,724	2,092,724
– Stage two	-	-	-	-	-	-	65,107	65,107
– Stage three	-	-	-	-	-	-	39,554	39,554
– Purchased or originated impaired	-	-	-	-	-	-	1,061,785	1,061,785
B. Financial assets measured at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**300,510**	**300,510**
– Stage one	-	-	-	-	-	-	300,510	300,510
– Stage two	-	-	-	-	-	-	-	-
– Stage three	-	-	-	-	-	-	-	-
– Purchased or originated impaired	-	-	-	-	-	-	-	-
C. Financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**43,117**	**43,117**
– Stage one	-	-	-	-	-	-	43,117	43,117
– Stage two	-	-	-	-	-	-	-	-
– Stage three	-	-	-	-	-	-	-	-
– Purchased or originated impaired	-	-	-	-	-	-	-	-
Total (A+B + C)	**-**	**-**	**-**	**-**	**-**	**-**	**3,602,797**	**3,602,797**
D. Commitments to disburse funds and financial guarantees given	**-**	**-**	**-**	**-**	**-**	**-**	**104,487**	**104,487**
– Stage one	-	-	-	-	-	-	35,715	35,715
– Stage two	-	-	-	-	-	-	1,660	1,660
– Stage three	-	-	-	-	-	-	67,112	67,112
– Purchased or originated impaired	-	-	-	-	-	-	-	-
Total (D)	**-**	**-**	**-**	**-**	**-**	**-**	**104,487**	**104,487**
Total (A+B+C+D)	**-**	**-**	**-**	**-**	**-**	**-**	**3,498,310**	**3,498,310**

A.3 Breakdown of guaranteed credit exposures by guarantee type

A.3.1 Prudential consolidation – Guaranteed on- and off-balance sheet credit exposures to banks

	Gross exposure	Net exposure	Collaterals			
			Real estate - mortgages	Real estate - Loans for leasing	Securities	Other real guarantees
1. Guaranteed on-balance sheet credit exposures:	**191,399**	**191,387**	**-**	**-**	**189,186**	**-**
1.1. fully guaranteed	191,300	191,292	-	-	189,186	-
– of which non-performing	-	-	-	-	-	-
1.2. partially guaranteed	99	95	-	-	-	-
– of which non-performing	-	-	-	-	-	-
2. Guaranteed off-balance sheet credit exposures:	**-**	**-**	**-**	**-**	**-**	**-**
2.1. fully guaranteed	-	-	-	-	-	-
– of which non-performing	-	-	-	-	-	-
2.2. partially guaranteed	-	-	-	-	-	-
– of which non-performing	-	-	-	-	-	-

Personal guarantees (2)									Total (1)+(2)
Credit derivatives					Endorsement credits				
CLN	Other derivatives				Public administrations	Banks	Other financial companies	Other entities	
	Central Counterparties	Banks	Other financial companies	Other entities					
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**70**	**189,256**
-	-	-	-	-	-	-	-	-	189,186
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	70	70
-	-	-	-	-	-	-	-	-	-
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-

A.3.2 Prudential consolidation - Guaranteed on- and off-balance sheet credit exposures to customers

p.1

	Gross exposure	Net exposure	Collaterals (1)				Personal guarantees (2)	
							Credit derivatives	
			Real estate - liens	Real estate - Loans for leasing	Securities	Other real guarantees	CLN	Other derivatives
								Central Counterparties
1. Guaranteed on-balance sheet credit exposures:	**2,040,197**	**2,028,572**	**586,357**	**108,026**	**28,065**	**43,210**	**-**	**-**
1.1. fully guaranteed	1,042,318	1,036,242	580,519	107,918	27,588	11,554	-	-
– of which non-performing	832,468	827,645	522,355	107,918	3,892	3,709	-	-
1.2. partially guaranteed	997,879	992,330	5,838	108	477	31,656	-	-
– of which non-performing	45,118	43,368	2,255	108	200	1,101	-	-
2. Guaranteed "Off-Balance Sheet" credit exposures:	**27,030**	**26,989**	**4,706**	**-**	**-**	**1,680**	**-**	**-**
2.1. fully guaranteed	14,451	14,446	4,706	-	-	644	-	-
– of which non-performing	10,740	10,740	4,515	-	-	14	-	-
2.2. partially guaranteed	12,579	12,543	-	-	-	1,036	-	-
– of which non-performing	4,757	4,757	-	-	-	7	-	-

A.3.2 Prudential consolidation - Guaranteed on- and off-balance sheet credit exposures to customers

p.2

	Personal guarantees (2)							Total (1)+(2)
	Credit derivatives			Endorsement credits				
	Other derivatives							
	Banks	Other financial companies	Other entities	Public administrations	Banks	Other financial companies	Other entities	
1. Guaranteed on-balance sheet credit exposures:	**-**	**-**	**-**	**140,189**	**6,074**	**174,693**	**718,239**	**1,804,853**
1.1. fully guaranteed	-	-	-	24,865	5,492	21,734	247,639	1,027,309
– of which non-performing	-	-	-	189	2,506	3,958	174,575	819,102
1.2. partially guaranteed	-	-	-	115,324	582	152,959	470,600	777,544
– of which non-performing	-	-	-	3,567	122	116	13,339	20,808
2. Guaranteed "Off-Balance Sheet" credit exposures:	**-**	**-**	**-**	**-**	**1,053**	**1,036**	**10,064**	**18,539**
2.1. fully guaranteed	-	-	-	-	534	47	8,105	14,036
– of which non-performing	-	-	-	-	-	31	5,770	10,330
2.2. partially guaranteed	-	-	-	-	519	989	1,959	4,503
– of which non-performing	-	-	-	-	-	-	1,959	1,966

A.4 Prudential consolidation - Financial and non-financial assets obtained through the enforcement of guarantees received

	Derecognised credit exposure	Gross amount	Total write-downs/ write-backs	Book value	
					of which obtained during the financial year
A. Property and equipment	**-**	**48,255**	**-**	**48,255**	**-**
A.1. Used in the business	-	-	-	-	-
A.2. For investment purposes	-	-	-	-	-
A.3. Inventories	-	48,255	-	48,255	-
B. Equity securities and debt securities	**-**	**-**	**-**	**-**	**-**
C. Other assets	**-**	**5,573**	**-**	**5,573**	**-**
D. Non-current assets and asset groups held for sale	**-**	**-**	**-**	**-**	**-**
D.1. Property and equipment	-	-	-	-	-
D.2. Other assets	-	-	-	-	-
Total 31/12/2021	**-**	**53,828**	**-**	**53,828**	**-**
Total 31/12/2020	**-**	**57,588**	**-**	**57,588**	**55,265**

B. DISTRIBUTION AND CONCENTRATION OF CREDIT EXPOSURES

B.1 Prudential consolidation - Sector breakdown of on- and "off-balance sheet" credit exposures to customers

p.1

Exposures/Counterparties	Public administrations		Financial companies		Financial companies (of which: insurance companies)	
	Net exposure	Total write-downs/ write-backs	Net exposure	Total write-downs/ write-backs	Net exposure	Total write-downs/ write-backs
A. On-balance sheet credit exposures						
A.1 Bad loans	6	-	3,893	25	-	-
– of which forborne exposures	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	19,156	188	-	-
– of which forborne exposures	-	-	-	-	-	-
A.3 Non-performing past due exposures	35	9	1	-	-	-
– of which forborne exposures	-	-	-	-	-	-
A.4 Performing exposures	212,263	272	733,427	2,744	239	2
– of which forborne exposures	-	-	-	-	-	-
Total (A)	**212,304**	**281**	**756,477**	**2,957**	**239**	**2**
B. Off-balance sheet credit exposures						
B.1 Non-performing exposures	-	-	12	-	-	-
B.2 Performing exposures	-	-	11,536	21	-	-
Total (B)	**-**	**-**	**11,548**	**21**	**-**	**-**
Total (A+B) 31/12/2021	**212,304**	**281**	**768,025**	**2,978**	**239**	**2**
Total (A+B) 31/12/2020	**11,469**	**362**	**544,286**	**2,011**	**454**	**2**

B.1 Prudential consolidation - Sector breakdown of on- and "off-balance sheet" credit exposures to customers

p.2

Exposures/Counterparties	Non-financial companies		Households	
	Net exposure	Total write-downs/ write-backs	Net exposure	Total write-downs/ write-backs
A. On-balance sheet credit exposures				
A.1 Bad loans	571,208	12,192	129,309	1,810
– of which forborne exposures	-	-	-	-
A.2 Unlikely to pay	349,299	3,671	6,413	609
– of which forborne exposures	20,179	1,158	817	111
A.3 Non-performing past-due exposures	28	4	72	21
– of which forborne exposures	-	-	-	-
A.4 Performing exposures	1,242,430	8,432	37,449	114
– of which forborne exposures	17,487	96	1,174	20
Total (A)	**2,162,965**	**24,299**	**173,243**	**2,554**
B. Off-balance sheet credit exposures				
B.1 Non-performing exposures	65,133	4,135	278	1
B.2 Performing exposures	97,099	252	2,199	-
Total (B)	**162,232**	**4,387**	**2,477**	**1**
Total (A+B) 31/12/2021	**2,325,197**	**28,686**	**175,720**	**2,555**
Total (A+B) 31/12/2020	**1,757,484**	**27,915**	**179,063**	**2,545**

B.2 Prudential consolidation - Territorial distribution of on- and "off-balance sheet" credit exposures to customers

p.1

Exposures/Geographic Areas	Italy		Other European countries		America
	Net exposures	Total write-downs/ write-backs	Net exposures	Total write-downs/ write-backs	Net exposures
A. On-balance sheet credit exposures					
A.1 Bad loans	703,377	14,027	383	-	-
A.2 Unlikely to pay	375,522	4,468	-	-	-
A.3 Non-performing past-due exposures	136	34	-	-	-
A.4 Performing exposures	2,033,272	10,046	179,225	1,479	5,556
Total (A)	**3,112,307**	**28,575**	**179,608**	**1,479**	**5,556**
B. Off-balance sheet credit exposures					
B.1 Non-performing exposures	65,423	4,136	-	-	-
B.2 Performing exposures	110,588	272	236	-	10
Total (B)	**176,011**	**4,408**	**236**	**-**	**10**
Total (A+B) 31/12/2021	**3,288,318**	**32,983**	**179,844**	**1,479**	**5,566**
Total (A+B) 31/12/2020	**2,375,009**	**31,759**	**112,594**	**1,051**	**2,174**

B.2 Prudential consolidation - Territorial distribution of on- and "off-balance sheet" credit exposures to customers

p.2

Exposures/Geographic Areas	America	Asia		Rest of the World	
	Total write-downs/ write-backs	Net exposures	Total write-downs/ write-backs	Net exposures	Total write-downs/ write-backs
A. On-balance sheet credit exposures					
A.1 Bad loans	-	-	-	1	1
A.2 Unlikely to pay	-	-	-	-	-
A.3 Non-performing past-due exposures	-	-	-	(1)	-
A.4 Performing exposures	18	5,118	13	2,401	6
Total (A)	**18**	**5,118**	**13**	**2,401**	**7**
B. Off-balance sheet credit exposures					
B.1 Non-performing exposures	-	-	-	-	-
B.2 Performing exposures	-	-	-	-	1
Total (B)	**-**	**-**	**-**	**-**	**1**
Total (A+B) 31/12/2021	**18**	**5,118**	**13**	**2,401**	**8**
Total (A+B) 31/12/2020	**10**	**1,945**	**9**	**580**	**4**

B.2 Prudential consolidation – Territorial distribution of on- and "off-balance sheet" credit exposures to customers

Exposures/Geographic Areas	North west Italy		North east Italy		Central Italy		Southern Italy and islands	
	Net exposure	Total write-downs/ write-backs	Net exposure	Total write-downs/ write-backs	Net exposure	Total write-downs/ write-backs	Net exposure	Total write-downs/ write-backs
A. On-balance sheet credit exposures								
A.1 Bad loans	145,815	788	115,977	12,702	239,042	253	202,545	284
A.2 Unlikely to pay	194,971	1,310	66,304	2,918	72,155	233	42,091	7
A.3 Non-performing past due exposures	-	1	99	23	1	1	36	9
A.4 Performing exposures	1,183,482	4,969	400,838	3,689	363,059	1,148	85,893	240
Total (A)	**1,524,268**	**7,068**	**583,218**	**19,332**	**674,257**	**1,635**	**330,565**	**540**
B. Off-balance sheet credit exposures								
B.1 Non-performing exposures	20,267	1,166	22,685	2,136	21,476	700	995	134
B.2 Performing exposures	48,212	161	35,217	82	15,327	26	11,832	3
Total (B)	**68,479**	**1,327**	**57,902**	**2,218**	**36,803**	**726**	**12,827**	**137**
Total (A+B) 31/12/2021	**1,592,747**	**8,395**	**641,120**	**21,550**	**711,060**	**2,361**	**343,392**	**677**
Total (A+B) 31/12/2020	**1,021,613**	**7,628**	**650,285**	**21,779**	**382,623**	**1,867**	**320,488**	**485**

B.3 Prudential consolidation - Territorial distribution of on- and "off-balance sheet" credit exposures to banks

p.1

Exposures/Geographic Areas	Italy		Other European countries		America
	Net exposures	Total write-downs/ write-backs	Net exposures	Total write-downs/ write-backs	Net exposures
A. On-balance sheet credit exposures					
A.1 Bad loans	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-
A.3 Non-performing past-due exposures	-	-	-	-	-
A.4 Performing exposures	135,656	323	193,719	8	-
Total (A)	**135,656**	**323**	**193,719**	**8**	**-**
B. Off-balance sheet credit exposures					
B.1 Non-performing exposures	-	-	-	-	-
B.2 Performing exposures	1,962	-	86	-	-
Total (B)	**1,962**	**-**	**86**	**-**	**-**
Total (A+B 31/12/2021)	**137,618**	**323**	**193,805**	**8**	**-**
Total (A+B) 31/12/2020	**297,780**	**253**	**312,607**	**26**	**-**

B.3 Territorial distribution of on- and "off-balance sheet" credit exposures to banks

p.2

Exposures/Geographic Areas	America	Asia		Rest of the World	
	Total write-downs/ write-backs	Net exposures	Total write-downs/ write-backs	Net exposures	Total write-downs/ write-backs
A. On-balance sheet credit exposures					
A.1 Bad loans	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-
A.3 Non-performing past-due exposures	-	-	-	-	-
A.4 Performing exposures	-	-	-	-	-
Total (A)	**-**	**-**	**-**	**-**	**-**
B. Off-balance sheet credit exposures					
B.1 Non-performing exposures	-	-	-	-	-
B.2 Performing exposures	-	-	-	-	-
Total (B)	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2021	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2020	**-**	**-**	**-**	**2**	**(2)**

B.3 Prudential consolidation - Territorial distribution of on- and "off-balance sheet" credit exposures to banks

Exposures/Geographic Areas	North west Italy		North east Italy		Central Italy		Southern Italy and islands	
	Net exposures	Total write-downs/ write-backs	Net exposures	Total write-downs/ write-backs	Net exposures	Total write-downs/ write-backs	Net exposures	Total write-downs/ write-backs
A. On-balance sheet credit exposures								
A.1 Bad loans	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-
A.3 Non-performing past-due exposures	-	-	-	-	-	-	-	-
A.4 Performing exposures	92,654	263	5,050	15	37,952	45	-	-
Total (A)	**92,654**	**263**	**5,050**	**15**	**37,952**	**45**	**-**	**-**
B. Off-balance sheet credit exposures								
B.1 Non-performing exposures	-	-	-	-	-	-	-	-
B.2 Performing exposures	114	-	-	-	1,848	-	-	-
Total (B)	**114**	**-**	**-**	**-**	**1,848**	**-**	**-**	**-**
Total (A+B) 31/12/2021	**92,768**	**263**	**5,050**	**15**	**39,800**	**45**	**-**	**-**
Total (A+B) 31/12/2020	**159,382**	**150**	**19,602**	**28**	**118,796**	**75**	**-**	**-**

B.4 Large exposures

	31 December 2021
Book value	2,004,197
Weighted value	476,920
Number	11

According to the regulations in force, the number of large exposures shown in the table is determined by referring to unweighted "exposures" exceeding 10% of the Eligible Capital, as defined by EU Regulation no. 575/2013 (so-called CRR), where "exposures" means the sum of on-balance sheet risk assets and off-balance sheet transactions (excluding those deducted from Eligible Capital) towards a client, or a group of connected clients, without the application of weighting factors. These exposure criteria lead to including subjects in the financial statements table relating to large exposures who - although weighted at 0% – have an unweighted exposure exceeding 10% of the Eligible Capital for the purposes of large risks.

C. SECURITISATION TRANSACTIONS

Qualitative information

With regard to third-party securitisations, below is a brief description, by Division.

Distressed Credit Division

For its NPL operations, the Parent Company uses some securitisation vehicles in accordance with Law 130/99, comprising 130 Servicing, a financial intermediary and securitisation *master servicer*.

The Parent Company acquires loan portfolios from independent third parties through securitisation vehicles, which funds itself by issuing *single-tranche* notes fully subscribed by the Bank, replicating the entire return of the underlying portfolio.

Also within the Distressed Credit Division, the Parent Company also structures senior financing operations, represented by financing services to investors of *distressed* credits through the subscription of Senior, Mezzanine or Junior notes.

Quantitative information

C.1 Prudential consolidation - Exposures resulting from the main originated securitisation transactions broken down by type of securitised asset and by type of exposure

The Group has no exposures in proprietary securitisations.

C.2 Prudential consolidation – Exposures resulting from the main "third party" securitisation transactions broken down by type of securitised asset and by type of exposure

Type of underlying asset / Exposures	On-balance sheet exposures							
	Single tranche		Senior		Mezzanine		Junior	
	Book value	(Write-downs)/ write-backs	Book value	(Write-downs)/ write-backs	Book value	(Write-downs)/ write-backs	Book value	(Write-downs)/ write-backs
Distressed Credit Division	58,956	-	256,434	(760)	4,798	(26)	2,202	-

C.3 Prudential consolidation – Interests in securitisation vehicles

As described above, in order to carry out the activities of the DCIS and SME Divisions, the Group utilises securitisation vehicles pursuant to Law 130/99.

NAME OF SECURITISATION/ VEHICLE COMPANY	REGISTERED OFFICE	CONSOLIDATION	ASSETS			LIABILITIES			
			Receivables	Debt securities	Others	Single-tranche	Senior	Mezzanine	Junior
Aporti S.r.l. - Segment I	Milan	a)	326,578	-	59,131	381,882	-	-	-
Aporti S.r.l. - Segment II	Milan	a)	15,883	-	2,479	17,870	-	-	-
Aporti S.r.l. - Segment III	Milan	a)	37,877	-	44,826	81,184	-	-	-
Aporti S.r.l. - Segment IV	Milan	a)	127,921	-	9,246	136,135	-	-	-
Friuli SPV S.r.l.	Milan	a)	11,234	-	2,820	12,223	-	-	-
Doria SPV S.r.l.	Milan	a)	76,270	-	75,069	138,256	-	-	-
River SPV S.r.l.	Milan	a)	14,471	-	4,810	16,389	-	-	-
Pitti SPV S.r.l.	Milan	a)	13,326	-	33,984	29,893	-	-	-
Beagle SPE S.r.l.	Milan	b)	7,370	-	217	7,557	-	-	-

a) Company consolidated using the line-by-line method pursuant to the majority of voting rights at the Ordinary Shareholders' Meeting

b) Company consolidated using the line-by-line method pursuant to other forms of control

C.4 Prudential consolidation - Non-consolidated securitisation vehicles

The Bank does not use non-consolidated securitisation vehicles.

C.5 Prudential consolidation – Servicer activities – originated securitisations: collections of securitised loans and redemptions of securities issued by the securitisation vehicles

The Group does not act as servicer of its own securitisations.

C.6 Prudential consolidation - Consolidated securitisation vehicles

The Special Purpose Vehicles used for securitisations relating to the Distressed Credit Division are the following:

- Aporti SPV
- Doria SPV
- River SPV
- Pitti SPV
- Friuli SPV
- Beagle SPE

All securitised transactions are represented by NPL credits and the transactions are carried out through the issue of single-tranche securities.

D. DISPOSALS

A. Financial assets sold and not fully derecognised

Qualitative information

The sales connected to financial assets sold and not derecognised relate to repurchase agreements - payable, where the buyer has to resell on expiration of the assets (for example securities).

Quantitative information

D.1. Prudential consolidation – Financial assets sold and fully recognised and associated financial liabilities: book values

	Financial assets sold and fully recognised				Associated financial liabilities		
	Book value	of which: subject to securitisation transactions	of which: subject to sale agreements with repurchase clause	of which non-performing	Book value	of which: subject to securitisation transactions	of which: subject to sale agreements with repurchase clause
A. Financial assets held for trading	**-**	**-**	**-**	**X**	**-**	**-**	**-**
1. Debt securities	-	-	-	X	-	-	-
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. Other financial assets mandatorily measured at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
C. Financial assets carried at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	**78,246**	**-**	**78,246**	**-**	**72,639**	**-**	**72,639**
1. Debt securities	78,246	-	78,246	-	72,639	-	72,639
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
E. Financial assets measured at amortised cost	**122,792**	**-**	**122,792**	**-**	**118,011**	**-**	**118,011**
1. Debt securities	122,792	-	122,792	-	118,011	-	118,011
2. Loans	-	-	-	-	-	-	-
Total 31/12/2021	**201,038**	**-**	**201,038**	**-**	**190,650**	**-**	**190,650**
Total 31/12/2020	**218,925**	**-**	**218,925**	**-**	**280,980**	**-**	**280,980**

D.2 Financial assets sold and partially recognised and associated financial liabilities: book value

On the reporting date, the Group does not hold financial assets sold and partially recognised and associated financial liabilities.

D.3 Disposals with liabilities with repayment exclusively based on assets sold and not fully derecognised: fair value

In table D.1, the book value of the financial assets indicated may be considered a proxy of the fair value.

B. Financial assets sold and fully derecognised with recognition of continuing involvement

The Group has no such operations.

D.4 Covered bond transactions

The Group has no such operations.

E. PRUDENTIAL CONSOLIDATION – CREDIT RISK MEASUREMENT MODELS

For management purposes, as well as for the calculation of collective write-downs, internal rating models were developed by the Group. These models were developed with the aim of making the measurement metrics more risk-sensitive and more relevant to the Group's business. The most advanced component of these models is the shadow rating model of “organic” exposures originating from illimity, which has been calibrated using deep external databases (Corporate counterparties of the European market), including the forward looking component to incorporate the effect of the expected macroeconomic scenario and providing a documented override process downstream (with qualitative notching in the case of more information).

Rating models provided by external providers are also used to calculate the creditworthiness of the component of exposures arising from the operations of the former Banca Interprovinciale, with the application of conservative margins.
In the fourth quarter of 2021, ratings supplied by external providers were also used for the first time to calculate the creditworthiness of factoring portfolio exposures.

With regard to the Loss Given Default (LGD) risk parameter, applied to the calculation of collective impairment, illimity maintained the model developed internally in 2020, based on estimated recovery percentages for bad loans, calibrated on the basis of the business plans for bad loans of the Distressed Credit Division.

Finally, a roadmap is planned for the evolution and consolidation of the aforementioned models (including external performance and calibration on internal data), which will see the use of the innovative component previously described also during origination, both for the definition of decision-making powers, and as a tool for analysis and simulation by business units also for the purpose of pricing.

1.2 Market risk

1.2.1 Interest rate risk and price risk - regulatory trading book

Qualitative information

General aspects

Market risk is the risk of changes in the market value of financial instruments held, as a result of unexpected changes in market conditions (adverse changes in market parameters such as interest rates, exchange rates, prices and volatility) and of the Group’s credit rating.

Measurement and control of market risks are activities conducted daily by the Risk Management Area, taking as reference all positions subject to remeasurement at fair value through income statement and equity. The scope of the positions subject to this measurement is broader than the "regulatory trading book" (e.g. Trading book), also involving, in fact, part of the positions of the banking book.

The measurement and control of the market risks is performed with the Value at Risk methodology (hereinafter “VAR”); VAR is a probability indicator that measures the probable maximum loss of value (fair value) which the Group might be affected by with reference to a given time horizon and a specific confidence level, confirmed by historic scenarios (historic simulation approach).

The daily VAR measurement is accompanied by periodic stress test analyses, which simulate the impacts on the income statement and statement of financial position in the event of an unexpected shock in market values. These shocks can consist of scenarios based on extreme market events that actually happened (historical scenarios), or ad-hoc created scenarios (EBA scenarios).

The reliability of the risk measurement outputs through the VAR methodology is verified daily through the execution of back testing tests.

VAR measures are compared with the risk limits and objectives formalised in the RAF and with the operational limits, on a daily basis by the CRO Division. VAR measures are used together with other indicators such as sensitivities and greeks, as well as position measures, that form the basis of level two and early warning limits.

Processes for managing and methods for measuring interest rate risk and price risk

For instruments classified in the trading book, the IAS/IFRS require a fair value measurement, with a contra entry in the income statement. For financial instruments listed on active markets, the best estimate of the fair value is represented by the prices themselves (Mark to Market), taken from the information providers (Bloomberg, Thomson Reuters, etc.).

The value expressed by the relevant market for a listed financial instrument, even if admitted for trading on an organised market, should still be considered insignificant, for illiquid instruments. Illiquid instruments are financial products for which there are no suitably liquid or transparent trading markets available, which can provide immediate, objective reference benchmarks for the transactions. Therefore, due to the low volumes traded, the low frequency of trades and the concentration of free float, the Mark to Market does not express the actual "presumable realisation value" of the instrument.

For unlisted or illiquid financial instruments, the fair value is determined by applying measurement techniques aimed at determining the price that the instrument would have had on the market where freely negotiated between the parties motivated by usual commercial considerations. The techniques include:

- reference to market prices of similar instruments with the same risk profiles as those being valued (comparable approach);
- valuations based on generally accepted pricing models (i.e. Black & Scholes, Discount Cash Flow Model, etc.) or internal models, based on market input data and possibly on estimates or assumptions (Mark to Model).

For mutual investment funds not traded on active markets, the fair value is determined on the basis of the published NAV (net asset value).

Some complex financial products (structured or synthetic) can be valued on the basis of:

- the breakdown of the product into its elementary components;
- valuation models that can generate numerical scenarios defined on the basis of a probability density function that identifies the simulated pay-offs for the complex product to be valued;
- valuation models used to value the components described in the previous points (elementary components or assimilated pay-offs), together with the operational market prices used to parametrise the models or to know the valuation of some of their components (for example implicit inflation, for inflation linked components).

Some complex financial products for which there is no commonly accepted valuation model nor the availability of all the descriptive information about the product, can be particularly hard to value. These products can be valued: (i) through the Bank's internal valuation models able to produce a fair value for comparison, in any case, with the operating BIDs obtained by independent counterparties; (ii) if there are no validated internal models, reference is made to the operational BIDs obtained from independent market counterparties.

Impacts of the COVID-19 pandemic

Faced with the COVID-19 pandemic, a communication channel was set up with the Management Committee by the treasury management and ALM units and the risk control function, with daily updates on market trends and an update on the RAF limits at times of greater financial tension.

No significant changes in risk management objectives and strategies took place, save for an adjustment to the asset allocation initially planned to maintain the risk profile within defined limits.

No changes to risk measurement and control systems, related to the pandemic, took place.

Quantitative information

1. Regulatory trading portfolio: distribution by maturity (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

Type/Unexpired term	On demand	Up to 3 months	3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	Between 5 and 10 years	More than 10 years	Indefinite duration
1. Cash assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
– with early repayment option	-	-	-	-	-	-	-	-
– others	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Repos	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Others								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	-	987	-	-	-	-	-
+ Short positions	-	-	-	400	586	-	-	-
- Other derivatives								
+ Long positions	-	38,855	20,326	1,402	47,325	8,968	-	-
+ Short positions	-	37,575	21,700	-	53,100	4,500	-	-

1. Regulatory trading portfolio: distribution by maturity (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

Type/Unexpired term	On demand	Up to 3 months	3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	Between 5 and 10 years	More than 10 years	Indefinite duration
1. Cash assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
– with early repayment option	-	-	-	-	-	-	-	-
– others	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Repos	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Others								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	91	-	-	-	-	-	-
+ Short positions	-	884	-	-	-	-	-	-

2. Regulatory trading book: distribution of exposures in equity instruments and share indices for the main stock market countries

The Group does not hold equity instruments and share indices in the trading portfolio, as of the reporting date.

3. Regulatory trading portfolio: internal models and other methods of sensitivity analysis

There are no internal models and other methods of sensitivity analysis, other than those previously specified. The methodology based on the risk value is applied to the whole securities portfolio regardless of the allocation on the accounts.

The total trading portfolio is extremely limited, as per company policy; as of the reporting date there were no financial assets employed in trading operations, particularly units of UCIs.

1.2.2 Interest rate risk and price risk – banking book

The banking book consists of all the financial instruments, receivable and payable, not included in the trading book referred to in the "Market risks section".

Qualitative information

A. General aspects, management processes and measurement methods for interest rate risk and price risk

Banking portfolio interest rate risk consists of the risk that unexpected changes in interest rates will be negatively reflected on:

- formation of the net interest margin, and thus, the bank's earnings (cash flow risk);
- the net present value of assets and liabilities, due to their impact on the present value of future cash flows (fair value risk);
- relative to the assets other than those allocated to the trading book, in relation to the non-timing between the maturity and the re-pricing of assets and liabilities and the short and long term off-balance sheet positions (re-pricing risk), the risk arising from changes to the slope and shape of the yield (yield curve risk), the hedging of interest rate risk of an exposure using an exposure with a rate that reprices in different conditions (basis risk) and risks arising from options (for example, consumers redeeming fixed-rate products when the market rates change).

To measure, control and manage interest rate risk and the prices of all the cash flows in the banking book, the impact of any unexpected changes in market conditions will be analysed, and the risk-return alternatives will be evaluated, so that Group management decisions can be taken.

Exposure to interest rate risk is assessed from two different perspectives. In the short term view, the "earnings perspective" approach is adopted, which focuses on the impact of changes in interest rates on the profits accrued or recognised (cash flow risk), as regards the component represented by the net interest margin. For a long term view of the effects of changes in interest rates, the "economic performance perspective" approach is used, representing a method, in accordance with prudential supervisory regulations, used to assess the sensitivity of the Group's shareholders' equity to changes in rates (fair value risk).

Interest rate risk management is intended to limit the impact of adverse changes to the rates curve, both in financial terms and in terms of the cash flow generated by the financial statement items, and is achieved primarily through the indexing of assets and liabilities to money market benchmarks, typically the Euribor, and the balancing of the duration of the asset and liability.

Fair value hedging activities

No specific hedges have been put in place through financial derivative instruments to reduce exposure to adverse changes in fair value (Fair Value Hedge) due to interest rate risk.

Cash flow hedging activity

There are no cash flow hedges.

Hedges of foreign investments

There are no hedges of foreign investments.

Quantitative information

1. Banking book: distribution by maturity (repricing date) of on-balance sheet financial assets and liabilities

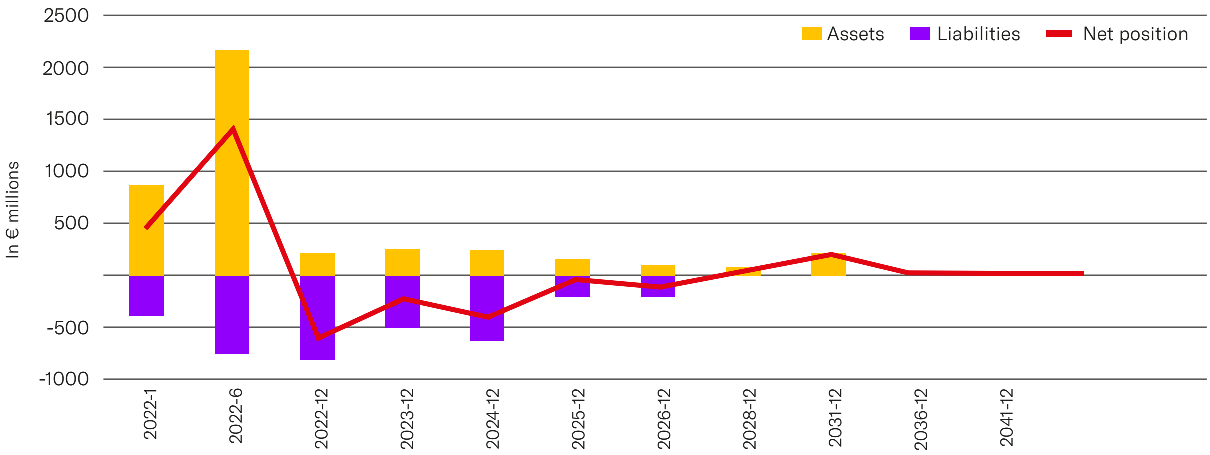
Type/Unexpired term	On demand	Up to 3 months	3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	Between 5 and 10 years	More than 10 years	Indefinite duration
1. Cash assets	**348,759**	**1,476,869**	**579,348**	**220,754**	**703,123**	**292,681**	**37,512**	**-**
1.1 Debt securities	-	337,347	223	26,358	104,530	212,872	-	-
– with early repayment option	-	-	-	-	-	-	-	-
– others	-	337,347	223	26,358	104,530	212,872	-	-
1.2 Loans to banks	2,613	72,447	192,393	517	-	-	-	-
1.3 Loans to customers	346,146	1,067,075	386,732	193,879	598,593	79,809	37,512	-
– current account	13,039	38,856	9,673	31,252	103,363	20,355	11,798	-
- other loans	333,107	1,028,219	377,059	162,627	495,230	59,454	25,714	-
– with early repayment option	15,161	601,810	238,422	735	20,094	8,350	793	-
– others	317,946	426,409	138,637	161,892	475,136	51,104	24,921	-
2. On-balance sheet liabilities	**932,008**	**383,168**	**253,191**	**738,970**	**1,429,231**	**13,207**	**2,609**	**-**
2.1 Amounts due to customers	931,567	99,697	117,395	747,364	929,443	13,207	2,609	-
– current account	775,606	-	-	-	-	-	-	-
– other payables	155,961	99,697	117,395	747,364	929,443	13,207	2,609	-
– with early repayment option	-	-	-	-	-	-	-	-
– others	155,961	99,697	117,395	747,364	929,443	13,207	2,609	-
2.2 Amounts due to banks	441	283,471	135,796	(8,394)	-	-	-	-
– current account	1	-	-	-	-	-	-	-
– other payables	440	283,471	135,796	(8,394)	-	-	-	-
2.3 Debt securities	-	-	-	-	499,788	-	-	-
– with early repayment option	-	-	-	-	-	-	-	-
– others	-	-	-	-	499,788	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
– with early repayment option	-	-	-	-	-	-	-	-
– others	-	-	-	-	-	-	-	-
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-balance sheet transactions	**70,522**	**-**	**1**	**7,739**	**39,592**	**10,436**	**4**	**-**
+ Long positions	6,375	-	1	7,739	39,592	10,436	4	-
+ Short positions	64,147	-	-	-	-	-	-	-

2. Bank portfolio: internal models and other methods of sensitivity analysis

There are no internal models and other methods of sensitivity analysis. However, the construction of a series of internal models, even if not validated (which do not consider scenarios of early termination) enable the bank to carry out sensitivity tests, usually associated with a parallel shifts in the rates curve of +/-200 bps.

To monitor compliance with the limit set in the RAF, and to ensure that risk is limited to 20% of the ratio between the change in economic performance and own funds, a value analysis is periodically carried out on the banking book (simplified methodology referred to in Annex C of Circular no. 285 issued by the Bank of Italy), both for a stress scenario with a parallel rate shock of +/- 200 bps, and in ordinary conditions using as a shock the 99th percentile (in the case of a rates rise) or the 1st percentile (in the case of a rates reduction). The interest rate risk of the banking book is therefore quantified based on gap analysis and sensitivity analysis models that identify all assets and liabilities of the banking book and group them based on the repricing period of the interest rate.

The following graphic shows the distribution by maturity bands of net imbalances of assets and liabilities in the banking book as of 31 December 2021, based on which the exposure to the interest rate risk was estimated.



On the reporting date, the measurements indicated a decrease in the value of equity equal to approximately EUR 1.1 million in relation to a parallel shock of the interest rates curve of 200 basis points; banking book exposure to interest rate risk is, therefore, marginal in terms of the ratio compared to the value of own funds, amounting to a minor level of approximately 0.1%.

In addition to the Sensitivity analysis, an estimate of the change in net interest margin is also carried out. The sensitivity of the margin is measured using a methodology that estimates the expected change in the net interest margin following a curve shock, produced by items that are sensitive to a change in the rate, within a gapping period set at 12 months from the date of the analysis. The analysis considers both the change in the margin of the exposed and term deposits. This measurement is carried out from a static financial statement perspective (constant assets and liabilities), thus excluding potential effects from new operations or future changes in the mix of assets and liabilities. In the scenario of positive rate shock of +100 bps, the change in the margin would amount to approximately EUR +7.9 million, while in the negative shock scenario of -100 bps, the estimated change would be equal to EUR -7.9 million.

1.2.3 Exchange risk

Qualitative information

A. General aspects, management processes and measurement methods for exchange rate risk

The exchange risk is determined on the basis of the existing mismatching between currency assets and liabilities (spot and forward), for each currency other than the euro. The main sources of risk are:

- loans and deposits in foreign currency with corporate and retail customers;
- the holding of foreign currency financial instruments;
- the holding of any shares or units in UCIs still denominated in euros, for which it is not possible to determine the foreign currency composition of the underlying investments and/or for which the maximum foreign currency investment is not known and is binding;
- the trading of foreign banknotes.

The exchange risk is determined on the basis of the methodology proposed by the Bank of Italy and is quantified at 8% of the net foreign exchange position. This is determined as the highest component (in absolute values) between the sum of the net long positions and the sum of the net short positions (position per currency) to which is added the exposure to the exchange rate risk implied in any investments in UCIs. The internal VAR-based model is therefore not used in the calculation of capital requirements on market risks.

Exposure to exchange risk is thus determined on the basis of the net foreign exchange position using a methodology based on the supervisory regulations. Equity investments and property and equipment are not included in the net foreign exchange position.

B. Exchange rate risk hedging

The exchange risk arising from exposures on the banking book is generally cancelled using systematic balancing with funding/loan operations in the same currency as the original transaction.

Quantitative information

1. Distribution by currency of denomination of assets and liabilities and derivatives

Items	Currencies					
	USD	MXN	GBP	ZAR	CHF	OTHER CURRENCIES
A. Financial assets	**5,374**		**102**			
A.1 Debt instruments						
A.2 Equity instruments	7					
A.3 Loans to banks	1,764					
A.4 Loans to customers	3,603		102			
A.5 Other financial assets						
B. Other assets	**5,955**	**245**	**84**	**121**	**49**	**99**
C. Financial liabilities	**13,416**					
C.1 Amounts due to banks	8,843					
C.2 Amounts due to customers	4,573					
C.3 Debt instruments						
C.4 Other financial liabilities						
D. Other liabilities	**42**					
E. Financial derivatives						
- Options						
+ Long positions						
+ Short positions						
- Other derivatives						
+ Long positions	-					
+ Short positions	177					
Total assets	**11,329**	**245**	**186**	**121**	**49**	**99**
Total liabilities	**13,635**		**-**	**-**	**-**	**-**
Difference (+/-)	**(2,306)**	**245**	**186**	**121**	**49**	**99**

2. Internal models and other methods of sensitivity analysis

Foreign currency activity is extremely limited, according to policy, and the net daily position tends to be zero, excluding any foreign currency cash deposits held at the Modena branch. There are no internal models and other methods of sensitivity analysis.

1.3 Derivative instruments and hedging policies

Trading in derivatives was authorised with effect from 2021: the main type of derivatives used is interest rate swaps (IRS), either plain or structured (with the presence of caps and floors).

Derivatives are mainly traded in the context of over-the-counter (OTC) agreements with customers in relation to financing operations. Derivatives operations are carried out within the trading portfolio and involve the active management of market risks, through the hedging of the derivatives with institutional counterparties.

Derivatives operations are not used for the purposes of hedging the interest rate risk of the banking book.

The Group does not apply any hedge accounting rules for the recognition of derivatives.

A. Financial derivatives

A.1 Financial derivatives held for trading: end-of-period notional values

Underlying assets/Types of derivatives	Total 31/12/2021				Total 31/12/2020			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central Counterparties	Without central counterparties			Central Counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Debt securities and interest rates	**-**	**57,600**	**62,302**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	4,000	-	-	-	-	-
b) Swaps	-	57,600	58,302	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
2. Equity securities and share indices	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
3. Currencies and gold	**-**	**177**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	177	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
4. Goods	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**57,777**	**62,302**	**-**	**-**	**-**	**-**	**-**

A.2 Financial derivatives held for trading: positive and negative gross fair value - distribution by products

Types of derivatives	Total 31/12/2021				Total 31/12/2020			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central Counterparties	Without central counterparties			Central Counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Positive fair value								
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	280	614	-	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	2	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-
Total	**-**	**282**	**614**	**-**	**-**	**-**	**-**	**-**
2. Negative fair value								
a) Options	-	-	52	-	-	-	-	-
b) Interest rate swaps	-	1	6	-	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-
Total	**-**	**1**	**58**	**-**	**-**	**-**	**-**	**-**

A.3 OTC financial derivatives held for trading - notional values, positive and negative gross fair value by counterparties

Underlying assets	Central Counterparties	Banks	Other financial companies	Other entities
Contracts not covered by netting agreements				
1) Debt securities and interest rates				
– notional value	X	-	-	62,302
– positive fair value	X	-	-	614
– negative fair value	X	-	-	58
2) Equity securities and share indices				
– notional value	X	-	-	-
– positive fair value	X	-	-	-
– negative fair value	X	-	-	-
3) Currencies and gold				
– notional value	X	-	-	-
– positive fair value	X	-	-	-
– negative fair value	X	-	-	-
4) Goods				
– notional value	X	-	-	-
– positive fair value	X	-	-	-
– negative fair value	X	-	-	-
5) Others				
– notional value	X	-	-	-
– positive fair value	X	-	-	-
– negative fair value	X	-	-	-
Contracts covered by netting agreements				
1) Debt securities and interest rates				
– notional value	-	57,600	-	-
– positive fair value	-	280	-	-
– negative fair value	-	1	-	-
2) Equity securities and share indices				
– notional value	-	-	-	-
– positive fair value	-	-	-	-
– negative fair value	-	-	-	-
3) Currencies and gold				
– notional value	-	177	-	-
– positive fair value	-	2	-	-
– negative fair value	-	-	-	-
4) Goods				
– notional value	-	-	-	-
– positive fair value	-	-	-	-
– negative fair value	-	-	-	-
5) Others				
– notional value	-	-	-	-
– positive fair value	-	-	-	-
– negative fair value	-	-	-	-

A.4 Residual life of OTC financial derivatives: notional values

Underlying assets/Residual life	Up to 1 year	More than 1 year and up to 5 years	More than 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	2,009	104,425	13,468	119,902
A.2 Financial derivatives on equity securities and share indices	-	-	-	-
A.3 Financial derivatives on currencies and gold	177	-	-	177
A.4 Financial derivatives on goods	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2021	**2,186**	**104,425**	**13,468**	**120,079**
Total 31/12/2020	**-**	**-**	**-**	**-**

1.4 Liquidity risk

Qualitative information

A. General aspects, management processes and measurement methods for liquidity risk

Liquidity risk is the risk of defaulting on payment obligations due to the inability to source funds or to source them at above-market costs (funding liquidity risk) or by the presence of limits on the mobilisation of assets (market liquidity risk) thus incurring capital losses. The liquidity risk derives from the misalignment in terms of amount and/or date of realisation, of the inflows and outflows relating to all the assets, liabilities and off-balance sheet items and is correlated to the conversion of expiry date which is typically done by the banks.

The reference framework of the measurement, monitoring and management of liquidity risk is defined in the liquidity risk policy, which sets out the rules aimed at pursuing and maintaining a sufficient diversified level of funding and an adequate structural balance of sources and invested assets, by means of coordinated, efficient funding and investment policies. The short-term liquidity risk management system set out in the policy is based on a series of early warning thresholds and limits that reflect the general principles on which liquidity management is based. The policy therefore defines the company functions and bodies responsible for liquidity management.

The ALM & Treasury Area, with the assistance of the Budget & Control Area, aims to maintain a low level of exposure to liquidity risk, by putting in place a system of controls and limits which are based on a gap analysis of financial inflows and outflows, according to categories of residual life. The primary objective of liquidity risk management is to meet payment obligations and to source additional funds from the market, while minimising costs and without affecting potential future earnings.

The liquidity risk is controlled by the Risk Management Area through the measurement, monitoring and management of the liquidity requirement using a model that analyses the net liquidity balance, supplemented by stress tests that assess the bank's capacity to cope with a series of crisis scenarios ranked by increasing levels of severity. The net liquidity balance is obtained from the operational maturity ladder, by comparing the projection of expected cash flows against the Counterbalancing Capacity over a period of up to 12 months. The cumulative sum of the expected cash flows and the counterbalancing capacity for each time band quantifies the liquidity risk, evaluated in different stress scenarios.

The stress tests are intended to assess the bank's vulnerability to exceptional but possible events, and give a better assessment of the exposure to liquidity risk, of the systems used to mitigate and control that risk and of the survival period in the case of adverse scenarios. In defining the stress scenarios, a series of risk factors are considered, that can either impact the cumulative imbalance in inflows and outflows, or the liquidity reserve, for example the risk that future unexpected events may require a liquidity that is far higher than expected (contingent liability risk), or the risk of not being able to obtain necessary funds or of obtaining them at costs above market costs (funding liquidity risk).

The monitoring of the level of coverage of the expected liquidity requirements through an adequate level of liquidity reserve is accompanied by the daily monitoring of exposure on the interbank market.

When these limits and early warnings are exceeded, the Contingency Funding Plan is also activated.

In line with the supervisory provisions, the Group performs daily monitoring of the Liquidity Coverage Ratio (LCR) indicator for the purpose of strengthening the short-term liquidity risk profile by ensuring that enough high-quality liquid assets (HQLA) are available and can be immediately converted into cash on the private markets to meet the 30-day liquidity, requirements in a liquidity stress scenario.

The monitoring of structural balance is also pursued through the daily measurement and monitoring of the Net Stable Funding Ratio (NSFR) structural requirement, which is aimed at promoting greater recourse to stable funding, preventing that medium and long-term operations give rise to excessive imbalances, to be funded in the short term. It establishes the minimum "acceptable" amount of funding longer than a year, in relation to the liquidity requirements and residual term of assets and off-balance sheet exposures.

On the reporting date, the Group does not present a high risk profile in terms of liquidity requirements; the liquidity profile of the Group is adequate in the medium/long term, reflecting the coherence between the process to construct assets and the adoption of relative funding policies, while complying with internal and regulatory risk limits.

As of the reference date, the Group is in excess of the Risk Appetite limit on the Liquidity Coverage Ratio (LCR) indicator, as a result of which funding measures will be put in place aimed at bringing the level of the indicator within the internally established risk limits.

Impacts of the COVID-19 pandemic

Faced with the COVID-19 pandemic, a communication channel was set up with the Management Committee by the treasury management and ALM units and the risk control function, with two daily updates on market trends and an update on the RAF limits at times of greater financial tension.

The initial increase in volatility at the beginning of 2020 with respect to the collection of some short-term funding components and the release of some term deposits by corporate customers had a negligible impact on the Group's overall funding, with a subsequent return to normal pre-COVID-19 market conditions.

No changes to the risk management strategy and objectives were recorded, nor changes to risk measurement and control systems, related to the pandemic.

Quantitative information

1. Breakdown of financial assets and liabilities by residual contractual maturity

Items/Time bands	On demand	More than 1 day to 7 days	More than 7 days to 15 days	More than 15 days to 1 month	More than 1 months to 3 months	3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 years	Indefinite duration
Cash assets	**232,199**	**65,644**	**10,765**	**51,176**	**393,094**	**383,194**	**312,990**	**1,839,062**	**714,220**	**18,089**
A.1 Government bonds	-	-	-	-	1,015	1,124	12,174	2,000	170,000	-
A.2 Other debt instruments	-	20	243	1,790	1,500	3,034	17,832	395,955	260,527	-
A.3 Units in UCIs	3,785	-	-	-	-	-	-	-	-	-
A.4 Loans	228,414	65,624	10,522	49,386	390,579	379,036	282,984	1,441,107	283,693	18,089
- Banks	2,615	51,766	-	298	2,487	192,443	524	-	-	18,089
- Customers	225,799	13,858	10,522	49,088	388,092	186,593	282,460	1,441,107	283,693	-
On-balance sheet liabilities	**920,564**	**99,091**	**36,452**	**30,371**	**36,567**	**255,051**	**776,234**	**1,403,291**	**220,812**	**-**
B.1 Deposits and current accounts	915,647	35,795	36,452	30,037	36,217	118,206	764,031	911,560	3,127	-
- Banks	1	29,000	-	8,829	-	-	-	-	-	-
- Customers	915,646	6,795	36,452	21,208	36,217	118,206	764,031	911,560	3,127	-
B.2 Debt instruments	-	-	-	-	-	-	18,875	298,801	198,394	-
B.3 Other liabilities	4,917	63,296	-	334	350	136,845	(6,672)	192,930	19,291	-
"Off-balance sheet" transactions	**67,094**	**1,617**	**1,814**	**354**	**-**	**714**	**7,770**	**44,425**	**11,012**	**-**
C.1 Financial derivatives with exchange of principal	-	1,569	-	354	-	-	-	-	-	-
- Long positions	-	799	-	177	-	-	-	-	-	-
- Short positions	-	770	-	177	-	-	-	-	-	-
C.2 Financial derivatives without exchange of principal	953	-	-	-	-	-	-	-	-	-
- Long positions	894	-	-	-	-	-	-	-	-	-
- Short positions	59	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be collected	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	66,141	48	1,814	-	-	714	7,770	44,425	11,012	-
- Long positions	228	-	1,814	-	-	714	7,770	44,425	11,012	-
- Short positions	65,913	48	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

1.5 Operational risks

Qualitative information

A. General aspects, management processes and methods used to measure operational risk

Operational risk is the risk of incurring losses due to inadequate or malfunctioning procedures, human resources or internal systems, or due to exogenous events. This type of risk includes internal and external fraud, errors in the performance of operational processes, interruptions to operations, unavailability of systems, cases of contractual non-fulfilment and natural disasters. This definition does not cover strategic or business risk and reputational risk, but does cover IT risk and legal risk, with the latter being understood as the risk deriving from the infringement of laws or other regulations in force, or from failure to honour contractual and extra-contractual responsibilities. In some cases, operational risks may include certain cases of risk classifiable as ESG (Environmental, Social and Governance), if such cases arise from the inadequacy of processes used for the internal assessment or management of the environmental, social and governance impact of financial counterparties and of the Bank itself.

Operational risk is therefore characterised by a cause and effect, such that an adverse event, and the related operating loss, is generated by one or more triggers. This loss is defined as the entire set of negative financial effects generated by an operational risk event, as recognised in the company accounts and likely to have an impact on the income statement.

The Group's overall operational risk management framework is based on a set of shared resources (human, technological and organisational), procedures and rules aimed at identifying, analysing, recording and mitigating all operational risks inherent in the current and prospective operations of the various organisational units.

The primary objective of the framework is, in fact, the prevention and containment of the impact on business functions of such risk events through the ex ante implementation of organisational and operational controls, and ex post targeted mitigation measures. The guiding principles on which the operational risk prevention and mitigation framework is based include:

- increasing the efficiency and security of internal and third party-facing processes;
- increasing overall operational and IT security;
- ensuring the regulatory and organisational compliance of business activities;
- promoting the risk culture among staff, by identifying dedicated persons to oversee risks in the various corporate departments;
- mitigating the effects of risk events;
- transferring any risks that are not to be maintained, where possible, using insurance-type contracts;
- protecting relations with stakeholders, reputation and the brand.

The mitigation tools available within the Group therefore include insurance policies that offer broad coverage against various types of adverse event. In that respect, the Group took out adequate policies covering various instances of operational risk and, in particular, cyber risk, property risk, employee infidelity risk, risk of non-integrity of the real estate repossessed by the Group and of the value of the properties received as collateral in the purchase of non-performing loans, and risk of disregard for advanced electronic signatures and graphometrics. This insurance is subject to valuation and continuous adjustment, including based on the progressive operational and structural evolution of the Group.

With regard to the management of critical information technology risks, the Group has adopted a disaster recovery plan, which sets out the technical and organisational measures necessary to deal with the unavailability of IT systems or infrastructure. The plan aims to guarantee the functioning of critical IT procedures at alternative sites to those of production, and forms an integral part of the business continuity plan, ensuring the return to normal Group operations within reasonable timing. In line with the regulatory instructions issued by the Bank of Italy, and based on a control integration logic, this system is managed both internally by the ICT security unit, and externally by the outsourcer Centrico, and by front-end service providers.

Furthermore, to control the economic risks arising from legal proceedings against the Group, a provision is made in the financial statements, which is appropriate for and consistent with international accounting standards. The amount of the provision is estimated on the basis of multiple factors, which mainly concern the predicted outcome of the dispute, and in particular the likelihood of losing the proceedings and an order being made against the Group, and the amount to be paid to the adverse party.

In order to guarantee the correct management and integrated oversight of operational risk, the Group has put in place a continuous structured loss data collection (LDC) process and a process to determine the Group's forward-looking exposure to operational risk, based on an annual Risk Self Assessment (RSA).

Through the Loss Data Collection process, the main information related to the Group's operational risk events and their economic effects is collected and analysed in a timely manner. The process extends throughout the entire banking group, also involving the subsidiaries for which illimity carries out risk management activities as an outsourcer. The activity of reporting and gathering data also makes use of IT applications and processes that guarantee the ordered and systematic inclusion of events and operational losses, thereby facilitating the recording of such information for the purposes of monitoring and assessing adequate mitigation measures.

RSA activity instead aims to quantify exposure to the Group's operational risks in the year following the assessment, based on a forward-looking self assessment which is conducted from main operating areas. The activity is carried out through a structured process that starts from the assessment of the frequency and expected *worst-case* impact of main operational risk events that may characterise each organisational unit. These forward-looking estimates are then screened by the control functions based on objective criteria which are then combined to provide an overall vision of expected and unexpected operational losses at an individual Company or Group level.

Both key processes to identify and manage operational risk cover all illimity Group companies on a uniform basis, so as to effectively supplement the operational and IT risk control systems, and therefore ensure a unique management framework adopted by the Parent Company. Future actions are planned for the ongoing consolidation and monitoring of the integration of subsidiaries in terms of risk supervision and measurement and to update internal regulations.

The operational risk data collection process in 2021 benefited from the active contribution of illimity Bank, and from the subsidiaries neprix and illimity SGR.

During the year, operating losses were recorded related to the initial phases of the Group's activity (end of 2018 and beginning of 2019), specifically generated by the migration of the databases of the new Bank (first Banca Interprovinciale, then illimity Bank) towards the systems currently adopted by the outsourcer, by the setting up of some operating and IT procedures developed to support the nascent illimity Group's business (ET 4 - Customers, products and professional practices and ET 7 - Execution, delivery and management of processes), and by the traditional operations of the former Banca Interprovinciale. As also observed in previous years, these events can in fact produce economic effects even after a few months or years from the date of their occurrence, and therefore lead to an extended recognition. At the same time, 2021 saw new losses under the Bank's continuing operations, attributable mainly to ET7, with an overall exposure that was moderate in relation to the Group's economic and financial scope.

However, during 2021 there were no operational losses relating to internal fraud (ET1) or to employment practices and workplace safety (ET3).

Impacts of the COVID-19 pandemic

The "fully digital" nature of the illimity Group has helped to minimise potential operational problems related to the transition to remote working on an ongoing or alternate basis, without therefore causing slowdowns in operations or interruptions of critical processes.

Similarly, the Group's strategies, operational risk measurement and identification techniques did not change in particular in relation to remote working procedures, as these procedures are based on engineering IT processes using the Cloud and have been conceived to extensively cover all Bank Areas.

Moreover, during 2021 there were no operational losses directly or indirectly related to the pandemic, while measures to protect employees' health and safety adopted by the Group in response to the epidemiological situation have been in place since the second quarter of 2020.

In any case the advent of the COVID-19 pandemic led to a new focus on formulating new risk scenarios during the Risk Self Assessment (RSA) in 2021, to include possible operational risks and the economic effects of the pandemic within the Group's various business units.

In terms of the impact of IT risk, no episodes of IT system or customer banking service unavailability due, for example, to a lack of critical resources or the interruption of processes, were reported. Moreover, in terms of IT security and cyber attacks, no particular risk events prompted by the pandemic were detected, nor were any changes in the safeguards present within the Group as a response to the pandemic found to be necessary (e.g. firewalls, multi-factor authentication, conditional access, the least privilege principle, tokens, etc.).

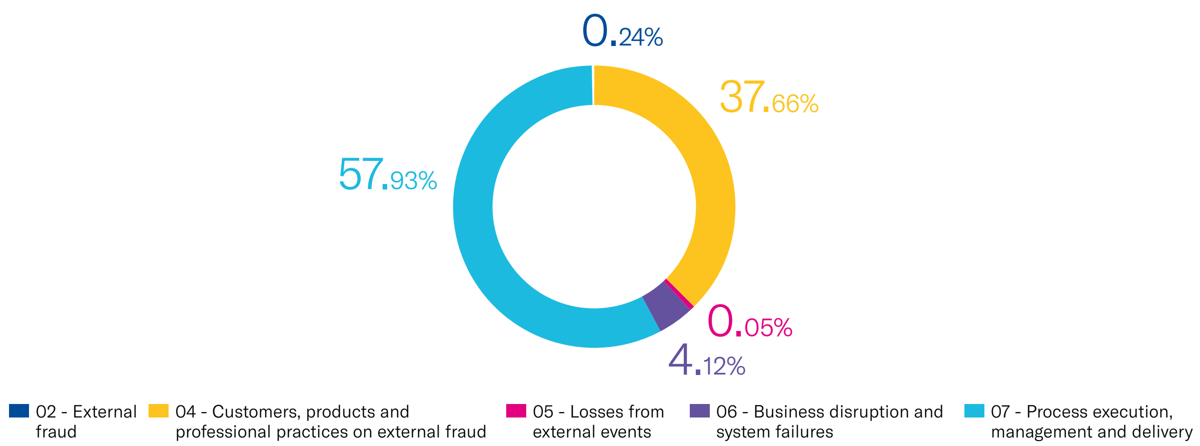
Similarly, no phishing campaigns targeting customers or Group employees were recorded, nor attacks on the VPN for remote access, or disclosure of false information with negative impacts on intermediaries, or advanced persistent threats, directly attributable to the health emergency.

Lastly, with reference to legal risk, no claims/complaints or other notices from customers sent by email/certified email were received, related to the contingent situation caused by the pandemic.

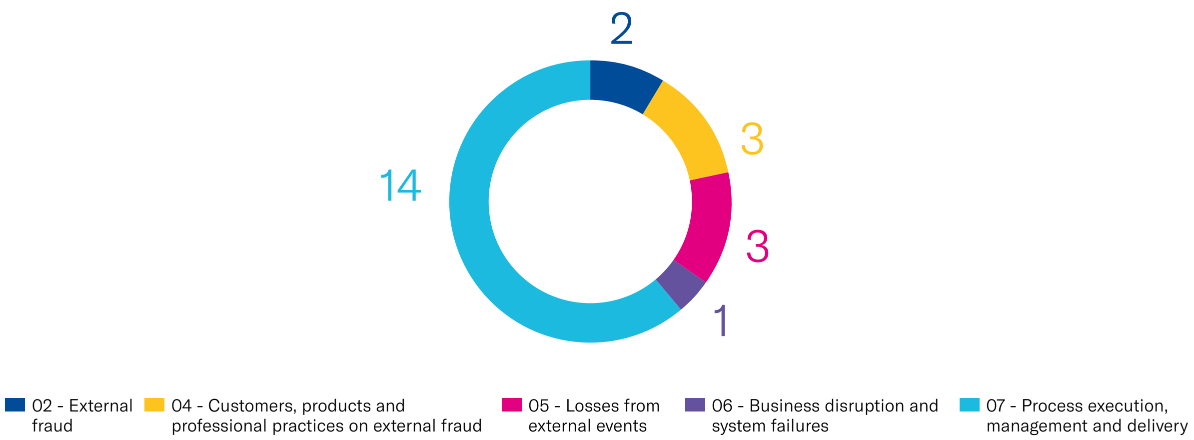
Quantitative information

The breakdown of the total operating losses recorded in the 2021 LDC process by illimity Bank and Group Subsidiaries is reported below:

TOTAL OPERATIONAL LOSSES 2021, BY TYPE



FREQUENCY OF OPERATIONAL LOSSES 2021, BY TYPE



As the charts show, risk events due to incorrect management, execution or delivery of operational processes (ET 7, according to the official terminology) represented the primary source of operating loss for the Group in 2021 (57.93% of the total). This category is followed, as a proportion of the total value of losses recorded in the year, by operating losses connected to customer relations management, product development and professional practices (ET 4, 37.66%), and operation interruptions and system malfunctions (ET 6, 4.12%). As also reported in 2020, risk events with a greater frequency refer to ET 7.

On an overall level, the risk events identified in the year were mainly attributable to the process to consolidate and enhance the operating and organisational activities which the Group bases its business on, because of the Group's recent establishment and the consequences of the initial stages of it being set up. Looking ahead, the Group expects to see a gradual reduction in operating risks connected with this phase of process adaptation.

To calculate the requirement, the Group uses the BIA (Basic Indicator Approach) which calculates the capital requirement by applying a regulatory coefficient of 15% to an indicator of the volume of company business, identified over an average of three years for the relevant indicator, determined in accordance with article 316 of EU Regulation No. 575/2013.

As of 31 December 2021, the capital requirement for operational risk amounted to approximately EUR 18,518 million euros, compared to EUR 231,475 million for Risk Weighted Assets.

OTHER IMPORTANT RISKS

Risk of over-leverage

This risk of over-leverage is defined by the prudential regulations as the risk that a particularly high level of indebtedness compared to the amount of own funds making the Group vulnerable, and requiring the adoption of corrective measures to the Strategic Plan, including the sale of assets and the recognition of impairment losses or write-downs/write-backs.

Risk exposure is measured by the Leverage Ratio (the financial leverage index, measured as the ratio between own assets and total on- and off-balance sheet assets that, not including corrections/weighting for the risk, serves as supplement to the capital requirements of the first pillar) and through other indicators that can identify any imbalances between assets and liabilities (structural and operational liquidity ladder). The strategic and operational objective is to control the risk by keeping asset trends within limits that are compatible with long-term equilibrium in order to avoid jeopardising the Group's stability.

The over-leverage risk relates to the entire financial statements, to the exposures arising from derivatives and the off-balance sheet assets, and is accepted as part of the exercise of core business. It is closely connected to planning and capital management activities; the level of exposure to risk is an expression of the guidelines and development lines elaborated by the Board of Directors. Risk exposure is mitigated through capital management and asset management allocation measures, which remain within the guidelines set out in the current Strategic Plan. Consideration is also given to the potential increase in risk connected to the recognition of expected or realised losses which reduce capital.

Settlement risk

Settlement risk is the risk connected to non-simultaneous settlements, in other words for operations on debt instruments, equity instruments, foreign currencies and goods (apart from sales with repurchase clauses or operations for the granting and acceptance on loan of securities or goods that are not liquidated after expiry of the related delivery date). Article 378 of the CRR requires a bank to calculate its requirements in terms of own funds for settlement risk by calculating the price difference it would be exposed to if that difference could result in a loss. The difference between the agreed liquidation price and the current market value would determine the risk related to operations where settlement is not simultaneous with the actual delivery.

Counterparty risk

Counterparty risk is the risk that the counterparty in an operation defaults before the final payment of the cash flows of that operation, with regard to transactions concerning financial derivatives and credit instruments traded on unregulated markets (OTC), repurchase operations and operations with deferred settlement.

The losses involved with this type of risk are generated when the transactions with a certain counterparty have a positive value at the time of the insolvency.

Transfer risk

Transfer risk is the risk that a bank, which has exposure towards a party funded in a currency other than that of its main source of income, realises losses due to the borrower's difficulties in converting its currency into the currency of the exposure.

Sovereign risk

Sovereign risk is the risk of a reduction in the value of bonds of an issuer State, almost all of which are included in the Held to Collect and Sell (HTC&S) portfolio category, in relation to a decrease in the credit rating, or in an extreme scenario, the insolvency of the State. Exposure is regularly monitored and reported to the executive bodies.

Strategic and business risk

Strategic and business risk is the current or forward-looking risk of falling profits or capital resulting from changes to the operational context or from incorrect business decisions, the inadequate implementation of decisions, or lack of response to changes in the competitive environment.

The two components refer to strategic risk related to business interruption (for example entry on new markets or the adoption of significant operating changes) and business risk, which is the risk of a potential reduction in profits as a result of changes in the operational environment within the normal course of business (for example volatility of volumes or changes in customer preferences).

Exposure to strategic and business risk is not connected to specific operating activities but to the adequacy of the decisions and the efficiency of their implementation. In particular the risk relates to the stages of defining the business strategies and the related phases of implementation consisting of the definition of the strategic plan, commercial planning, budgeting, management control and the monitoring of markets and the competitive environment, capital allocation and capital management.

By defining, approving and monitoring the annual planning and progress of the Strategic Plan, top management carries out strategic checks on the evolution of the various areas of business and the risks connected to its activities. The Chief Risk Officer continually monitors and controls the level of exposure to risk, providing adequate reporting on a quarterly basis to company bodies and top management.

Compliance risk

Compliance risk is the risk of incurring legal or administrative penalties, major financial losses or damage to reputation as a result of breaches of mandatory laws (laws and regulations), or codes of self-governance (such as bylaws, codes of conduct etc.). The Group pays particular attention to compliance risk, considering that the adoption of the highest standard of conformity to laws and regulations is a way of maintaining its reputation over time.

Money laundering risk

Money laundering risk is the risk of incurring legal or reputation risks as a result of potential involvement in illegal operations connected to money laundering or the financing of terrorism. The Group has set up a specialised function within its organisational structure, in accordance with the current regulatory requirements that is responsible for overseeing, in a general perspective, the aforementioned management of AML risk, and for providing the necessary support and advice to business Divisions.

Reputation risk

Reputation risk is defined as “the current or forward-looking risk of a decline in profits or equity due to a negative perception of the Group’s image by customers, counterparties, the Group’s shareholders, investors or Regulators”. Likewise, reputation is an intangible asset of essential importance and is a distinctive feature which forms the basis for a long-term competitive advantage.
The risk relates primarily to the area of stakeholder relations. It can originate from factors outside of the business perimeter and beyond the bank’s operations (for example the publication of inaccurate information or rumours, or phenomena affecting the banking system that may affect all banks indiscriminately). The primary, essential control on the management of reputation risk is the sharing by all staff, suppliers, partners and consultants of the system of values, standards and rules of conduct inspiring all.
The Bank’s reputation is overseen by specific communication strategies, policies and processes and is continually monitored, for example through “sentiment analysis” instrument that identify how its image is perceived by the media, market operators and social media.

ESG RISKS

With the presentation of the 2021-2025 Strategic Plan, in June 2021, the illimity Group also communicated to the market its own results and commitments in terms of environmental, social and governance (ESG) sustainability.
Specifically, the Group established the following strategic ESG targets:

Environmental Topics:
- the maintenance of the Group's carbon neutrality (Scope 1 and Scope 2 emissions) and the measurement and addressing of the so-called “funded emissions” (Scope 3);
- the reactivation of renewable energy plants, exploiting the Energy Desk (Distressed Credit Division);
- the integration of ESG factors into credit assessment and the Risk Appetite Framework (RAF);

Social Topics:
- doubling the number of women in managerial roles;
- the maintenance of the balance between men and women in the formalised "talent pool" and a range of remuneration between men and women (gender pay gap) with a maximum deviation of 5%;
- maintaining the Group's employee engagement rate above 70%;
- the implementation of impact projects in the real estate sector, through the illimity foundation;

Corporate governance topics:
- the improvement of the Bank's ESG ratings;
- the integration of ESG objectives into incentive plans.

In order to achieve these strategic objectives in the ESG field, the Group's business, central and control structures were involved, to identify, organise and launch the operational projects and the actions necessary to achieve them, implementing a Group ESG Project Programme, which led to the identification of over 30 ESG Ambassadors (identified within the different Departments, responsible for developing specific ESG initiatives and promoting a culture of sustainability within their teams).
Sustainability issues are monitored, according to international best practices, by a board committee specifically set up in January 2020 and comprising three Board Directors. The CEO and Head of Communication & Stakeholder Engagement are permanent attendees of the committee meetings.
illimity’s Sustainability Board Committee is mainly tasked with assisting the Board of Directors, in giving advice, making assessments and taking decisions on sustainability issues. The Committee is assisted by the Communication & Stakeholder Engagement Function, and promotes a responsible, sustainable culture within the Group, establishing medium/long-term sustainability goals.
The Board of Directors approves the materiality matrix resulting from Stakeholder Engagement activities, as well as the Consolidated Non-Financial Statement, which represent and convey the Bank’s commitment, results and goals for improvement in terms of sustainability issues.
The Communication & Stakeholder Engagement Department monitors the Group’s sustainability activities and coordinates the process to monitor and report on these issues, working at all times with the Group’s various Functions and Divisions.
The entire ESG material and risk management applications, in particular with reference to climate-environmental risks, are characterised by a stage of continuous evolution, with a rich, progressive regulatory framework and with emerging risk assessment and measurement methods, not yet consolidated, which are affected by the lack of adequate internal and external data systems.
As already illustrated during reporting for 2020, in accordance with Legislative Decree 254/2016, for 2021 the Group has once again identified - via a process conducted by the CRO, with the support of the Communication & Shareholder Engagement Department - the main environmental, social and governance risk factors associated with each significant topic subject to reporting, connecting them to existing risk scenarios (for further details, please refer to the Non-Financial Statement, specifically the paragraph on “Risk management and ESG risks”, which lists the main ESG risk factors classified as generated or suffered, to which the illimity Group may be exposed).

Furthermore, the illimity Group acknowledges that climate change and environmental degradation give rise to structural changes that influence economic activity and, consequently, the financial system, as well as the risk profiles of individual intermediaries. Therefore, in this context the CRO concentrated mainly on the "E", or environmental, aspect in 2021.

The management of climate and environmental risks focuses on the following two types of risk:

- Physical risk indicates the impact of climate change, including more frequent extreme weather events and gradual changes in the climate, as well as environmental degradation, i.e. atmospheric, water and ground pollution, water stress, loss of biodiversity and deforestation. These can be classed as "acute" risks, if caused by extreme events such as drought, floods, cyclones, storms, heatwaves and forest fires; or as "chronic", if caused by gradual changes such as rising temperatures, rising sea levels, water stress, changes in atmospheric precipitation levels, loss of biodiversity and scarcity of resources. Such a risk can directly cause, for example, material damage or a drop in productivity, or can indirectly cause subsequent events such as the interruption of production and logistical chains.
- Transition risk indicates the financial loss that the Bank may incur, directly or indirectly, as a result of the process of adjusting to a low-carbon and more environmentally sustainable economy. This situation could be caused, for example, by the relatively unexpected adoption of climate and environmental policies, technological progress, or changes in market confidence and preferences. Such an impact may be direct, for example by means of lower income for companies or write-downs of assets, or indirect, through macro-financial changes.

Furthermore, physical and transition risks act as causal factors for other categories of risk, particularly with regard to credit, operational, market and liquidity risk, as well as risks not included in the first pillar, such as migration risk, credit spread risk for the banking portfolio, property risk and strategic risk.

The various instances of risk (and the ways in which they manifest) have therefore been mapped for the Group's various business lines, giving an assessment of their significance, predicting the main channels of transmission (connecting them to pre-existing risk categories) and providing an overall view of their impact on the Group's risk profile. In particular, for each risk factor, physical and transition, its possible impact on the Group's operations has been represented. For example:

- with regard to transition risk, the impact of an increase in carbon taxes and the macroeconomic impact of transition trends (technological developments, increased competition, over-funding);
- with regard to physical risk, the direct impact of climate events on real guarantees, on owned and repossessed property, and on operating activities carried out by employees; and the indirect impact on the creditworthiness of financial counterparties/issuers, and on the services provided by suppliers/partners.

Furthermore, the transmission mechanism with which the risk factor manifests has been represented (increased probability of default, increase in Loss Given Default, lower Internal Rate of Return, etc.), as has the connection to the pre-existing risk type involved (credit, business, operational, liquidity or market risk, etc.).

Secondly, once the way in which climate and environmental risks impact the Group's business had been mapped, the methods with which to measure them were identified.

Activities are under way aimed at methodological development and collection (including through external providers) of data useful for defining and implementing a set of management indicators in order to monitor the Group's ESG risk profile and, prospectively, estimate the different components of expected and unexpected loss connected with climate and environmental risks.

PART F – INFORMATION ON CONSOLIDATED SHAREHOLDERS' EQUITY

Section 1 - consolidated shareholders' equity

Qualitative information

Shareholders' equity is defined by the International accounting standards as "what remains of the company's assets after deducting all the liabilities". From a financial viewpoint, equity is the monetary amount of the funds contributed by the proprietors, or generated by the business.

B.1 Consolidated shareholders' equity: breakdown by type of enterprise

Items in shareholders' equity	Prudential consolidation	Insurance companies	Other companies	Eliminations and adjustments from consolidation	Total
1. Share capital	52,623	-	-	-	**52,623**
2. Share premium reserve	597,589	-	-	-	**597,589**
3. Reserves	63,906	-	-	-	**63,906**
4. Equity instruments	-	-	-	-	**-**
5. (Treasury shares)	(832)	-	-	-	**(832)**
6. Valuation reserves:	(6,057)	-	-	-	**(6,057)**
– Equities measured at fair value through other comprehensive income	5	-	-	-	**5**
– Hedging of equity instruments measured at fair value through other comprehensive income	-	-	-	-	**-**
– Financial assets (other than equity instruments) at fair value through other comprehensive income	(5,803)	-	-	-	**(5,803)**
– Property and equipment	-	-	-	-	**-**
– Intangible assets	-	-	-	-	**-**
– Hedging of foreign investments	-	-	-	-	**-**
– Cash flow hedges	-	-	-	-	**-**
– Hedging instruments [undesignated elements]	-	-	-	-	**-**
– Foreign exchange differences	-	-	-	-	**-**
– Non-current assets and asset groups held for sale	-	-	-	-	**-**
– Financial liabilities carried at fair value through profit or loss (changes in creditworthiness)	-	-	-	-	**-**
– Actuarial gains (losses) relating to defined benefit plans	(259)	-	-	-	**(259)**
– Shares of valuation reserves for equity investments measured at equity	-	-	-	-	**-**
– Special revaluation laws	-	-	-	-	**-**
7. Profit (loss) (+/-) for the financial year attributable to the Group and minority interests	65,591	-	-	-	**65,591**
Total	**722,820**	**-**	**-**	**-**	**722,820**

B.2 *Valuation reserves of the financial assets measured at fair value through comprehensive income: breakdown*

Assets/Values	Prudential consolidation		Insurance companies		Other companies		Eliminations and adjustments from consolidation		Total	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	757	(6,560)	-	-	-	-	-	-	757	(6,560)
2. Equity securities	5	-	-	-	-	-	-	-	5	-
3. Loans		-	-	-	-	-	-	-	-	-
Total 31/12/2021	**762**	**(6,560)**	**-**	**-**	**-**	**-**	**-**	**-**	**762**	**(6,560)**
Total 31/12/2020	**475**	**(590)**	**-**	**-**	**-**	**-**	**-**	**-**	**475**	**(590)**

B.3 *Valuation reserves of the financial assets measured at fair value through comprehensive income: annual changes*

	Debt securities	Equity securities	Loans
1. Opening balance	**(119)**	**4**	**-**
2. Positive changes	**5,334**	**1**	**-**
2.1 Increases in fair value	845	1	-
2.2 Write-downs/write-backs for credit risk	996	X	-
2.3 Transfer to income statement of negative reserves following disposal	194	X	-
2.4 Transfers to other items of shareholders' equity (equity instruments)	-	-	-
2.5 Other changes	3,299	-	-
3. Negative changes	**(11,019)**	**-**	**-**
3.1 Decreases in fair value	(10,081)	-	-
3.2 Write-backs for credit risk	(89)	-	-
3.3 Reclassification through profit or loss of positive reserves: following disposal	(357)	X	-
3.4 Transfers to other items of shareholders' equity (equity instruments)	-	-	-
3.5 Other changes	(492)	-	-
4. Closing balance	**(5,804)**	**5**	**-**

B.4 *Revaluation reserves on defined benefit plans: annual changes*

	31 December 2021
1. Opening balance	**(163)**
2. Positive changes	**35**
2.1 Increases in fair value Actuarial (Gains)/Losses	
2.2 Reclassification through profit or loss of negative reserves	
2.3 Other changes	35
3. Negative changes	**(131)**
3.1 Decreases in fair value Actuarial (Gains)/Losses	(131)
3.2 Reclassification through profit or loss of positive reserves	
3.3 Other changes	
4. Closing balance	**(259)**

Section 2 – Own funds and capital ratios

For information on own funds and capital adequacy, reference is made to the separate document Basel Pillar 3 - Public disclosure, 31 December 2021.

PART G – BUSINESS COMBINATIONS

Section 1 – Transactions completed during the year

1.1 Business combinations

During 2021, illimity finalised the acquisition of 100% of the share capital of Doria SPV S.r.l., Friuli SPV S.r.l., Pitti SPV S.r.l. and River SPV S.r.l., as well as 66.7% of the share capital of Aporti S.r.l. These transactions involved the recognition in the consolidated financial statements of goodwill amounting to EUR 33 thousand in total.

1.2 Transactions between subjects under common control

On 13 January 2021, the deed was signed by which Core, IT Auction and Mado were merged into neprix. The merger became effective on 1 February 2021. The accounting and fiscal effects of the Merger started from 1 January 2021. On 7 January 2021, the subsidiary ITA Gestione thus changed its company name to “NEPRIX AGENCY S.r.l” (“neprix Agency”). In addition, following the merger, neprix holds 100% of the shares in the company neprix Agency (formerly ITA Gestione), previously held by IT Auction.

This merger, classified as a business combination between entities under common control and therefore outside the scope of IFRS 3, has no effects on the consolidated financial statements as these companies were already controlled by the Group and included in the consolidated financial statements on a line-by-line basis.

Section 2 – Business combinations carried out after the balance sheet date

2.1 Business combinations

There were no business combinations governed by IFRS 3 after the end of 2021.

Section 3 – Retrospective adjustments

No retrospective adjustment was made during 2021 to business combinations taking place in previous years.

PART H – TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties are mainly governed by Article 2391-bis of the Italian civil code, according to which the executive bodies of companies resorting to the risk capital markets have to adopt rules, according to criteria indicated by CONSOB, which ensure "the transparency and material and procedural fairness of operations with related parties" carried out directly or through subsidiaries. The supervisory body is required to oversee compliance with the rules and reports on this, in its report to the meeting of shareholders.

In its decision of 12 March 2010, no. 17221, and in implementation of the authority contained in Article 2391-bis of the Italian civil code, CONSOB approved the "Regulation on related party transactions", which was then amended by Resolution no.17389 of 23 June 2010. This sets out the general principles that companies making recourse to the risk capital markets have to observe when setting rules designed to ensure transparency, and the material fairness and procedural fairness of related party transactions. In relation to this specific activity, companies are also subject to the provisions of Article 136 of the Banking Consolidation Act on the obligations of corporate officers.

Related party transactions as identified according to IAS 24 and the Consob Regulation issued in Decision no. 17221 as amended, for within the normal operations of the Bank and are settled at market conditions or on the basis of the costs incurred, if there are no suitable criteria.

In 2020 there were no minor or material related party transactions, which significantly affected the bank's capital or profit and loss.

In relation to CONSOB communication no. DEM/6064293 of 28 July 2006, operations or positions with related parties as classified in IAS 24 and the CONSOB Regulation have a limited impact on the financial situation and capital, profit and loss and cash flows of the Bank.

According to IAS 24, related parties are parties:

a) that directly or indirectly, through one or more intermediaries;
    i. control the entity, are controlled by it, or are under joint control (including controlling entities, subsidiaries and associates);
    ii. hold an investment in the entity of an extent that they may have considerable influence on the latter; or
    iii. jointly control the entity;
b) represent an associate of the entity;
c) represent a joint venture in which the entity participates;
d) are one of the key senior managers of the entity or its parent;
e) are a close family member of one of the parties in points (a) or (d);
f) are an entity controlled by, controlled jointly or subject to significant influence by one of the subjects in points (d) or (e), or those parties have directly or indirectly, a significant portion of voting rights; or
g) are a pension fund for employees of the entity or of any related entity.

On 12 December 2011 the Bank of Italy issued the IX update to Circular no. 263 of 27 December 2006 which introduced prudential supervisory requirements for banks. One of the requirements is a specific provision relating to risk and conflicts of interests regarding Connected Parties, a definition that includes related parties as defined by CONSOB but also parties connected to the same related parties as identified in the provisions; these requirements were modified by the Bank of Italy on 23 June 2020, merging said piece of regulation into Circular no. 285 (see 33rd update of 23 June 2020 Part Three, issued by the Bank of Italy on 23 June 2020, which added a new Chapter 11 "Risk assets and conflicts of interest with connected parties" to the said Circular no. 285). This update therefore supplements the Consob Regulation, in turn revised and updated by Consob with ruling no. 21624 of 10 December 2020, in order to implement Directive (EU) 2017/828 on shareholder rights (SHRD II).

The Bank's Board of Directors has approved the "Regulation for the management of transactions with entities covered by the Bank's Single Perimeter and of transactions" which defines the Group's internal policies on the control of risk activities and conflicts of interest with connected parties. That document is published on the bank's website in the section "*Corporate Governance*", in accordance with current regulations.

With regard to operations performed by the Bank with all its related parties, there have been no atypical or unusual operations.

Atypical and/or unusual operations are any operation that due to its materiality or significance, the nature of the counterparties, the object of the transaction, the method used to determine the transfer price and the timing (for example proximity to year-end) could give rise to doubts about the fairness or completeness of the information about the financial statements, a conflict of interest, about the safeguarding of company assets or the protection of minority shareholders.

1. Information on remuneration of key senior managers

The total remuneration and other benefits paid pertaining to the financial year to directors, statutory auditors and other key senior managers is EUR 9,523 thousand. As required by the new IAS 24, paragraph 17, further information has been provided about the following categories of remuneration for senior managers with strategic responsibilities and employees:

Category	Amount
a) short-term benefits	6,734
b) post-employment benefits	237
c) share-based payments	378
d) compensation of members of the Board of Directors and the Board of Statutory Auditors	2,174

2. Information on related party transactions

With regard to the financial relations, and remembering that key senior managers also include the directors and statutory auditors of the Bank and of the companies of the Group, the situation on the reporting date is that shown in the following table, expressed in thousands of euros.

In the reference year, no particularly important transactions with related parties took place. All such operations are carried out at market conditions in accordance with the relevant policy.

Under the terms of CONSOB Communication no. 6064293 of 28 July 2006, the effects on the consolidated financial statements of transactions with related parties as referred to in the table below, are highlighted in the relevant column.

STATEMENT OF FINANCIAL POSITION

Assets		Book value	of which with related parties	Impact of related parties
10.	**Cash and cash equivalents**	**507,779**	**1,632**	**0.32%**
	– To other related parties		1,632	
20.	**Financial assets measured at fair value through profit or loss**	**76,679**	**95**	**0.12%**
	c) other financial assets mandatorily measured at fair value	75,751	95	0.13%
	– To other related parties		95	
40.	**Financial assets measured at amortised cost**	**3,229,766**	**9,581**	**0.30%**
	b) receivables due from customers	2,961,797	9,581	0.32%
	– From subsidiaries		3,071	
	– From companies subject to significant influence		4,689	
	– From senior managers with strategic responsibilities		1,339	
70.	**Equity investments**	**79,953**	**79,953**	**100.00%**
	– From companies subject to significant influence		439	
	– From companies subject to joint control		79,514	
110.	**Non-current assets held for sale and discontinued operations**	**43,117**	**43,117**	**100.00%**
	– From subsidiaries		43,117	
120.	**Other assets**	**224,132**	**9,262**	**4.13%**
	– To other related parties		9,271	

STATEMENT OF FINANCIAL POSITION

Liabilities		Book value	of which with related parties	Impact of related parties
10.	**Amounts due to customers**	**3,752,384**	**65,436**	**1.74%**
	b) due to customers	2,841,282	65,436	2.30%
	To companies subject to significant influence		6,103	
	To senior managers with strategic responsibilities		3,496	
	To companies subject to joint control		54,642	
	To other related parties		1,195	
80.	**Other liabilities**	**105,595**	**5,049**	**4.78%**
	To senior managers with strategic responsibilities		2,595	
	To other related parties		2,454	
90.	**Employee severance pay**	**3,695**	**231**	**6.25%**
	To senior managers with strategic responsibilities		204	
	To other related parties		27	
100.	**Allowances for risks and charges**	**5,781**	**74**	**1.28%**
	a) commitments and guarantees given	4,482	74	1.65%
	To other related parties	4,482	74	1.65%
140.	**Reserves**	**63,904**	**1,057**	**1.65%**
	To senior managers with strategic responsibilities		1,055	
	To other related parties		2	

INCOME STATEMENT

	Items	Book value	of which with related parties	Impact of related parties
10.	**Interest income and similar income**	**194,288**	**13**	**0.01%**
20.	**Interest expenses and similar charges**	**(61,223)**	**(40)**	**0.07%**
160.	**Administrative expenses:**	**(157,719)**	**(18,053)**	**11.43%**
	a) personnel expenses	(73,563)	(9,523)	12.95%
	b) other administrative expenses	(84,156)	(8,530)	10.14%
170.	**Net allowances for risks and charges**	**(2,622)**	**-74**	**2.82%**
	a) commitments and guarantees given	(2,404)	-74	3.08%
200.	Other operating income/expenses	21,421	9,264	43.25%
250.	Profits (losses) on disposal of investments	8,344	2,278	27.30%
290.	Net income (Loss) (+/-) from discontinued operations after tax	253	470	N/A

PART I – SHARE-BASED PAYMENTS

Qualitative information

1. Description of payment agreements based on own equity instruments

As to the variable component, the Group Remuneration Policy provides that this can be serviced by:

- an "*Employee Stock Ownership Plan*" (ESOP), intended for all the employees of the Bank and/or of its subsidiaries, who have, either with the Company or with one of its direct or indirect subsidiaries (i) a permanent contract of employment, or (ii) a fixed-term contract in existence for at least 6 months with a residual term of at least 6 months compared to the award date of each annual cycle (the "Contract of Employment").
- a "*Long Term Incentive*" plan (LTI), for the Managing Director and other top management of illimity ("Beneficiaries"), identified as senior managers with strategic responsibilities.

Quantitative information

1. Annual changes

Items / Number of options and exercise prices	31 December 2021			31 December 2020		
	Number of options	Average exercise prices	Average expiration date	Number of options	Average exercise prices	Average expiration date
A. Opening balance	**1,771,199**	**7.23**	**30 April 2024**	**1,530,837**	**7.13**	**30 April 2024**
B. Increases			**X**			**X**
B.1 New issues	1,882,977	-	31 December 2024	335,836	7.60	30 April 2024
B.2 Other changes			X			X
C. Decreases			**X**			**X**
C.1 Derecognised	(1,771,199)	7.23	30 April 2024	(95,474)	6.94	30 April 2024
C.2 Exercised	-	-	X	-	-	X
C.3 Past-due	-	-	X	-	-	X
C.4 Other changes	-	-	X	-	-	X
D. Closing balance	**1,882,977**	**-**	**31 December 2024**	**1,771,199**	**7.23**	**30 April 2024**
E. Options exercised as of the end of the financial year	**-**	**-**	**X**	**-**	**-**	**X**

2. Other information

"Employee Stock Option Plan" (hereinafter also "ESOP")

The ESOP provides for the free allocation of up to 700,000 Ordinary Shares, which will be issued in execution of the decision article 2443 of the Italian civil code for the free increase of share capital, Article 2349, paragraph 1, of the Italian civil code up to a maximum of EUR 498,890, authorised by the Meeting on 18 January 2019. The Ordinary Shares will be allocated in five annual cycles.

The ESOP is intended for all the employees of the Bank and/or of its subsidiaries, who have, either with the Company or with one of its direct or indirect subsidiaries (i) a permanent contract of employment, or (ii) a fixed term contract in existence for at least 6 months with a residual term of at least 6 months compared to the award date of each annual cycle (the "Contract of Employment").

As decided by the Meeting on 18 January 2019, the body currently responsible for implementing and managing the ESOP is the Bank's Board of Directors which on 18 January 2019 approved the "*Employee Stock Ownership Plan* Regulation", without affecting the characteristics of the Plan which is examined and approved by the Meeting (the "ESOP Regulation").

The beneficiaries' entitlement to the Ordinary Shares is subject to the following conditions being met:
- admission for trading on the MTA of the Ordinary Shares and Conditional Share Rights;
- the continuation of the employment relationship between the beneficiary and the Bank and/or its subsidiary on the allocation date of the Ordinary Shares;
- the maintenance of certain capital and liquidity requirements (so-called *gates*), in line with the applicable laws and regulations on the date of allocation of the Ordinary Shares.

The fulfilment of these conditions for the purposes of awarding the Ordinary Shares will be verified by the Board of Directors and/or the body or persons authorised for that purpose by the Board itself.

The ESOP Regulation requires that the Ordinary Shares be held in a restricted account for each employee, for at least three years. The Ordinary Shares will become available to the employee on conclusion of the three-year restriction period.

Each allocation is related to performance conditions relative to the financial statements of the previous year being attained at the allocation date. Therefore, each annual assignment will be independently recognised at the specific grant date. The SOP plan was classified, in accordance with IFRS 2, as *equity-settled*, because the benefits are not cash settled.

During 2021, as part of the ESOP, 120,515 illimity shares were assigned to Group employees.

"Long Term Incentive Plan" (hereinafter also "LTIP")

On 15 December 2021, the illimity Bank S.p.A. Ordinary Shareholders' Meeting, on the premise that remuneration represents one of the most important factors for attracting and retaining individuals with the professional expertise and skills appropriate to the company's medium- and long-term needs, approved a *Long Term Incentive Plan* ("LTIP", "the Plan") for the 2021-2025 period, associated with the economic, financial and ESG targets set out in the new Strategic Plan.

This LTI Plan replaces:
- the "Stock Option Plan" ("SOP") whose adoption was resolved upon on 18 January 2019 by the Shareholders' Meeting, reserved for a select number of employees of illimity and of companies directly and/or indirectly controlled by illimity; and
- the 2020-2023 Long Term Incentive Plan reserved for the Chief Executive Officer and the rest of illimity's Top Management, whose adoption was resolved upon on 22 April 2020 by the Shareholders' Meeting.

The new LTI Plan aims to ensure that the time horizon of the long-term incentive plan for key resources of the Bank is aligned with that of the 2021-25 Strategic Plan presented on 22 June; to ensure strict alignment between the interests of the Bank, its shareholders and the beneficiaries of the LTI Plan, by incentivising commitment to achieving the Strategic Plan goals; and to support the achievement of ESG (Environmental, Social & Governance) targets in addition to economic and financial targets, in accordance with the overall framework of the aforementioned Strategic Plan. The Extraordinary Shareholders' Meeting approved, by a majority of 98%, the capital increase intended to finance the new LTI Plan for a nominal maximum amount of EUR 1,323,663.96, through the issue of a maximum of 2,031,094 new ordinary shares in illimity.

PART L – SEGMENT REPORTING

illimity Group operating segments

For segment reporting purposes, as provided for by IFRS 8, the identification of operating segments is consistent with the business activities of the segments, the organisational structure of the Group and internal reporting used by *management* to periodically review results and allocate resources.

Please refer to the report on operations for further details of the Group's organisational structure and the *mission* of the Divisions, the operating segments identified and the criteria for producing the Reclassified Financial Statements.

Financial data broken down by operating segment

	Distressed Credit	Growth Credit	Direct Banking	SGR	Corporate Center (*)	Consolidated
Economic performance						
Total net operating income	198.5	54.5	15.3	1.8	1.1	271.2
Operating expenses	-68.3	-22.3	-19.7	-2.8	-47.5	-160.6
Operating profit (loss)	130.2	32.2	-4.4	-1	-46.4	110.6
Gross Profit	111.6	32.6	-13.4	-1	-49	80.8
Other financial data						
Financial instruments mandatorily measured at fair value	62.5	14.1	-	0.1	-	76.7
Loans to customers	1,041.3	1,465.9	2.7	-	-	2,509.9
Securities at amortised cost	217.8	34.3	-	-	-	252.1
Property and Equipment	48.3	-	-	-	20.4	68.7
Amounts due to customers and securities issued	-	-	1,832.1	-	1,509.0	3,341.1
RWAs	**2,020.1**	**1,016.8**	**60.7**	**2.9**	**311.0**	**3,411.5**

(*) Intersector eliminations are carried out at the Corporate Center.

Information on geographical areas

The illimity Group mainly operates in Italy.

PART M – LEASE REPORTING

Section 1 – Lessee

Qualitative information

Contracts of the Group may be classified in the two following categories:

1) Rental of business and personal use properties;
2) Long-term rental of cars.

As of 31 December 2021, there were 120 leasing contracts, of which 28 related to real estate *leasing*, with a total value of rights of use of EUR 18.1 million, of which 92 related to cars, with a total value of rights of use of EUR 1.2 million.

Real estate leasing contracts include rental fees for buildings intended for instrumental use, such as offices and for personal use. Contracts, as a rule, have a duration of greater than 12 months, and typically have renewal and termination options that can be exercised by the lessor and the lessee according to the rules of law or specific contractual provisions.

Contracts relating to other *leases* relate to cars. These are long-term rental contracts available to employees. Generally, these contracts have a four-year duration, with monthly payments, without the option of renewal and do not include the option of purchasing the asset.

Sub lease transactions are of an amount attributable to properties intended for residential use.

As previously specified in the accounting policies, the scope of application of the Standard excludes contracts that have terms of less than 12 months or that refer to leased assets with low unit values when new.

Quantitative information

The following table provides a summary of the components of the Statement of Financial Position relating to *leasing* contracts; for further information, see Part B of the Explanatory Notes:

CONTRACT TYPE	Right of use	Lease Liability
Property rental fees	18,126	21,878
Long Term Rental Cars	1,195	1,232
Total	**19,322**	**23,110**

The following table shows a summary of the components of the Income Statement relating to leasing contracts; for further information refer to the contents of Part C of the Explanatory Notes:

CONTRACT TYPE	Interest expenses	Net write-downs/ write-backs on property and equipment
Property rental fees	1,448	1,765
Long Term Rental Cars	42	588
Total	**1,490**	**2,353**

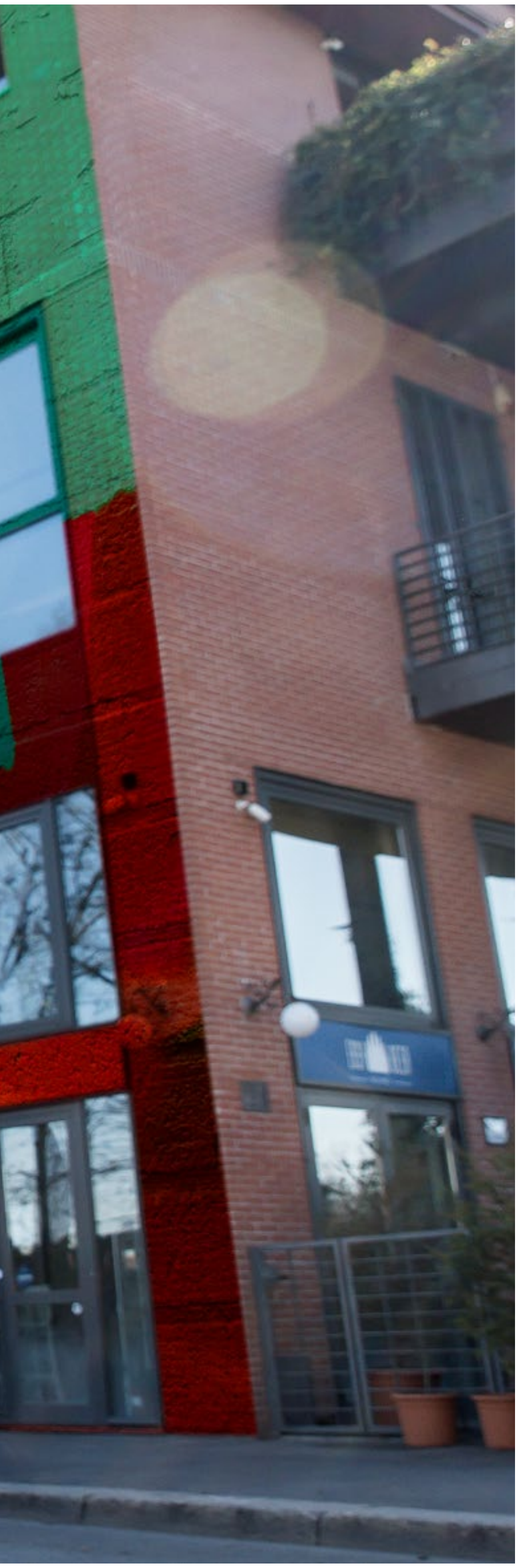
As of 31 December 2021 there were no material amounts relating to lease commitments not yet entered into.

Section 2 – Lessor

Qualitative information

As of the reporting date, the Group had no *leasing* in the role of lessor with third parties.

Frame the image using the Aria App to watch the "Agency" video



Certification of the Consolidated Financial Statements

pursuant to Article 154-bis of Legislative Decree 58/1998

Certification of the Consolidated Financial Statements pursuant to Article 154-bis of Legislative Decree 58/1998

1. The undersigned Corrado Passera, as CEO, and Sergio Fagioli, as Financial Reporting Officer of illimity Bank certify, also considering Article 154-bis, paragraphs 3 and 4, of Italian Legislative Decree no. 58 of 24 February 1998:

- the adequacy in relation to the characteristics of the enterprise and
- the effective application of the administrative and accounting procedures used to draft the consolidated financial statements during financial year 2021.

2. The adequacy of the administrative and accounting procedures used in the formation of the consolidated financial statements as of 31 December 2021 is checked according to the "*Internal Control – Integrated Framework*" (CoSO) and the "*Control Objective for IT and related Technologies*" (Cobit), which are the benchmarks for the internal control system applicable to financial reporting and generally accepted at international level.

3. We can also certify that:

3.1 the consolidated financial statements:

a) were drafted in conformity with the applicable international accounting standards endorsed by the European Community under the terms of Regulation (EC) 1606/2002 of the European Parliament and Council, of 19 July 2002;
b) correspond to the accounting records;
c) provide a true and fair view of the financial position, performance and cash flows of the issuer.

3.2 The report on operations includes a reliable analysis of the progress and results of operations as well as the issuer's situation, together with a description of the key risks and uncertainties the issuer is exposed to.

Milan, 10 March 2022

Signature of the Chief Executive Officer
Corrado Passera
Signed

Signature of the Financial Reporting Officer
Sergio Fagioli
Signed

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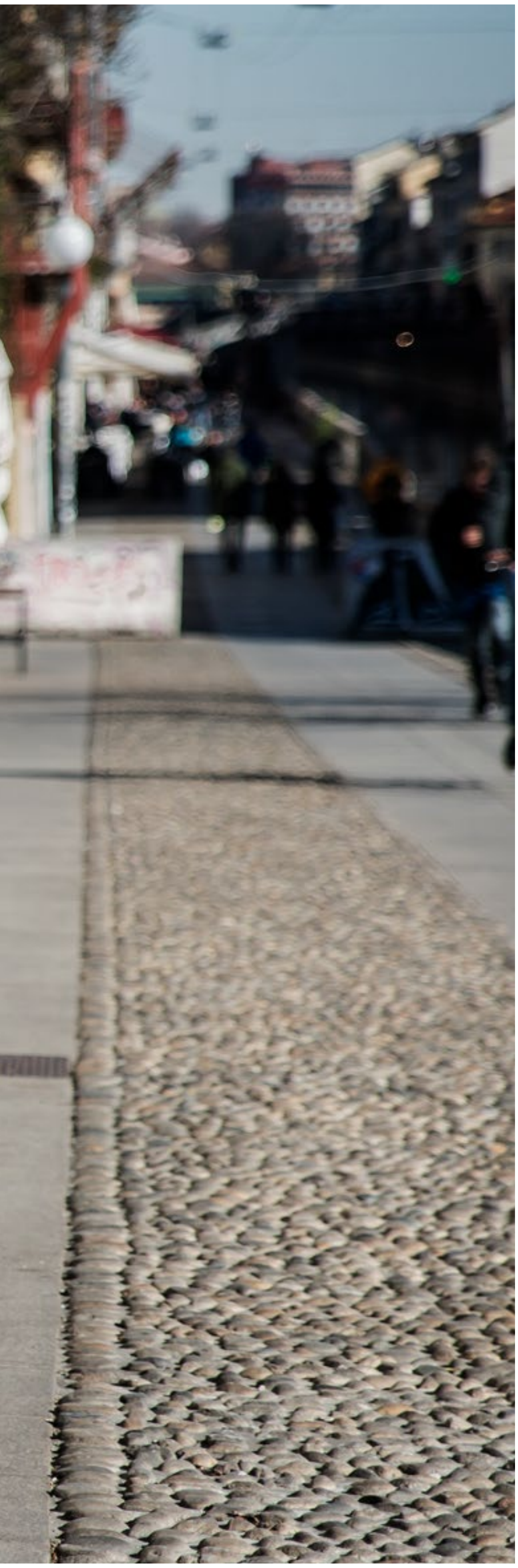
“Administration & Accounting” video



Independent Auditors' Report

illimity

KPMG S.p.A.
Revisione e organizzazione contabile
Via Vittor Pisani, 25
20124 MILANO MI
Telefono +39 02 6763.1
Email it-fmauditaly@kpmg.it
PEC kpmgspa@pec.kpmg.it

(The accompanying translated consolidated financial statements of the illimity Bank Group constitute a non-official version which is not compliant with the provisions of the Commission Delegated Regulation (EU) 2019/815. This independent auditors' report has been translated into English solely for the convenience of international readers. Accordingly, only the original Italian version is authoritative.)

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014

To the shareholders of
illimity Bank S.p.A.

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of the illimity Bank Group (the "group"), which comprise the statement of financial position as at 31 December 2021, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the illimity Bank Group as at 31 December 2021 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 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 "*Auditors' responsibilities for the audit of the consolidated financial statements*" section of our report. We are independent of illimity Bank S.p.A. (the "parent") in accordance with the ethics and independence rules and standards applicable in Italy to audits 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 judgement, were of most significance in the audit of the consolidated financial statements of the current year. 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.

Classification and measurement of loans and receivables with customers recognised under financial assets at amortised cost

Notes to the consolidated financial statements "Part A - Accounting policies": paragraph "Financial assets measured at amortised cost" and paragraph "Other information - Purchased or originated credit-impaired financial assets (POCI)"

Notes to the consolidated financial statements "Part B - Information on the consolidated statement of financial position": section 4 "Financial assets measured at amortised cost - Item 40"

Notes to the consolidated financial statements "Part C - Information on the consolidated income statement": section 8 "Net losses/recoveries for credit risk - Item 130"

Notes to the consolidated financial statements "Part E - Information on risks and related hedging policies": paragraph 1.1 "Credit risk"

Key audit matter	**Audit procedures addressing the key audit matter**
Loans and receivables with customers recognised under financial assets at amortised cost totalled €2,961.8 million at 31 December 2021, accounting for 63.5% of total assets. These loans and receivables include purchased or originated credit-impaired financial assets of €1,058.4 million. Net impairment gains on loans and receivables with customers recognised during the year totalled €43.6 million. For classification purposes, the directors make analyses that are sometimes complex in order to identify those positions that show evidence of impairment after disbursement or purchase. To this end, they consider both internal information about the performance of exposures and external information about the reference sector and borrowers' overall exposure to banks. Measuring loans and receivables with customers is a complex activity, with a high degree of uncertainty and subjectivity, with respect to which the directors apply internal valuation models that consider many quantitative and qualitative factors, including historical collection flows, expected cash flows and related estimated collection dates, the business plans and related regular	Our audit procedures included: — gaining an understanding of the parent's and group companies' processes and IT environments in relation to the disbursement, monitoring, classification and measurement of loans and receivables with customers; — assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls, especially in relation to the identification of exposures with indicators of impairment and the calculation of impairment losses; — analysing the classification criteria used for allocating loans and receivables with customers to the IFRS 9 categories (staging); — analysing the individual and collective impairment assessment policies and models used and checking the reasonableness of the main assumptions and variables included therein, as well as the adjustments made as a result of the effects of the Covid-19 pandemic. We carried out

2

Key audit matter	Audit procedures addressing the key audit matter
updates, the existence of any indicators of impairment, an assessment of any guarantees and the impact of macroeconomic variables and risks of the sectors in which the parent's and group companies' customers operate. The complexity of the directors' estimation process has increased in 2021 due to the Covid-19 emergency which has severely affected current economic conditions and potential future macroeconomic scenarios, requiring an adjustment to the valuation processes and methods. For the above reasons, we believe that the classification and measurement of loans and receivables with customers recognised under financial assets at amortised cost are a key audit matter.	these procedures with the assistance of experts of the KPMG network; — selecting a sample of exposures tested collectively, checking the application of the measurement models applied and checking that the impairment rates applied complied with those provided for in such models; — selecting a sample of exposures tested individually and checking the reasonableness of the indicators of impairment identified and of the assumptions about their recoverability, including considering the guarantees received; — assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls in relation to the regular updating of the business plans on which basis the POCI exposures are measured; — for a meaningful sample of POCI exposures, checking the underlying business plans and the cash flow backtesting by tracing the business plan figures to the actual collections; — analysing the significant changes in the categories of loans and receivables with customers and in the related impairment rates compared to the previous years' figures and discussing the results with the relevant internal departments; — assessing the appropriateness of the disclosures about loans and receivables with customers recognised under financial assets at amortised cost, also in the light of the increased disclosure requirements currently applicable as a result of the Covid-19 pandemic.

Measurement of goodwill

Notes to the consolidated financial statements "Part A - Accounting policies": paragraph "Intangible assets"

Notes to the consolidated financial statements "Part B - Information on the consolidated statement of financial position": section 10 "Intangible assets - Item 100"

Key audit matter	Audit procedures addressing the key audit matter
The group recognised goodwill of €36.3 million. As disclosed in the notes, in accordance with IFRS 3, the directors allocated goodwill to the cash-generating units ("CGUs") they identified. The directors tested the reporting-date carrying amount of goodwill for impairment by comparing the carrying amount of the CGUs to which goodwill is allocated to their recoverable amount. They estimated the recoverable amount based on value in use calculated using the discounted cash flow model. Testing goodwill for impairment requires complex valuations and a high level of judgement, especially in relation to: — the CGUs' expected cash flows, calculated by taking into account historical cash flows, the general economic performance and that of group's sector and the directors' forecasts about its future performance; — the financial parameters to be used to discount the cash flows. The complexity of the directors' estimation process has increased in 2021 due to the Covid-19 emergency which has severely affected current economic conditions and potential future macroeconomic scenarios. For the above reasons, we believe that the measurement of goodwill is a key audit matter.	Our audit procedures included: — understanding the process adopted to prepare the impairment tests approved by the parent's directors; — gaining an understanding of the process used to draft the group's long-term plan approved by the parent's directors; — analysing the criteria used to identify the CGUs and tracing the carrying amounts of the assets and liabilities allocated thereto to the consolidated financial statements; — assessing the key assumptions used by the parent's directors to determine the CGUs' value in use. Our assessment included checking the consistency of the method adopted with that used in the previous year and comparing the key assumptions used to external information, where available, also in the light of the financial effects of the Covid-19 pandemic. We carried out these procedures with the assistance of experts of the KPMG network. — checking the sensitivity analysis presented in the notes in relation to the key assumptions used for impairment testing; — assessing the appropriateness of the disclosures about goodwill and the related impairment test, also in the light of the increased disclosure requirements currently applicable as a result of the Covid-19 pandemic.

Recoverability of the investment a joint venture

Notes to the consolidated financial statements "Part A – Accounting policies": paragraph "Equity investments"

Notes to the consolidated financial statements "Part B - Information on the consolidated statement of financial position": section 7 "Equity investments - Item 70"

Key audit matter	**Audit procedures addressing the key audit matter**
The consolidated financial statements at 31 December 2021 include an investment in a joint venture of €79.5 million. The parent acquired this investment in Hype S.p.A. during 2021. The parent's directors measured such equity investment using the equity method and, if there are indicators of impairment, it is tested for impairment, by discounting the cash flows that are expected to be generated by the joint venture using the dividend discount model to calculate its recoverable amount. Testing the equity investment for impairment requires complex valuations and a high level of judgement, especially in relation to: — the investee's expected cash flows, calculated by taking into account historical cash flows, the general economic performance and that of investee's sector and the directors' forecasts about its future performance; — the financial parameters to be used to discount the cash flows. The complexity of the directors' estimation process has increased in 2021 due to the Covid-19 emergency which has severely affected current economic conditions and potential future macroeconomic scenarios. Considering the materiality of the financial statements caption and the high level of estimate required to measure the equity investment's recoverable amount, we believe that the recoverability of the carrying amount of investment in the joint venture is a key audit matter.	Our audit procedures included: — understanding the process adopted to prepare the impairment tests approved by the parent's directors; — analysing the reasonableness of the key assumptions used by the parent's directors to determine the recoverable amount of the investment in the joint venture and the related forecast cash flows, as well as the assumptions used by the expert engaged by the parent to prepare the impairment test. We carried out these procedures with the assistance of experts of the KPMG network; — assessing the appropriateness of the disclosures provided in the notes about the measurement of the investments in the joint venture.

Responsibilities of the parent's directors and board of statutory auditors ("Collegio Sindacale") for the consolidated financial statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and article 43 of Legislative decree no. 136/15 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the group's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the consolidated financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the parent or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the group's financial reporting process.

Auditors' 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 auditors' 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 judgement and maintain professional scepticism throughout the audit.

We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain 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;
- obtain 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;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report.

However, future events or conditions may cause the group to cease to continue as a going concern;

- evaluate 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;
- obtain 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 communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, 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 also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 17 December 2018, the parent's shareholders appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2018 to 31 December 2026.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the parent in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed herein is consistent with the additional report to the *Collegio Sindacale*, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion on the compliance with the provisions of Commission Delegated Regulation (EU) 2019/815

The parent's directors are responsible for the application of the provisions of Commission Delegated Regulation (EU) 2019/815 with regard to regulatory technical standards on the specification of a single electronic reporting format (ESEF) to the consolidated financial statements to be included in the annual financial report.

We have performed the procedures required by Standard on Auditing (SA Italia) 700B in order to express an opinion on the compliance of the consolidated financial statements with Commission Delegated Regulation (EU) 2019/815.

In our opinion, the consolidated financial statements have been prepared in XHTML format and have been marked up, in all material respects, in compliance with the provisions of Commission Delegated Regulation (EU) 2019/815.

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98

The parent's directors are responsible for the preparation of the group's directors' report and report on corporate governance and ownership structure at 31 December 2021 and for the consistency of such reports with the related consolidated financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report and the specific information presented in the report on corporate governance and ownership structure indicated by article 123-bis.4 of Legislative decree no. 58/98 with the group's consolidated financial statements at 31 December 2021 and their compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report and the specific information presented in the report on corporate governance and ownership structure referred to above are consistent with the group's consolidated financial statements at 31 December 2021 and have been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Statement pursuant to article 4 of the Consob regulation implementing Legislative decree no. 254/16

The directors of illimity Bank S.p.A. are responsible for the preparation of a non-financial statement pursuant to Legislative decree no. 254/16. We have checked that the directors had approved such non-financial statement. In accordance with article 3.10 of Legislative decree no. 254/16, we attested the compliance of the non-financial statement separately.

Milan, 25 March 2022

KPMG S.p.A.

(signed on the original)

Alberto Andreini
Director of Audit

Annex 1 – Reconciliation between the reclassified statement of financial position and income statement and financial statements

Below are the reconciliation schemes used for the preparation of the reclassified statement of financial position and income statement. Any discrepancies between the figures presented are due solely to rounding.

Reclassified Consolidated Statement of Financial Position

Assets	Values as of 31/12/2021
Property portfolio - Securities at FV	**300,436**
Item 20. a) Financial assets held for trading	928
Item 30. Financial assets measured at fair value through other comprehensive income	299,508
To be deducted:	
Loans to customers - HTCS	-
Loans to customers - HTCS	**-**
Financial instruments mandatorily measured at fair value	**75,751**
Item 20. c) Other financial instruments mandatorily measured at fair value	75,751
To be deducted:	
Loans mandatorily measured at fair value	-
Financial instruments mandatorily measured at fair value	**-**
Due from banks	**267,969**
Item 40. a) Due from banks	267,969
Loans to financial entities	**199,857**
Loans to financial entities	*199,857*
Loans to customers - HTC	**2,509,884**
Item 40. b) Loans to customers	2,961,797
To be deducted:	
Loans to financial entities	*(199,857)*
Loans to customers - Securities	*(252,056)*
Securities at amortised cost - Growth Credit	**34,266**
Item 40. b) Loans to customers	2,961,797
To be deducted:	
Loans to customers	*(2,509,884)*
Loans to financial entities	*(199,857)*
Distressed Credit Business securities	*(217,790)*
Securities at amortised cost – Distressed Credit	**217,790**
Item 40. b) Loans to customers	2,961,797
To be deducted:	
Loans to customers	*(2,509,884)*
Loans to financial entities	*(199,857)*
Business Growth Credit securities	*(34,266)*
Investments in equity	**79,953**
Item 70. Equity investments	79,953
Property and equipment and intangible assets	**153,984**
Item 90. Property and equipment	68,735
Item 100. Intangible assets	85,249

Assets	Values as of 31/12/2021
Tax assets	**45,672**
Item 110. Tax assets	45,672
Other assets	**775,028**
Item 10. Cash and cash equivalents	507,779
Item 120. Non-current assets held for sale and discontinued operations	43,117
Item 130. Other assets	224,132
Total assets	**4,660,590**

Liabilities and shareholders' equity	Values as of 31/12/2021
Due to banks	**411,314**
Item 10. a) Due to banks	411,314
Amounts due to customers	**2,818,146**
Item 10. b) Due to customers	2,841,282
To be deducted:	
Lease Liability (IFRS 16)	*(23,136)*
Securities issued	499,788
Item 10. c) Securities issued	499,788
Financial liabilities in own portfolio - instruments at FV	**59**
Item 20. Financial liabilities held for trading	59
Tax liabilities	**20,256**
Item 60. Tax liabilities	20,256
Other liabilities	**138,207**
Item 80. Other Liabilities	105,595
Increase:	
Lease Liability (IFRS 16)	*23,136*
Item 90. Employee severance pay	3,695
Item 100. Allowances for risks and charges	5,781
Shareholders' equity	**772,820**
Capital and reserves	
Item 120. Valuation reserves	(6,057)
Item 150. Reserves	63,904
Item 160. Share premium reserves	597,589
Item 170. Share capital	52,620
Item 180. Treasury shares (-)	(832)
Item 190. Equity attributable to minority interests (+/-)	5
Item 200. Profit (loss) for the period	65,591
Total liabilities and shareholders' equity	**4,660,590**

Reclassified consolidated income statement

Income Statement items	Values as of 31/12/2021
Net interest margin	**133,133**
Item 10. Interest income and similar income	194,288
Reclassification from Profit (Loss) from discontinued operations	470
Item 140. Profits/losses on changes in contracts without derecognition	196
Item 20. Interest expenses and similar charges	(61,223)
Reclassification of Raisin operating components	(2,088)
To be deducted:	
IFRS 16 interest expenses	1,490
Net fee and commission income	**35,556**
Item 40. Fee and commission income	40,283
Item 50. Fee and commission expense	(5,708)
Reclassification of fee and commission expense HFS	(121)
To be deducted:	
Raisin operating components	1,102
Gains/losses on financial assets and liabilities	**18,594**
Item 80. Profits (losses) on trading	3,167
Item 100. Profits (losses) from disposal or repurchase	5,393
Item 110. Profits (losses) on other financial assets and liabilities measured at fair value through profit or loss	10,034
Net write-downs/write-backs on closed positions	**63,459**
of which: Net write-downs/write-backs on closed positions - Clients - POCI	57,393
Reclassification from item 280. Profits (losses) on disposal of investments	6,066
Other profits (losses) from the disposal of investments	**2,278**
Item 280. Profits (losses) on disposal of investments	8,344
To be deducted:	
Reclassification to Net write-downs/write-backs on closed positions	(6,066)
Other operating expenses and income	**18,164**
Item 230. Other operating income/expenses	21,421
To be deducted:	
Reclassification of recovery of other operating expenses/income to Other administrative expenses	(3,257)
Total net operating income	271,184
Personnel expenses	**(73,685)**
Item 190. Administrative expenses: a) Personnel expenses	(73,563)
To be deducted:	
Reclassification of HR expenses from other administrative expenses	(122)
Other administrative expenses	**(76,192)**
Item 190. Administrative expenses: b) Other administrative expenses	(84,156)
Reclassification of IFRS 16 interest expenses	(1,490)
Reclassification of HR expenses to personnel expenses	122
Reclassification of recovery of other operating expenses/income to Other administrative expenses	3,257
Raisin operating components	986
Reclassification of contributions and other non-recurring expenses	5,089

Income Statement items	Values as of 31/12/2021
Net adjustments/recoveries on property and equipment and intangible assets	**(10,732)**
Item 210. Net adjustments/recoveries on property and equipment	(3,132)
Item 220. Net adjustments/recoveries on intangible assets	(7,600)
Operating expenses	**(160,609)**
Operating profit (loss)	**110,575**
Net losses/recoveries for credit risk - HTC Banks	**(92)**
Net losses/recoveries for credit risk - HTC Financial entities	**(159)**
Net losses/recoveries for credit risk - HTC Clients	**(12,776)**
Item 130. Losses/recoveries for credit risk associated with: a) financial assets measured at amortised cost	43,505
Reclassification of Net write-downs/write-backs on closed positions - HTC&S Clients - POCI to item 130b	*536*
Reclassification of Net write-downs/write-backs on closed positions - HTC Clients - POCI off-balance to item 200	*325*
To be deducted:	
Net losses/recoveries for credit risk - HTC Banks	*92*
Net losses/recoveries for credit risk - HTC Financial entities	*159*
Net write-downs/write-backs on closed positions – Clients – POCI	*(57,393)*
Net losses/recoveries for credit risk - HTCS	**(906)**
Item 130. Losses/recoveries for credit risk associated with: b) financial assets measured at fair value through other comprehensive income	(370)
To be deducted:	
Net write-downs/write-backs on closed positions - HTC&S Clients - POCI	*(536)*
Net losses/recoveries for commitments and guarantees	**(2,729)**
Item 200. Net allowances for risks and charges: a) commitments and guarantees given	(2,404)
To be deducted:	
Net write-downs/write-backs on closed positions - HTC Clients - POCI off-balance	*(325)*
Total net losses/recoveries	**(16,662)**
Other net provisions	**(218)**
Item 200. Net allowances for risks and charges: b) other net provisions	(218)
Other income (expenses) on investments	**(7,758)**
Item 250. Profits (losses) on equity investments	(7,758)
Contributions and other non-recurring expenses	**(5,089)**
of which: Contributions and other non-recurring expenses	*(5,089)*
Profit (loss) from operations before taxes	**80,848**
Income tax for the period on continuing operations	**(15,257)**
Item 300. Income tax for the period on continuing operations	(15,161)
Reclassification from Profit (Loss) from discontinued operations	*(96)*
Net income (Loss) (+/-) from discontinued operations after tax	**-**
Item 320. Net income (Loss) (+/-) from discontinued operations after tax	253
To be deducted:	
Interest income and similar income	*(470)*
Fee and commission expense HFS	*121*
Income tax for the period on discontinued operations	*96*
Profit (loss) for the year	**65,591**

Annex 2 – Fees for audit and non-audit services pursuant to Article 149-duodecies of Consob Regulation no. 11971

Pursuant to the provisions of Article 149 duodecies of Consob Issuers' Regulation, the following table lists information regarding the payments disbursed to Independent Auditors KPMG S.p.A. and coming from companies belonging to the same network. The amounts reported below are net of VAT, Operating Costs and ISTAT Adjustment:

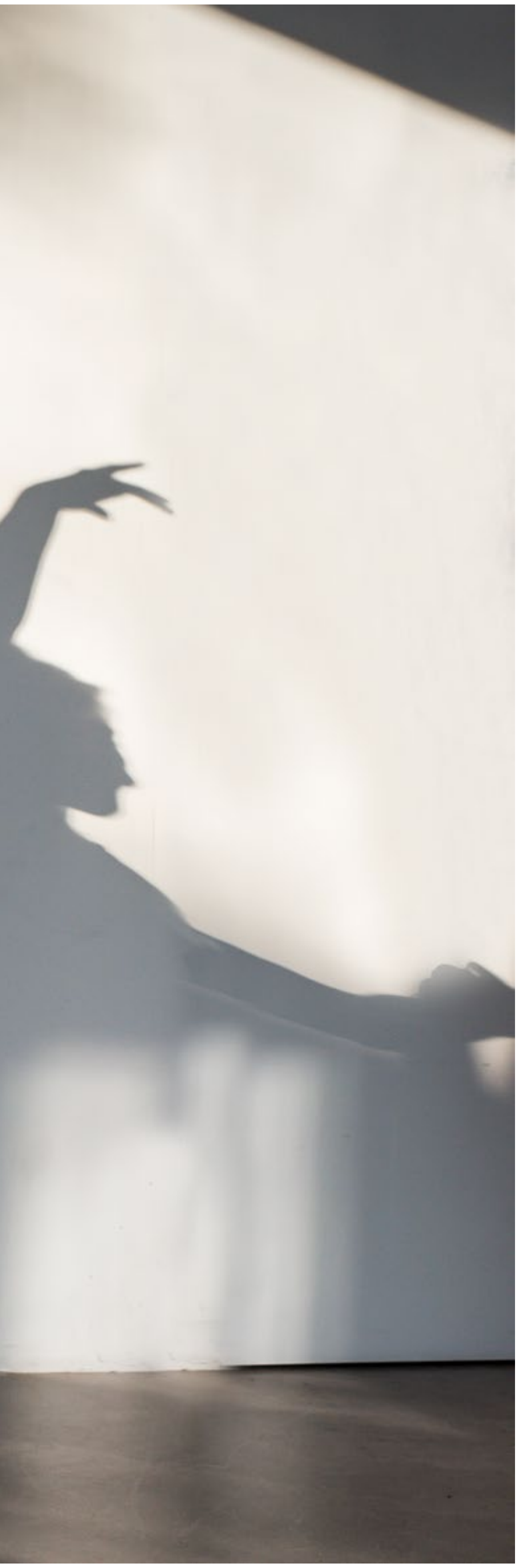
Type of service	Service provider	Sums due	
		illimity Bank S.p.A.	Group Companies
Accounting Audit	KPMG S.p.A.	305,000	270,100
Certification services	KPMG S.p.A.	276,000	10,000
Other services	KPMG S.p.A.	45,000	-
Total		**626,000**	**280,100**

Frame the image using the Aria App to watch the "Commercial Network" video

Annual Report and Financial Statements for illimity Bank

illimity

Frame the image using the Aria App to watch the
“Portfolio & Asset Optimization” video



Report on Individual Operations

as of 31 December 2021

illimity

This Report on Operations illustrates the performance and the related data and results of illimity Bank S.p.A. ("illimity" or the "Bank").

Alternative performance measures as of 31 December 2021

The main indicators of the Bank are presented below.

The figures presented, although not covered by IFRS/IAS, are provided in compliance with indications in CONSOB Communication No. 6064293 of 28 July 2006 and the ESMA Recommendation on alternative performance measures.

(amounts in thousands of euros)

PERFORMANCE MEASURES	31 December 2021	31 December 2020	Chg.	Chg. (%)
Total net operating income	203,359	140,159	63,200	45%
Operating expenses	(117,172)	(96,516)	(20,656)	21%
Operating profit (loss)	86,187	43,643	42,544	97%
Total net losses/recoveries	2,175	1,734	441	25%
Profit (loss) from operations before taxes	82,784	42,054	40,730	97%
Profit (loss) for the year	69,123	32,561	36,562	>100%

STRUCTURAL RATIOS	31 December 2021	31 December 2020
Shareholders' equity/Total Liability	16.3%	14.0%
Interbank Funding/Total Funding	10.6%	15.0%
Liquidity coverage ratio	>100%	>500%
Net Stable Funding Ratio	>110%	>120%
Net loans with customers/Total assets	62.0%	55.5%
Direct customer funding/Total Liability	72.6%	71.5%

CAPITAL RATIOS	31 December 2021	31 December 2020
Tier I capital ratio (Tier I capital/Total weighted assets)	19.32%	18.33%
Total capital ratio [(Tier I + Tier II)/Total weighted assets]	25.29%	18.33%
Own Funds	849,773	512,053
of which: Tier I capital	649,341	512,053
Risk-weighted assets	3,360,509	2,793,735

For details on the construction logic of the alternative performance indicators shown in the tables above, please refer to the same section of the Report on Consolidated Operations.

Composition and organisational structure

illimity operates in the banking sector and is authorised to provide private banking, investment and trading services.

illimity is currently organised into operating divisions, each of which is described in full in the Report on consolidated operations.

Bank branches and offices

The Bank's branches and offices are as follows:

- Milan – Via Soperga, 9 (registered office);
- Modena – Via Emilia Est, 107 (branch).

Human resources

On 31 December 2021 the Bank's registered employees were 428 (364 on 31 December 2020). A breakdown of the workforce is given below, divided by job level:

Category	31 December 2021			31 December 2020			Changes	
	Number of employees	in %	Average age	Number of employees	in %	Average age	Number of employees	in %
Senior managers	54	13%	47	46	13%	47	8	17%
Middle managers	239	56%	37	200	55%	37	39	20%
Other employees	135	32%	31	118	32%	32	17	14%
Employees	**428**	**100%**		**364**	**100%**		**64**	**18%**

Relations with subsidiaries

Name	Registered office	Operational headquarters	Shareholding %	Votes %
A. Wholly-owned subsidiaries				
1. Soperga RE S.r.l.	Milan	Milan	100%	100%
2. Friuli LeaseCo S.r.l.	Milan	Milan	100%	100%
3. Doria LeaseCo S.r.l.	Milan	Milan	100%	100%
4. River LeaseCo S.r.l.	Milan	Milan	100%	100%
5. neprix s.r.l.	Milan	Milan	100%	100%
6. illimity SGR S.p.A.	Milan	Milan	100%	100%
7. Pitti LeaseCo S.r.l.	Milan	Milan	100%	100%
8. River Immobiliare S.r.l.	Milan	Milan	100%	100%
9. Aporti S.r.l.	Milan	Milan	66.7%	66.7%
10. Friuli SPV S.r.l.	Milan	Milan	100%	100%
11. Doria SPV S.r.l.	Milan	Milan	100%	100%
12. Pitti SPV S.r.l.	Milan	Milan	100%	100%
13. River SPV S.r.l.	Milan	Milan	100%	100%
B. Jointly-owned associates				
14. Hype S.p.A.	Biella	Biella	50%	50%
C. Companies in which significant influence is exercised				
15. SpicyCo S.r.l.	Milan	Milan	49%	49%
16. SpicyCo 2 S.r.l.	Milan	Milan	49%	49%

Name	Book value	Fair Value	Dividends received
A. Wholly-owned subsidiaries			
1. Soperga RE S.r.l.	10	n.a	-
2. Friuli LeaseCo S.r.l.	10	n.a	-
3. Doria LeaseCo S.r.l.	10	n.a	-
4. River LeaseCo S.r.l.	10	n.a	-
5. neprix s.r.l.	22,040	n.a	-
6. illimity SGR S.p.A.	4,023	n.a	-
7. Pitti LeaseCo S.r.l.	10	n.a	-
8. River Immobiliare S.r.l.	10	n.a	-
9. Aporti S.r.l.	11	n.a	-
10. Pitti SPV S.r.l.	14	n.a	-
11. Friuli SPV S.r.l.	14	n.a	-
12. Doria SPV S.r.l.	14	n.a	-
13. River SPV S.r.l.	14	n.a	-
B. Jointly-owned associates			
14. Hype S.p.A.	87,696	n.a	-
C. Companies in which significant influence is exercised			
15. SpicyCo S.r.l.	5	n.a	-
16. SpicyCo 2 S.r.l.	5	n.a	-
Total	**113,895**	**n.a**	**-**

Macroeconomic scenario

The macroeconomic scenario has been described in the Report on Consolidated Operations, to which reference is made.

Significant events in 2021

On 5 January 2021, illimity announced the new composition of its share capital, as follows: (i) the reserved capital increase for Fabrick S.p.A. totalling EUR 44,670,596.42 (of which EUR 3,491,882.89 as capital) freed up via the transfer to illimity of shares representing 37.66% of Hype S.p.A. (which took place on 29 December 2020, effective from 1 January 2021), the registration in the Companies' Register of the statement of the directors pursuant to Article 2343-quater of the Italian civil code (made on 5 January 2021) and consequent issue of 5,358,114 new ordinary shares for this increase, as well as (ii) the cash increase in capital for Banca Sella Holding S.p.A. for a total of EUR 16,544,676.46 (of which EUR 1,293,290.83 as capital), subscribed on 29 December 2020 with effect from 1 January 2021 (with regulation dated 5 January 2021), and consequent issue of 1,984,488 new ordinary shares, for this increase. Hype is a company providing "light banking" services, the objective of which is to establish itself as a leading operator on the Italian market in the segment of innovative financial services provided by non-banking operators.

On 15 June 2021, illimity announced the establishment of the illimity foundation ("foundation"), launched with the aim of creating new spaces for inclusion, cohesion and shared well-being, including through the regeneration of real estate assets to be allocated to projects of social utility and with a strong focus on sustainability issues (ESG).
The foundation is a separate and independent body from the illimity Group, a bank born with a clear mission: to recognise and develop the potential of people, families and businesses. For illimity generating value does not simply mean making profits, but being useful. This mission, deeply rooted in illimity, is confirmed by the establishment of the illimity foundation, which will recognise the potential of real estate assets to be transformed into new spaces that can recreate value for the community.

On 17 June 2021, illimity announced that it had signed a binding letter of intent to form a joint venture (50/50) ("JV") with some funds managed by Apollo Global Management Inc (NYSE: APO) ("Apollo") aimed at investing up to EUR 500 million in non-performing single name loans related to real estate in Italy.
The JV has an initial investment period of two years with the possibility of extension and is pursuing investments in bad and unlikely-to-pay loans mainly guaranteed by the underlying property and with a unit price of up to EUR 50 million. The JV, which sees illimity and Apollo as 50/50 investors with equal governance rights, also provides for the contribution by illimity of approximately EUR 231 million of gross book value of loans previously purchased by illimity and representing part of the Bank's current investment portfolio in the Bank's special situation real estate world. The JV sees the direct involvement of illimity's Special Situations Real Estate teams and Apollo's European Principal Finance teams. The JV selected neprix as exclusive special servicer for the management of the investments.

On 29 July 2021, the extraordinary shareholders' meeting of illimity approved the increase in share capital reserved for the ION Group, part of the broader strategic alliance between the two Groups, which took place in full during the third quarter of 2021. As part of the new 2021-25 Strategic Plan, a broad collaboration agreement was signed by illimity and the ION Group which will be implemented through:

- a licence agreement for information systems developed by illimity, which will generate EUR 90 million of cumulative revenues for the Bank in the years 2021-25;
- long-term collaboration agreements that can generate important investment and commercial synergies between the two groups in crucial sectors and services including among others data analytics, credit scoring and market intelligence.

On 1 October, illimity announced the new composition of its share capital, as follows: (i) the full increase in share capital with the exclusion of the option right pursuant to Article 2441, paragraph 4, second sentence of the Italian Civil Code, for a total amount of EUR 57,535,660.00 (including the share premium) with an increase in share capital for a total of EUR 3,749,598.96 and issuance of all 5,753,566 ordinary shares, on 30 September 2021, following the increase subscribed by FermION Investment Group Limited, a subsidiary of ION Investment Corporation S.à r.l.

Reclassified financial statements as of 31 December 2021

This Report on Operations has been prepared on the basis of tables in the Bank of Italy Circular No. 262 of 22 December 2005 as amended.

The mandatory financial statements were reclassified in this reporting period using criteria that can better represent the Bank's results and financial situation, given the typical characteristics of banking financial statements. The goal has been to simplify the use of these financial statements through the specific aggregations of line items and reclassifications detailed below. Therefore, this Report on Operations includes a reconciliation between the financial statements presented and the mandatory financial reporting format laid down in Bank of Italy Circular No. 262, whose values converge in the items of the reclassified financial statements.

Reconciliation with the mandatory financial statement items aids in reclassification of the items in question, but above all facilitates the understanding of the criteria adopted in constructing the financial statements. Additional details useful to this end are provided below:

- recoveries of taxes recognised among other operating expenses/income are deducted directly from the indirect taxes included among other administrative expenses and therefore their amount has been set off against the relevant item of the mandatory financial statements;
- the cost components related to Raisin's operations are deducted from net interest;
- personnel expenses also include documented, itemised reimbursements of room, board and travel expenses incurred by employees on business trips and the costs of mandatory examinations;
- contributions and membership fees are reclassified from other administrative expenses and recognised separately, in a dedicated item;
- interest expense resulting from the *lease liability* (IFRS 16) is recognised under other administrative expenses;
- net write-downs/write-backs on closed positions include profits and losses generated from the sale of property investments;
- net credit exposure to customers on closed positions is shown separately from net losses/recoveries for credit risk;
- profit from discontinued operations after tax was broken down into interest income, fee and commission expense and income tax, and reallocated to these financial statement items.

Some assets and liabilities in the statement of financial position were grouped together, concerning:

- the inclusion of assets held for sale and cash and cash equivalents in the residual item other assets;
- the aggregation in a single item of property and equipment and intangible assets;
- the aggregation of financial assets designated at fair value through other comprehensive income and financial assets held for trading;
- separate indication of HTCS loans;
- separate indication of Loans to financial entities and securities at amortised cost;
- separate indication of Loans mandatorily measured at fair value;
- the reclassification of *Leasing* agreement liabilities, recognised under payables to customers based on IFRS 16, to other liabilities for operational purposes;
- the inclusion of the Provision for Risks and Charges and employee severance pay in residual items of other liabilities;
- the aggregate indication and items comprising shareholders’ equity.

In accordance with the 7th update to Circular 262/2005, issued by Bank of Italy on 29 October 2021, Current accounts and on-demand deposits with banks were reclassified from item 40 a) to item 10 of the asset side of the statement of financial position, with the comparative figure as of 31 December 2020 also being redetermined according to the same logic.

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

Components of official items of the Statement of Financial Position	Assets	31 December 2021	31 December 2020	Chg.	Chg. (%)
20 a) + 30	Property portfolio - Securities at FV	300,436	91,427	209,009	>100%
20 c)	Financial instruments mandatorily measured at fair value	75,619	18,450	57,169	>100%
40 a)	Due from banks	267,969	522,146	(254,177)	(49%)
40 b)	Loans to financial entities	199,857	109,993	89,864	82%
40 b)	Loans to customers HTC	1,893,892	1,187,449	706,443	59%
40 b)	Securities at amortised cost - Growth Credit	34,266	4,154	30,112	>100%
40 b)	Securities at amortised cost – Distressed Credit	1,037,071	1,123,762	(86,691)	(8%)
70	Investments in equity	113,895	23,512	90,383	>100%
80 + 90	Property and equipment and intangible assets	85,038	73,037	12,001	16%
	of which: Goodwill	21,643	21,643	0	0%
100	Tax assets	41,885	31,155	10,730	34%
10 + 110 + 120	Other assets	734,319	984,950	(250,631)	(25%)
	of which: Cash and cash equivalents	506,898	951,183	(444,285)	(47%)
	Total assets	**4,784,247**	**4,170,035**	**614,212**	**15%**

Components of official items of the Statement of Financial Position	Liabilities	31 December 2021	31 December 2020	Chg.	Chg. (%)
10 a)	Due to banks	411,287	524,450	(113,163)	(22%)
10 b)	Amounts due to customers	2,975,475	2,679,197	296,278	11%
10 c)	Securities issued	499,788	300,980	198,808	66%
20	Financial liabilities in own portfolio – instruments at FV	59	-	59	N/A
60	Tax liabilities	16,677	3,037	13,640	>100%
80 + 90 + 100	Other liabilities	103,014	77,665	25,349	33%
(*)	Shareholders' equity	777,947	584,706	193,241	33%
	Total liabilities and shareholders' equity	**4,784,247**	**4,170,035**	**614,212**	**15%**

RECLASSIFIED INCOME STATEMENT

Components of official items of the Income Statement	Income Statement items	31 December 2021	31 December 2020	Chg.	Chg. (%)
10 + 20 + 290 + 140	Net interest margin	132,874	108,298	24,576	23%
40 + 50	Net fee and commission income	24,659	8,798	15,861	>100%
80 + 100 + 110	Gains/losses on financial assets and liabilities	18,503	8,486	10,017	>100%
130 a) + 130 b) + 170 a) + 250	Net write-downs/write-backs on closed positions	14,972	13,840	1,132	8%
250	Other profits (losses) from the disposal of investments	2,278	-	2,278	N/A
200	Other operating expenses and income (excluding taxes)	10,073	737	9,336	>100%
Total net operating income		**203,359**	**140,159**	**63,200**	**45%**
160 a)	Personnel expenses	(51,578)	(39,295)	(12,283)	31%
160 b)	Other administrative expenses	(55,991)	(49,658)	(6,333)	13%
180 + 190	Net adjustments/recoveries on property and equipment and intangible assets	(9,603)	(7,563)	(2,040)	27%
Operating expenses		**(117,172)**	**(96,516)**	**(20,656)**	**21%**
Operating profit (loss)		**86,187**	**43,643**	**42,544**	**97%**
130 a)	Net losses/recoveries for credit risk - HTC Banks	(92)	104	(196)	<100%
130 a)	Net losses/recoveries for credit risk - HTC financial entities	(159)	(115)	(44)	38%
130 a)	Net losses/recoveries for credit risk - HTC Clients	6,061	2,644	3,417	>100%
130 b)	Net losses/recoveries for credit risk - HTCS	(906)	82	(988)	<100%
170 a)	Net losses/recoveries for commitments and guarantees	(2,729)	(981)	(1,748)	>100%
Total net losses/recoveries		**2,175**	**1,734**	**441**	**25%**
170 b)	Other net provisions	(510)	(5)	(505)	>100%
220	Other income (expenses) on investments	-	(990)	990	N/A
160 b)	Contributions and other non-recurring expenses	(5,068)	(2,328)	(2,740)	>100%
Profit (loss) from operations before taxes		**82,784**	**42,054**	**40,730**	**97%**
270 + 290	Income tax for the year on continuing operations	(13,661)	(9,493)	(4,168)	44%
Profit (loss) for the year		**69,123**	**32,561**	**36,562**	**>100%**

Key data on capital

Given the almost total contribution of the Bank to the Consolidated Financial Statements of the illimity Group, please refer to the Report on Consolidated Operations, for more information on the Key financial figures.

Capital adequacy

On 1 January 2014, the new prudential requirements for banks and investment firms came into force, which are contained in Regulation (EU) No 575/2013 (Capital Requirements Regulation, the so-called CRR) and in Directive 2013/36/EU (Capital Requirements Directive, the so-called CRD IV), which have transposed into the EU the standards set by the Basel Committee on Banking Supervision (Basel 3 Framework). The CRR entered into effect in the Member States directly, whereas the rules laid down in CRD IV were transposed into Italian law by Legislative Decree no. 72 of 12 May 2015, which entered into force on 27 June 2015. Following a public consultation process launched in November, on 17 December 2013 the Bank of Italy published Circular no. 285, "Prudential supervisory regulations for banks", implementing the new EU rules to the extent of its competency, together with Circular no. 286, "Instructions for completing prudential reports for banks and securities brokerage firms" and the update to Circular no. 154 "Supervisory reports by credit and financial institutions. Reporting formats and instructions for submitting data streams" (the above set of rules has been updated on several occasions).

Considering the result for the period, net of any foreseeable charges and dividends pursuant to Article 26 (2) (b) of the CRR and Articles 2 and 3 of Commission Delegated Regulation (EU) no. 241/2014, the composition of own funds at the reporting date would be as follows:

Capital ratios	31 December 2021	31 December 2020
Common Equity Tier 1 (CET1) capital	**649,341**	**512,053**
Additional Tier 1 (AT1) capital	**-**	**-**
Tier 2 (T2) capital	**200,432**	**-**
Total own funds	**849,773**	**512,053**
Credit risk	*251,274*	*214,633*
Credit valuation adjustment risk	*-*	*-*
Settlement risks	*-*	*-*
Market risks	*780*	*17*
Operational risk	*16,787*	*8,849*
Other calculation factors	*-*	*-*
Total minimum requirements	**268,841**	**223,499**
Risk-weighted assets	**3,360,509**	**2,793,735**
Common Equity Tier 1 ratio	**19.32%**	**18.33%**
(Common Equity Tier 1 capital after filters and deductions/Risk-weighted assets)		
Tier 1 ratio	**19.32%**	**18.33%**
(Tier 1 capital after filters and deductions/Risk-weighted assets)		
Total capital ratio	**25.29%**	**18.33%**
(Total own funds/Risk-weighted assets)		

Changes in shareholders' equity

As of 31 December 2021, shareholders' equity, including the result for the year, amounted to approximately EUR 777.9 million, increasing compared to 2020, mainly due to profit realised in the year and the capital increases carried out in relation to the joint venture in Hype S.p.A and the ION Group.

Items/Technical forms	31 December 2021	31 December 2020
1. Share capital	52,620	44,007
2. Share premium reserve	597,589	487,373
3. Reserves	65,483	21,875
4. Equity instruments	-	-
5. (Treasury shares)	(832)	(832)
6. Valuation reserves	(6,036)	(278)
7. Profit (loss) for the year	69,123	32,561
Total shareholders' equity	**777,947**	**584,706**

Share capital and ownership structure

At 31 December 2021, the Bank's share capital amounted to EUR 54,189,951.66, of which EUR 52,619,881.24 was subscribed and paid up, divided into 79,300,100 ordinary shares and 1,440,000 special shares without par value.

The Ordinary Shares were admitted to trading on the Euronext Milan market organised and managed by Borsa Italiana S.p.A. on 5 March 2019. By order of the Bank of Italy no. 8688 of 2 September 2020, the ordinary shares were admitted to trading on the STAR (Securities with High Requirements) segment of the Euronext Milan market.

The Bank's Special Shares are not traded.

Treasury shares

Following the purchases made in previous years, as of 31 December 2021, the Bank held 98,505 treasury shares for a value of EUR 832 thousand, in line with figures as of 31 December 2020. The Bank's subsidiaries do not hold any shares in it.

Financial performance

Given the almost total contribution of the Bank in the Consolidated Financial Statements, please refer to the Report on Operations of the Consolidated Financial Statements for more information on the economic results.

Basic and diluted earnings (losses) per share

The basic earnings (loss) per share is calculated by dividing the Bank's net profit (loss) for the year by the weighted average number of ordinary shares in issue during the year.

(amounts in thousands of euros)

Basic and diluted earnings per share	Net profit/loss for the year	Average number of shares	Basic and diluted earnings per share
Period ended 31 December 2021	69,123	74,768,897	0.92
Period ended 31 December 2020	32,561	65,700,601	0.50

The diluted earnings (loss) per share differs from the basic earnings (loss) per share due to the issuance of *market warrants* with an effective date of 30 September 2021.

(amounts in thousands of euros)

Diluted earnings (loss) per share	Net profit/loss for the year	Average number of shares	Diluted earnings (loss) per share
Period ended 31 December 2021	69,123	75,377,813	0.92
Period ended 31 December 2020	32,561	65,700,601	0.50

illimity Bank share performance

The ordinary shares of illimity are traded on the Euronext Milan market organised and managed by Borsa Italiana since 5 March 2019. From 10 September 2020, the ordinary shares were admitted to trading on the STAR (Securities with High Requirements) segment of the Euronext Milan market. The performance of the share since it has been listed, is reported below:

Significant shareholders with a stake of at least 5% in the share capital with voting rights in illimity, with the percentages calculated by the Bank based on the number of shares resulting from the most recent information available and number of ordinary shares issued, updated at 31 January 2022, are reported below:

Declaring entity, i.e. subject at the head of the control chain	Direct shareholder	Share held	Holding % of the ordinary capital	Holding % of the voting capital
Gruppo Sella	Gruppo Sella	Owned	10.00%	10.00%
LR Trust	Fidim Srl	Owned	8.12%	8.12%
ION Investment Corporation Sàrl	FermION Investment Group Limited	Owned	7.26%	7.26%
Tensile Capital Management LLC	Tensile-Metis Holdings S.à.r.l.	Owned	7.01%	7.01%
Atlas Merchant Capital LLC	AMC Metis S.à.r.l.	Owned	6.56%	6.56%

In relation to the ownership structure, AMC Metis S.à.r.l., Metis S.p.A. and Corrado Passera entered into an agreement on 18 March 2019 pertaining directly and indirectly to shares of Tetis S.p.A. (a company nearly wholly owned by Metis S.p.A. which in turn is 90% owned by Corrado Passera and holds ordinary and special shares in the company) and ordinary shares of illimity, containing shareholders' pact measures. Specifically, this agreement, which governs AMC Metis S.à.r.l.'s pre-emptive right to ordinary illimity shares held by Tetis subject to certain conditions, provides among other things that Corrado Passera and Metis S.p.A. take steps to ensure that the illimity shareholders' meeting appoints, depending on the make-up of the Company's Board of Directors, one or two non-executive directors nominated by AMC Metis S.à.r.l.

Management of business risks

For information on the management of business risks, refer to the Report on Operations of the Consolidated Financial Statements.

Main risks and uncertainties

For information about the main risks and uncertainties, reference is made to the Report on Operations of the Consolidated Financial Statements.

Impacts of the Ukraine crisis on illimity's strategic and operational context

For information about the main impacts, please refer to the Report on Operations of the Consolidated Financial Statements.

Transactions with related parties

Transactions with related parties are mainly governed by Article 2391-bis of the Italian civil code, according to which the executive bodies of companies resorting to the risk capital markets have to adopt rules, according to criteria indicated by CONSOB, which ensure "the transparency and material and procedural fairness of operations with related parties" carried out directly or through subsidiaries. The supervisory body is required to oversee compliance with the rules and reports on this, in its report to the meeting of shareholders.

In its decision of 12 March 2010, no. 17221, and in implementation of the authority contained in Article 2391-bis of the Italian civil code, CONSOB approved the "Regulation on related party transactions", which was then amended by Resolution no.17389 of 23 June 2010. This sets out the general principles that companies making recourse to the risk capital markets have to observe when setting rules designed to ensure transparency, and the material fairness and procedural fairness of related party transactions.

In relation to this specific activity, companies are also subject to the provisions of Article 136 of the Banking Consolidation Act on the obligations of corporate officers.

Related party transactions as identified according to IAS 24 and the Consob Regulation issued in Decision no. 17221 as amended, for within the normal operations of the Bank and are settled at market conditions or on the basis of the costs incurred, if there are no suitable criteria.

Throughout 2021, there were no minor or material related party transactions, which significantly affected the Group's capital or profit and loss.

In relation to CONSOB communication no. DEM/6064293 of 28 July 2006, operations or positions with related parties as classified in IAS 24 and the Consob Regulation have a limited impact on the financial situation and capital, profit and loss and cash flows of the Group.

According to IAS 24, related parties are parties:

a) that directly or indirectly, through one or more intermediaries,
   (i) control the entity, are controlled by it, or are under joint control (including controlling entities, subsidiaries and associates);
   (ii) hold an investment in the entity of an extent that they may have considerable influence on the latter; or
   (iii) jointly control the entity;
b) represent an associate of the entity;
c) represent a joint venture in which the entity participates;
d) are one of the key senior managers of the entity or its parent;
e) are a close family member of one of the parties in points (a) or (d);
f) are an entity controlled by, controlled jointly or subject to significant influence by one of the subjects in points (d) or (e), or those parties have directly or indirectly, a significant portion of voting rights; or
g) are a pension fund for employees of the entity or of any related entity.

On 12 December 2011 the Bank of Italy issued the IX update to Circular no. 263 of 27 December 2006 which introduced prudential supervisory requirements for banks. One of the requirements is a specific provision relating to risk and conflicts of interests regarding Connected Parties, a definition that includes related parties as defined by CONSOB but also parties connected to the same related parties as identified in the provisions; these requirements were modified by the Bank of Italy on 23 June 2020, merging said piece of regulation into Circular no. 285 (see 33rd update of 23 June 2020 Part Three, issued by the Bank of Italy on 23 June 2020, which added a new Chapter 11 "Risk assets and conflicts of interest with connected parties" to the said Circular no. 285). This update therefore supplements the Consob Regulation, in turn revised and updated by Consob with ruling no. 21624 of 10 December 2020, in order to implement Directive (EU) 2017/828 on shareholder rights (SHRD II).

For more detail about the operations with related parties and for an examination of the impact of these operations on the financial situation, refer to Part H of the Explanatory Notes.

Atypical or non-ordinary transactions

In 2021 the Bank did not carry out any such transactions as defined in the Consob Communication no. 6064293 of 28 July 2006.

Research and Development

illimity's Research and Development activities in 2021 led to the realisation of various projects of significance to the Bank.

For the Direct Banking area, the following projects were developed to facilitate business initiatives:

- B-ilty - tactical phase: in order to build and release a digital transactional platform that offers customers an inclusive value proposition of credit products and value-added services dedicated to small and micro-enterprises;
- Continued evolution of Open Banking for the Payment Initiation and Account Information services, with the expansion of the banks that can connect to the illimity digital hub.

During 2021, the Delorean 3.0 architectural framework was also developed and released to support the web and app direct channels, with the aim of increasing the efficiency and flexibility of development, as well as the quality of the delivery.

For the Distressed Credit division, 2021 saw the full activation of the developments related to the Credit Origination & Management System (COMS). The system, made up of 15 modules, will make it possible to manage illimity credit throughout all phases of the process, from origination to pricing, management and servicing. In particular, 2021 saw the release of modules for portfolio acquisition and screening, data ingestion, pricing definition, business plan revision, and collection and sales management.

The Growth Credit area saw continued development of the Credit DWH, with release scheduled for early 2022. This illimity DWH will form the basis for all level one, two and three controls by the Business and its functions.

For the IT area, "illimity Data Governance" Data Quality project was developed, in order to guarantee ownership and governance of data within the bank, through a web application that can be accessed by Data Owners and a control monitoring dashboard. Activities related to Disaster Recovery and Business Continuity Management were developed and consolidated throughout the year. In the context of the IT4IT projects, initiatives dedicated to the technological evolution of the infrastructure were also continued. In particular, the design and analysis phases were completed for the evolution of the API technological platform to the "Hybrid PAAS" model.

For the Central Functions, the implementation of Corporate Performance Management project and the project to revise the TIT calculation method continued, with expected benefits that include a better understanding and measurement of business income, and the active management of interest rate risk. Lastly, the front-to-back system to manage new operations on OTC derivatives was completed.

Events after the reporting date

On 21 February 2022, the Extraordinary Shareholders' Meeting approved the new text of the Articles of Association for the adoption by the Bank of the "monistic" method of administration and control. The amendments to the Articles of Association include the explicit inclusion of "sustainable success" and, as announced in the press release of 31 January 2022, the possibility of holding future Shareholders' Meetings exclusively via telecommunication ("virtual-only meetings").

A highly innovative *proptech* company will be launched in the coming weeks. This operation is part of a broader context of developing the servicing activities of the Group, which, as a leader in remarketing on the foreclosure market, with a new brand and an innovative platform, will enter the free property market, which is vast and in need of innovation.

Outlook, main risks and uncertainties

The Bank has defined and codified, and continually adopted, an operational risk mapping process based on quali-quantitative metrics and rules shared within the organisation, which identify the individual types of risk that the Bank is or might be exposed to, and also assesses these risks according to specific drivers which may represent the materiality of the risk itself.

The result of the identification process is contained in the "Risk Radar" risk map, the objective of which is to represent, in relative terms, the risks inherent in the Bank's operations, and to structure them according to the business lines that generate these risks, as a functional requirement to determine the overall risk exposure.

The execution of the process to identify material risks for the Bank is overseen by the CRO, together with the CFO & Central Functions and the support of other organisational units of the Bank and subsidiaries.

The results of this process represent the assessment and input measures used to develop processes related to the ICAAP and ILAAP, i.e. the Strategic Plan, Budget and RAF, and are therefore validated by top management, discussed and analysed by the Risks Committee, and subject to approval by the Board of Directors of the Bank.

Part E of the Consolidated financial statements contains overall information about the risk governance system and specific information about material risks, indicated below, and the related management, control and hedging policies adopted:
- credit risk (which also includes concentration risk);
- market risk (interest rate risk and price risk - regulatory trading portfolio);
- interest rate (interest rate risk and price risk of banking portfolio);
- liquidity risk;
- operational risk;
- IT risk;
- ESG risk (for further information, please refer to the information published in the Consolidated Non-Financial Statement of the illimity Group (pursuant to Italian Legislative Decree 254/2016)).

The other risks considered relevant as a result of the *risk mapping* process described above are also subsequently reported and defined.

The Bank also has a system of quantitative limits with reference to assets at risk towards related parties and others. In accordance with the relevant supervisory provisions, indication of the level of risk appetite required by the provisions for the determination and formalisation by banks and banking entities was planned, defined in terms of the maximum limit of the lines of credit granted to related parties deemed acceptable in relation to the total lines of credit granted by illimity Bank.

Further limits are envisaged with reference to the exposures granted to subjects in conflict of interest pursuant to Article 2391 of the Italian civil code, bankruptcy proceedings, as well as stricter limits than the regulations for the individual borrower or connected group.

For details on the objectives and strategies of individual risks in the new context of the epidemiological crisis, reference is made to the specific section in Part A – *Risks, uncertainties and impacts of the COVID-19 epidemic*.

Proposed appropriation of profits for the year

The Board of Directors submits the following proposal for a resolution to the Meeting.

PROPOSAL

The Shareholders' Meeting of illimity Bank S.p.A. ("illimity" or the "Bank"),

- having examined the draft financial statements of the Bank for the year ended 31 December 2021, accompanied by the annexes and documentation required by law, and having also examined the consolidated financial statements of the Group as of 31 December 2021;
- having examined the results of the draft financial statements for the year, which closed with a loss for the year of EUR 69,123,030.49;
- having regard to the report of the Board of Directors on operations as of 31 December 2021;
- having taken note of the respective reports drawn up by the Board of Statutory Auditors and the Company responsible for the statutory audit of the accounts of KPMG S.p.A.,

RESOLVED

- to approve the financial statements of illimity Bank S.p.A., accompanied by the Directors' Report on Operations as of 31 December 2021, which show a loss for the year of EUR 69,123,030.49.

PROPOSAL

The Shareholders' Meeting of illimity Bank S.p.A. ("illimity" or the "Bank"),

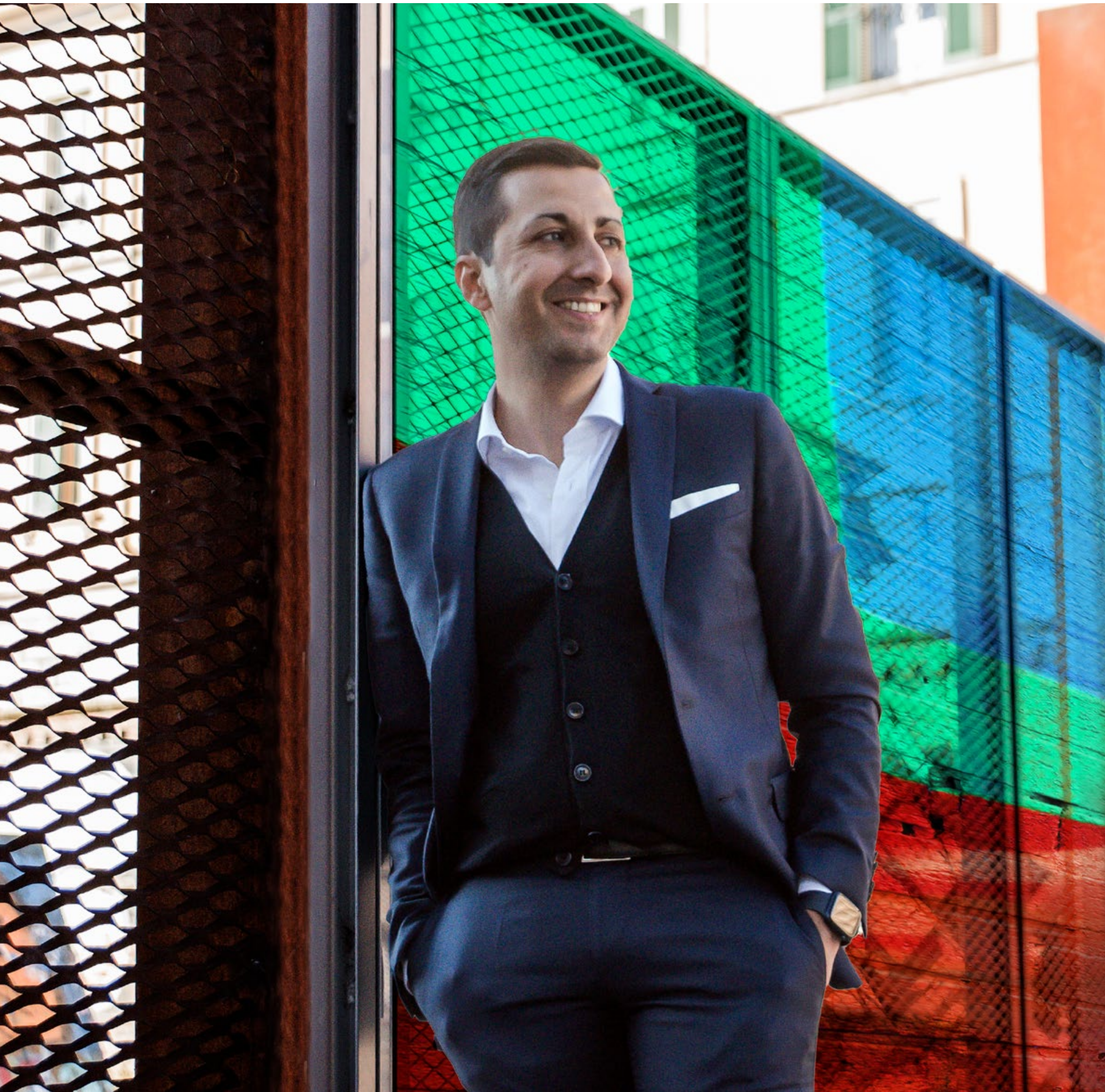
- having examined the draft financial statements of the Bank for the year ended 31 December 2021, accompanied by the annexes and documentation required by law, and having also examined the consolidated financial statements of the Group as of 31 December 2021;
- having examined the results of the draft financial statements for the year, which closed with a loss for the year of EUR 69,123,030.49;
- having regard to the report of the Board of Directors on operations as of 31 December 2021;
- having taken note of the respective reports drawn up by the Board of Statutory Auditors and the Company responsible for the statutory audit of the accounts of KPMG S.p.A.,

RESOLVED

- to approve the proposal to allocate to the legal reserve EUR 3,456,151.52, equal to 5% of the profit for the year;
- to approve the proposal to carry forward profit for EUR 65,666,878.97.

Milan, 10 March 2022

On behalf of the Board of Directors
President, Rosalba Casiraghi
Signature



Frame the image using the Aria App to watch the
"Special Situations Real Estate" video

Financial Statements

STATEMENT OF FINANCIAL POSITION

	Assets	31 December 2021	31 December 2020
10.	Cash and cash equivalents	506,897,893	951,182,999
20.	Financial assets measured at fair value through profit or loss	76,547,144	18,501,870
	a) financial assets held for trading	928,384	51,823
	b) financial assets at fair value	-	-
	c) other financial instruments mandatorily measured at fair value	75,618,760	18,450,047
30.	Financial assets measured at fair value through other comprehensive income	299,507,563	91,374,646
40.	Financial assets measured at amortised cost	3,433,055,678	2,947,503,863
	a) due from banks	267,969,490	522,146,283
	b) loans to customers	3,165,086,188	2,425,357,580
50.	Hedging derivatives	-	-
60.	Fair value change of financial assets in hedged portfolios (+/-)	-	-
70.	Equity investments	113,894,556	23,512,235
80.	Property and equipment	19,806,392	21,286,663
90.	Intangible assets	65,231,211	51,750,377
	of which:		
	- goodwill	21,643,000	21,643,000
100.	Tax assets	41,884,749	31,155,485
	a) current	4,988,375	3,048,044
	b) deferred	36,896,374	28,107,441
110.	Non-current assets held for sale and discontinued operations	43,117,184	-
120.	Other assets	184,304,853	33,767,290
	Total assets	**4,784,247,223**	**4,170,035,428**

CONTINUED: STATEMENT OF FINANCIAL POSITION

	Liabilities and shareholders' equity	31 December 2021	31 December 2020
10.	Amounts due to customers	3,909,121,310	3,526,375,247
	a) due to banks	411,287,166	524,449,425
	b) due to customers	2,998,046,369	2,700,945,493
	c) securities issued	499,787,775	300,980,329
20.	Financial liabilities held for trading	58,854	-
30.	Financial liabilities designated at fair value	-	-
40.	Hedging derivatives	-	-
50.	Fair value change of financial liabilities in hedged portfolio (+/-)	-	-
60.	Tax liabilities	16,676,734	3,036,992
	a) current	16,064,204	2,930,499
	b) deferred	612,530	106,493
70.	Liabilities associated with non-current assets held for sale and discontinued operations	-	-
80.	Other liabilities	72,467,167	50,134,798
90.	Employee severance pay	2,335,227	1,681,870
100.	Allowances for risks and charges	5,641,125	4,100,202
	a) commitments and guarantees given	4,482,072	3,296,474
	b) post-employment benefits	-	-
	c) other allowances for risks and charges	1,159,053	803,728
110.	Valuation reserves	(6,036,300)	(278,478)
120.	Redeemable shares	-	-
130.	Equity instruments	-	-
140.	Reserves	65,482,919	21,875,665
150.	Share premium reserve	597,589,133	487,372,973
160.	Share capital	52,619,881	44,006,566
170.	Treasury shares (-)	(831,857)	(831,857)
180.	Profit (loss) for the year(+/-)	69,123,030	32,561,450
	Total liabilities and shareholders' equity	**4,784,247,223**	**4,170,035,428**

INCOME STATEMENT

Items		31 December 2021	31 December 2020
10.	Interest income and similar income	193,653,028	149,942,035
	of which: interest income calculated according to the effective interest method	187,598,106	147,031,904
20.	Interest expenses and similar charges	(60,817,494)	(41,131,449)
30.	**Net interest margin**	**132,835,534**	**108,810,586**
40.	Fee and commission income	27,196,358	10,454,375
50.	Fee and commission expense	(3,518,094)	(2,963,254)
60.	**Net fee and commission income**	**23,678,264**	**7,491,121**
70.	Dividends and similar income	-	-
80.	Profits (losses) on trading	3,166,915	(389,030)
90.	Fair value adjustments in hedge accounting	-	-
100.	Profits (losses) on disposal or repurchase of:	5,392,749	7,698,830
	a) financial assets measured at amortised cost	301,807	1,862,928
	b) financial assets measured at fair value through other comprehensive income	5,090,942	5,836,952
	c) financial liabilities	-	(1,050)
110.	Profits (losses) on other financial assets and liabilities measured at fair value through profit or loss	9,943,759	1,176,057
	a) financial assets and liabilities designated at fair value	-	-
	b) other financial assets mandatorily measured at fair value	9,943,759	1,176,057
120.	**Total net operating income**	**175,017,221**	**124,787,564**
130.	Net losses/recoveries for credit risks associated with:	19,550,520	16,554,187
	a) financial assets measured at amortised cost	19,921,009	16,472,526
	b) financial assets measured at fair value through other comprehensive income	(370,489)	81,661
140.	Profits/losses on changes in contracts without derecognition	196,160	-
150.	**Net result from banking activities**	**194,763,901**	**141,341,751**
160.	Administrative expenses:	(117,812,319)	(93,928,859)
	a) personnel expenses	(52,122,287)	(39,699,020)
	b) other administrative expenses	(65,690,032)	(54,229,839)
170.	Net allowances for risks and charges	(2,914,108)	(985,630)
	a) commitments and guarantees given	(2,403,640)	(980,630)
	b) other net provisions	(510,468)	(5,000)
180.	Net adjustments/recoveries on property and equipment	(2,885,151)	(2,465,598)
190.	Net adjustments/recoveries on intangible assets	(6,718,203)	(5,096,961)
200.	Other operating income/expenses	15,722,548	4,179,108
210.	**Operating expenses**	**(114,607,233)**	**(98,297,940)**
220.	Profits (losses) on equity investments	-	(989,629)
230.	Net gains/losses on the measurement at fair value of property and equipment and intangible assets	-	-
240.	Write-downs/write-backs of goodwill	-	-
250.	Profits (losses) on disposal of investments	2,277,976	-
260.	**Profit (loss) before tax from continuing operations**	**82,434,644**	**42,054,182**
270.	Income tax for the year on continuing operations	(13,564,889)	(9,492,732)
280.	**Profit (loss) after tax from continuing operations**	**68,869,755**	**32,561,450**
290.	Net income (Loss) from discontinued operations after tax	253,275	-
300.	**Profit (loss) for the year**	**69,123,030**	**32,561,450**

STATEMENT OF COMPREHENSIVE INCOME

		31 December 2021	31 December 2020
10.	**Profit (loss) for the year**	**69,123,030**	**32,561,450**
	Other comprehensive income, after tax, that may not be reclassified to the income statement		
20.	Equity instruments measured at fair value through other comprehensive income	564	(2,917)
30.	Financial liabilities designated at fair value through profit or loss (changes in creditworthiness)	-	-
40.	Hedging of equity instruments measured at fair value through other comprehensive income		-
50.	Property and equipment		-
60.	Intangible assets		-
70.	Defined-benefit plans	(73,679)	(51,150)
80.	Non-current assets held for sale and discontinued operations		-
90.	Share of valuation reserves for equity investments measured at equity		-
	Other comprehensive income, after tax, that may be reclassified to the income statement		
100.	Hedging of foreign investments		-
110.	Foreign exchange differences		-
120.	Cash flow hedges		-
130.	Hedging instruments (undesignated elements)		-
140.	Financial assets (other than equities) measured at fair value through other comprehensive income	(5,684,708)	(1,169,815)
150.	Non-current assets held for sale and discontinued operations		-
160.	Share of valuation reserves for equity investments measured at equity		-
170	**Total other comprehensive income (after tax)**	**(5,757,823)**	**(1,223,882)**
180	**Other comprehensive income (Item 10+170)**	**63,365,207**	**31,337,568**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AS OF 31/12/2021

	Balance as of 31 December 2020	Change to opening balances	Balance as of 1 January 2021	Allocation of result for the previous year		
				Reserves	Dividends and other allocations	Change in reserves
Share capital:						
a) ordinary shares	43,068,085	–	43,068,085	–	–	–
b) other shares	938,481	–	938,481	–	–	–
Share premium reserve	487,372,973	–	487,372,973	–	–	–
Reserves:						
a) retained earnings	(4,928,728)	–	(4,928,728)	32,561,450	–	–
b) other	26,804,393	–	26,804,393	–	–	–
Valuation reserves	(278,478)	–	(278,478)	–	–	–
Equity instruments	–	–	–	–	–	–
Treasury shares	(831,857)	–	(831,857)	–	–	–
Profit (loss) for the year	**32,561,450**	**–**	**32,561,450**	**(32,561,450)**	**–**	**–**
Shareholders' equity	**584,706,320**	**–**	**584,706,320**	**–**	**–**	**–**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AS OF 31/12/2020

	Balance as of 31 December 2019	Change to opening balances	Balance as of 1 January 2020	Allocation of result for the previous year		
				Reserves	Dividends and other allocations	Change in reserves
Share capital:						
a) ordinary shares	42,469,181	–	42,469,181	–	–	–
b) other shares	938,481	–	938,481	–	–	–
Share premium reserve	480,156,446	–	480,156,446	–	–	–
Reserves:						
a) retained earnings	12,007,404	–	12,007,404	(16,840,115)	–	(96,017)
b) other	24,986,574	–	24,986,574	–	–	–
Valuation reserves	945,404	–	945,404	–	–	–
Equity instruments	–	–	–	–	–	–
Treasury shares	(95,534)	–	(95,534)	–	–	–
Profit (loss) for the year	**(16,840,115)**	**–**	**(16,840,115)**	**16,840,115**	**–**	**–**
Shareholders' equity	**544,567,841**	**–**	**544,567,841**	**–**	**–**	**(96,017)**

	Changes in the year							Shareholders' equity as of 31/12/2021
	Shareholders' equity transactions							
	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Comprehensive income for the financial year 2021	
Share capital:								
a) ordinary shares	8,534,778	–	–	–	–	78,542	–	**51,681,405**
b) other shares	(5)	–	–	–	–	–	–	**938,476**
Share premium reserve	110,216,160	–	–	–	–	–	–	**597,589,133**
Reserves:								
a) retained earnings	–	–	–	4	–	2,944,393	–	**30,577,120**
b) other	8,372,197	–	–	–	–	(270,791)	–	**34,905,799**
Valuation reserves	–	–	–	–	–	–	(5,757,823)	**(6,036,300)**
Equity instruments	–	–	–	–	–	–	–	**–**
Treasury shares	–	–	–	–	–	–	–	**(831,857)**
Profit (loss) for the year	**–**	**–**	**–**	**–**	**–**	**–**	**69,123,030**	**69,123,030**
Shareholders' equity	**127,123,129**	**–**	**–**	**4**	**–**	**2,752,144**	**63,365,207**	**777,946,806**

	Changes in the year							Shareholders' equity as of 31/12/2020
	Shareholders' equity transactions							
	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Comprehensive income for the financial year 2020	
Share capital:								
a) ordinary shares	598,904	–	–	–	–	–	–	**43,068,085**
b) other shares	–	–	–	–	–	–	–	**938,481**
Share premium reserve	7,216,527	–	–	–	–	–	–	**487,372,973**
Reserves:								
a) retained earnings	–	–	–	–	–	–	–	**(4,928,728)**
b) other	–	–	–	–	–	1,817,819	–	**26,804,393**
Valuation reserves	–	–	–	–	–	–	(1,223,882)	**(278,478)**
Equity instruments	–	–	–	–	–	–	–	**–**
Treasury shares	–	(736,323)	–	–	–	–	–	**(831,857)**
Profit (loss) for the year	**–**	**–**	**–**	**–**	**–**	**–**	**32,561,450**	**32,561,450**
Shareholders' equity	**7,815,431**	**(736,323)**	**–**	**–**	**–**	**1,817,819**	**31,337,568**	**584,706,319**

CASH FLOW STATEMENT (INDIRECT METHOD)

A. OPERATING ACTIVITIES	Amount	
	31 December 2021	31 December 2020
1. Cash flow from operations	**109,588,583**	**88,312,204**
Net profit/loss for the year (+/-)	69,123,030	32,561,450
Gains/losses on financial assets held for trading and other financial assets/ liabilities measured at fair value through profit or loss (-/+)	(1,408,213)	(1,257,718)
Profits/losses on hedging activities (-/+)	-	-
Net losses/recoveries for credit risk (+/-)	1,239,680	9,293,419
Net adjustments/recoveries on property and equipment and intangible assets (+/-)	9,603,354	7,562,559
Net allocations to allowances for risks and charges and other costs/income (+/-)	11,243,073	5,711,723
Taxes, duties and unpaid tax credits (+)	16,358,662	8,933,437
Net write-downs/write-backs on discontinued operations, net of the tax effect (+/-)	-	-
Other adjustments (+/-)	3,428,997	25,507,334
2. Cash flow generated / absorbed by financial assets	**(934,611,815)**	**(935,579,759)**
Financial assets held for trading	(876,561)	11,608
Financial assets designated at fair value	-	-
Other financial assets mandatorily measured at fair value	(54,791,535)	(8,649,029)
Financial assets measured at fair value through other comprehensive income	(215,300,770)	34,736,661
Financial assets measured at amortised cost	(480,229,989)	(966,267,733)
Other assets	(183,412,960)	4,588,734
3. Cash flow generated / absorbed by financial liabilities	**360,191,510**	**1,049,131,597**
Amounts due to customers	360,156,375	1,062,330,668
Financial liabilities held for trading	58,854	-
Financial liabilities designated at fair value	-	-
Other liabilities	(23,718)	(13,199,071)
Net cash generated / absorbed by operating activities	**(464,831,722)**	**201,864,041**

B. INVESTING ACTIVITIES	Amount	
	31 December 2021	31 December 2020
1. Cash flows from	**600,000**	**-**
Sales of equity investments	-	-
Dividends received on equity investments	-	-
Sales of property and equipment	600,000	-
Sales of intangible assets	-	-
Sales of business units	-	-
2. Cash flows used in	**(53,914,945)**	**(31,861,021)**
Purchases of equity investments	(33,634,726)	(15,304,889)
Purchases of property and equipment	(81,182)	(905,921)
Purchases of intangible assets	(20,199,037)	(15,650,211)
Purchases of business units	-	-
Net cash generated / absorbed by investing activities	**(53,314,945)**	**(31,861,021)**

C. FINANCING ACTIVITIES	Amount	
	31 December 2021	31 December 2020
Issues / Purchases of treasury shares	-	(736,323)
Issues/purchases of equity instruments	73,861,560	-
Distribution of dividends and other purposes	-	-
Net cash generated/absorbed by financing activities	**73,861,560**	**(736,323)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(444,285,106)**	**169,266,697**

Reconciliation

FINANCIAL STATEMENT ITEMS	Amount	
	31 December 2021	31 December 2020
Cash and cash equivalents at start of financial year	**951,182,999**	**781,916,302**
Net increase(decrease) in cash and cash equivalents	(444,285,106)	169,266,697
Cash and cash equivalents: foreign exchange effect	-	-
Cash and cash equivalents at end of financial year	**506,897,893**	**951,182,999**

Key:

(+) generated
(–) absorbed

Frame the image using the Aria App to watch the "Crossover" video

Explanatory Notes

PART A – Accounting policies

A.1 General information

Section 1 – Declaration of compliance with IAS/IFRS

These Financial Statements have been drafted in application of Legislative Decree no. 38 of 28 February 2005, according to the accounting standards issued by the International Accounting Standards Board (IASB) approved by the European Commission and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as established by Community Regulation no. 1606 of 19 July 2002.

In preparing these Financial Statements, the IAS/IFRS in force as of 31 December 2021 were applied, including the SIC and IFRIC interpretations as harmonised by the European Commission. The line items presented in this report have been valued and measured on the basis of the IAS/IFRS accounting standards issued by the International Accounting Standards Board (IASB) and the relevant interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as endorsed by the European Commission, in addition to the guidelines laid down in Article no. 9 of Legislative Decree no. 38/05 and article 43 of Legislative Decree no. 136/15.

There were no departures from IAS/IFRS.

The Bank of Italy, with reference to the financial statements of banks and financial companies subject to supervision, has established, by Circular 262 of 22 December 2005, as amended, the financial statements and Explanatory Notes used for the drafting of these Financial Statements. When drawing up these Financial Statements, illimity applied the provisions of Circular 262 – 7th update, issued on 29 October 2021, and took into account the supplements set out in the communication "Update to the supplements to the provisions of Circular no. 262 - Bank reporting: financial statements and rules on preparation", published on 21 December 2021, with the aim of providing the market with information about the effects of COVID-19 and the related economic support measures on intermediaries' strategies, targets and risk management policies, as well as on their performance and financial situation. These supplements take into account, where applicable, the documents published in recent months by European regulatory and supervisory bodies and by standard setters.

Lastly, the reclassifications and restatements provided for by the 7th update to Circular 262/2005, issued by Bank of Italy on 29 October 2021, were carried out whilst also recalculating the comparative figures as of 31 December 2020.

Except as stated herein – and more broadly described in Section 5 – there are no changes in the Accounting Standards adopted compared to the previous year.

Section 2 – Basis of Preparation

The Financial Statements comprise the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Shareholders' Equity, the Cash Flow Statement (drafted with application of the "indirect" method) and the Explanatory Notes. The Financial Statements are also accompanied by the Directors' Report on operations.

In accordance with Article 5 of Legislative Decree no. 38/2005, the financial statements have been drafted using the Euro as the functional currency. The amounts presented in the Bank's financial statements and the Explanatory Notes are stated in thousands of EUR, unless otherwise indicated. Any discrepancies between the figures presented are due solely to rounding.

These financial statements have been prepared on the assumption of continuity of the business, since there are no significant uncertainties regarding events or conditions that may lead to doubts as to the Group's ability to continue to operate as a going concern. The valuation criteria adopted are therefore consistent with the business continuity assumption and comply with the principles of competence, relevance and materiality of accounting information and the precedence of economic substance over legal form. These criteria remained unchanged from the previous year.

The financial statements are prepared in accordance with IAS 1 and the specific accounting standards approved by the European Commission as illustrated in the "Section on the main financial statement items" of these Explanatory Notes. The Financial Statements have been drafted with clarity and provide a true and fair view of the financial situation and economic result of illimity Bank S.p.A.

The general principles used in the preparation of the financial statements are outlined below:

- business continuity: the valuations are made on a going-concern basis;
- matching principle: costs and revenues are recognised in the period in which they accrue in relation to the services received and supplied, regardless of the date of cash settlement;
- consistency of representation: to guarantee the comparability of the data and information in the financial statements and related tables, the representation and classification methods are kept the same over time, unless they have to be changed to comply with international accounting standards or interpretations, or unless there is a need to make the presentation of data more significant and reliable;
- relevance and aggregation: each major class of items with a similar nature or function is shown separately in the statement of financial position and income statement; items with different functions or of different types, if important, are highlighted separately;
- prohibition on set off: a prohibition on set off applies, unless a set-off is provided for or permitted by the international accounting standards or interpretations, or by the Bank of Italy Circular 262 of 22 December 2005 as amended;
- comparison with the previous year: the financial statements and formats show the amounts from the previous year, which may be adapted to ensure that they can be compared;
- the financial statements are prepared on the basis of substance over form and in accordance with the principle of relevance and materiality of information.

The consolidated financial statements to 31 December 2021, which were approved by the Board of Directors on 10 March 2022, are subject to auditing by the auditing firm KPMG S.p.A.

Content of the financial statements

1. Statement of financial position and income statement

The statement of financial position and income statement consist of items, sub-items and additional details. In the income statement, revenues have been presented without sign, whereas costs have been stated in parentheses.

2. Statement of comprehensive income

In addition to the profit (loss) for the year, the statement of comprehensive income indicates income components taken to valuation reserves, net of the relevant tax effect, in accordance with international accounting standards.

Profitability With Regulation No. 475/2012, the European Commission harmonised various changes to IAS 1, aimed at clarifying the statement of comprehensive income (Other Comprehensive Income - OCI), by grouping items that would not be recycled to the income statement in the future and those that may be recycled to the income statement under certain conditions.

3. Statement of changes in shareholders' equity

The statement shows the composition of and changes in the shareholders' equity accounts during the year of the report, broken down into share capital (ordinary and savings shares), capital reserves, earnings reserves and reserves from the valuation of assets or liabilities and net profit. The treasury shares in portfolio are deducted from shareholders' equity.

4. Cash flow statement

The statement of cash flows during the reporting year was prepared on the basis of the indirect method, according to which the cash flows from operating activities are represented by the results for the financial year, adjusted by the effects of non-monetary operations. The cash flows are divided between those generated by operating activities, those generated by investment activities and those generated by financing activities.

In the statement, the cash flows generated during the year are indicated without sign, while those absorbed are indicated in brackets.

Content of the Explanatory Notes

The Explanatory Notes include the information required by the IAS and by the Circular of the Bank of Italy no. 262 issued on 22 December 2005, as amended and supplemented, applicable to the drafting of these financial statements.

The main accounting issues relating to COVID-19

In view of the particular seriousness of the events resulting from COVID-19, during 2020 and 2021, the IASB and various European regulators issued a series of measures relating to the accounting consequences of the pandemic. In addition to those reported in the financial statements as of 31 December 2020, the main measures issued in 2021 are listed below.

ESMA:

- On 29 October 2021, in the communication "European common enforcement priorities for 2021 annual financial reports", ESMA set out the priorities for producing IFRS annual financial statements that adequately reflect the consequences of the COVID-19 pandemic and the effects of the main government measures to support the economy, the effects in financial and non-financial terms arising from climate change, and ECL reports for financial institutions.

EBA:

- On 29 January 2021, the EBA published further clarifications on the application of the prudential framework in response to the issues raised following the COVID-19 pandemic.

CONSOB:

- On 16 February 2021, in its warning notice "COVID 19 - measures to support the economy - drawing attention to financial reporting", CONSOB drew the attention of issuers to:
  a) The disclosure to be provided by supervised issuers, based on the aforesaid ESMA document of 28 October 2020 - European common enforcement priorities for 2020 annual financial reports;
  b) Verification by control bodies on information flows with the management board;
  c) Verification by independent auditors on impacts that may arise from uncertainties related to the effects of the pandemic.

Section 3 - Subsequent events

In detail, subsequent events are described in the relevant section of the Report on Operations; in this part of the Explanatory Notes it is indicated that pursuant to the requirements of IAS 10, after 31 December 2021, the reporting date, no events occurred requiring any rectification of the information presented in the financial statements.

For an examination of the business outlook, refer to the Report on Operations.

Section 4 – Other aspects

Use of estimates and assumptions in preparing the financial statements

In compliance with the requirements of the IFRS framework, the preparation of the Report requires the use of estimates and assumptions that may influence the values recognised in the statement of financial position and income statement and the disclosures regarding contingent assets and liabilities presented in the financial statements.

The estimates and related assumptions are based on the use of available management information and subjective assessments, also founded on historical experience. The use of reasonable estimates is, thus, an essential part of the preparation of the financial statements. The components in which the use of estimates and assumptions is substantially inherent in determining the book values are indicated below:

- measurement of loans;
- measurement of financial assets not quoted in active markets;
- determination of the amount of accruals to allowances for risks and charges;
- determination of the amount of deferred taxation;
- assessments regarding the recoverability of goodwill;
- definition of the depreciation and amortisation of property and equipment and intangible assets with finite useful lives.

It should also be noted that an estimate may also be adjusted due to changes in the circumstances on which it was based, new information or greater experience. By their nature, the estimates and assumptions used may change from one period to the next. Accordingly, the values presented in the financial statement may differ, also to a significant degree, from current estimates. Any changes in the estimates are applied prospectively and therefore result in an impact on the income statement in the year which the change occurs as well as that for future years.

New documents issued by the IASB and endorsed by the EU, adoption of which is mandatory with effect from financial statements for years beginning on or after 1 January 2021.

Document title	Issue date	Effective date	Date endorsed	EU regulation and publication date
Extension of the Temporary Exemption from Applying IFRS 9 - Amendments to IFRS 4 Insurance Contracts	June 2020	1 January 2021	15 December 2020	(UE) 2020/2097 16 December 2020
Interest Rate Benchmark Reform - phase 2 - Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	August 2020	1 January 2021	13 January 2021	(UE) 2021/25 14 January 2021

As shown in the above table, the adoption of several amendments to accounting standards endorsed by the European Commission in 2020 and 2021 is mandatory with effect from 2021. These amendments are not particularly relevant to the Bank. In further detail:

- Commission Regulation (EU) 2020/2097: The amendments to IFRS 4 are aimed at remedying the temporary accounting impact of the time lag between the date of entry into force of IFRS 9 Financial instruments and the effective date of the future IFRS 17 Insurance contracts. In particular, amendments to IFRS 4 extend the temporary exemption from adopting IFRS 9 until 2023, in order to align the date of entry into force of IFRS 9 with the new IFRS 17;
- Commission Regulation (EU) 2021/25: The change is to take into account the consequences of replacing the benchmark indexes used to determine interest rates, with alternative reference rates. These amendments require specific accounting treatment to allocate, over time, changes in the value of financial instruments or lease agreements due to the replacement of the benchmark to determine interest rates, thus avoiding immediate repercussions on profit (loss) for the year and pointless suspensions in hedging following the replacement of the benchmark to determine interest rates.

IAS/IFRS and the relative IFRIC interpretations applicable to financial statements of financial years starting after 1 January 2021

Documents endorsed by the'EU as of 31 December 2021

Document title	Issue date	Effective date	Date endorsed	EU regulation and publication date
Improvements to IFRS (2018–2020 cycle) [Amendments to IFRS 1, IFRS 9, IFRS 16[1] and IAS 41]	May 2020	1 January 2022	28 June 2021	(UE) 2021/1080 02 July 2021
Property, plant and equipment – Proceeds before Intended Use (Amendments to IAS 16)	May 2020	1 January 2022	28 June 2021	(UE) 2021/1080 02 July 2021
Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37)	May 2020	1 January 2022	28 June 2021	(UE) 2021/1080 02 July 2021
Reference to the Conceptual Framework (Amendments to IFRS 3)	May 2020	1 January 2022	28 June 2021	(UE) 2021/1080 02 July 2021
IFRS 17 – Insurance Contracts (including amendments published in June 2020)	May 2017 June 2020	1 January 2023	19 November 2021	(EU) 2021/2036 of 23 November 2021

Documents NOT yet endorsed by the EU as of 31 December 2021

Document title	Date issued by IASB	Date of entry into force of the IASB document	Date of expected endorsement by the EU
Standards			
IFRS 14 Regulatory Deferral Accounts	January 2014	01 January 2016	TBD
Amendments			
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	September 2014	Deferred until completion of the IASB project concerning the equity method	TBD
Classification of Liabilities as Current or Non-current (Amendments to IAS 1), including subsequent amendment issued in July 2020 [2]	January 2020 July 2020	1 January 2023	TBD
Disclosure of Accounting policies (Amendments to IAS 1 and IFRS Practice Statement 2)	February 2021	1 January 2023	TBD
Definition of Accounting Estimates (Amendments to IAS 8)	February 2021	1 January 2023	TBD
Deferred tax related to assets and liabilities arising from a single transaction (Amendments to IAS 12)	May 2021	1 January 2023	TBD
Initial Application of IFRS 17 and IFRS 9 — Comparative Information (Amendment to IFRS 17)	December 2021	1 January 2023	TBD

These documents will only apply after they have been harmonised by the EU.

A.2 Section on the main financial statement items

This section presents the accounting standards used to prepare the financial statements as of 31 December 2021 with reference to the classification, recognition, measurement and derecognition of the various asset and liability items, and for the methods used for the recognition of costs and revenues.

1 The amendment to IFRS 16 was not endorsed by the European Union because the change refers to an illustrative example that is not an integral part of the Standard.

2 A project is being carried out by the IASB to amend the requirements of the document published in 2020 and to postpone its entry into force until 1 January 2024. The Exposure Draft was published on 19 November 2021.

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

This category of financial assets measured at fair value through profit or loss (FVTPL) includes Financial assets that cannot be qualified as Financial assets measured at fair value through comprehensive income or as Financial assets measured at amortised cost. This item therefore includes:

- financial assets held for trading, which are essentially debt and capital instruments and financial derivatives, for which there is a short-term profit-making strategy;
- financial assets mandatorily measured at fair value that do not meet the requirements for valuation at amortised cost or at fair value with an impact on comprehensive income. These are assets for which the contractual terms do not provide only for reimbursement of capital and payment of interest on the amount of capital to be returned (the so-called failed "SPPI test"), or which are not held in connection with a "Hold to Collect" business model, or whose objective is the "Hold to Collect and Sell" business model;
- financial assets designated at fair value, namely financial assets which are thus defined at the time of first recognition, if the requirements are met. An entity can irrevocably designate, on recognition, a financial asset as being measured at fair value through profit or loss if, and only if, by so doing it would eliminate or significantly reduce an inconsistency in valuation.

As reported above, this item includes derivatives, which are recognised among financial assets held for trading, which are represented as assets if the fair value is positive, and as a liability if the fair value is negative. It is observed that it is possible to offset the current positive and negative values from transactions with the same counterparty only if there is currently a legal right to offset the recognised amounts, and where there is an intention to settle the offset positions on a net basis. Derivatives may also include those incorporated in complex financial contracts – in which the primary contract is a financial liability – which have been recognised separately, as:

- their economic characteristics and risks are not closely correlated to the characteristics of the underlying contract;
- the incorporated instruments, even if separate, meet the definition of derivative;
- the hybrid instruments they belong to are not valued at fair value with the related changes recognised on the income statement.

Reclassifications to other categories of financial assets are only permitted if the entity changes its business model with regard to the management of financial assets. In such cases, which are expected to be infrequent, the financial assets may be reclassified from the category measured at fair value, affecting the income statement, to one of the other two categories permitted by IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at fair value affecting comprehensive income). The transfer value is represented by the fair value at the time of reclassification and the effects of reclassification operate on a forward-looking basis, from the date of reclassification. In this case, the effective interest rate of the reclassified asset is determined on the basis of its fair value on the reclassification date. That date is taken to be the date of first recognition, for stage assignment for impairment purposes.

The initial recognition of financial assets takes place on the date of settlement for debt securities and equity instruments, on the date of disbursement for loans, and on the date of subscription, for derivatives. Upon initial recognition, financial assets measured at fair value though profit and loss are recognised at fair value, without considering transaction costs or income, which are immediately recognised in the income statement, even if directly attributable to these financial assets.

After the first recognition, financial assets measured at fair value through profit or loss are measured at fair value and the effects of applying this measuring principle are charged to the income statement. To determine the fair value of financial instruments listed on an active market, the market prices are used. Without an active market, the commonly-adopted estimation and valuation models are used, which take into account all the risk factors related to the instruments and are based on observable market data, such as: (i) methods based on the valuation of listed instruments with similar characteristics; (ii) discounted cash flow calculations, models for determining the option prices; (iii) recorded values of recent comparable transactions.

Financial assets are eliminated from the financial statements when the contractual rights to the related cash flows expire, or when the financial asset is sold with a substantial transfer of all the related risks and benefits. Conversely, if a significant part of the risks and benefits of the sold assets has been maintained, the assets will still be recognised in the financial statements, even if legally, ownership of them has been effectively transferred.

If it is not possible to ascertain the material transfer of the risks and benefits, the financial assets will be eliminated if no type of control has been retained. Otherwise, even if partial control has been retained, the assets will be maintained to an extent equal to the residual involvement, which is measured by the exposure to changes in value of the sold assets and to changes in their cash flows.

Realised gains and losses on disposal or redemption and unrealised gains and losses arising from changes in the fair value of financial assets held for trading are recognised in the income statement under the item "Net trading result".

The accounting treatment of financial assets mandatorily measured at fair value or designated at fair value is similar to that of "Financial assets held for trading", with the recording of profits or losses, realised and measured, under the item "Profits (losses) on other financial assets and liabilities measured at fair value through profit or loss", respectively under the components "a) financial assets and liabilities designated at fair value" and "b) other financial assets mandatorily measured at fair value".

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

This category includes financial assets that meet both the following conditions:
- the financial asset is owned according to a business model the goal of which is achieved both through the collection of contractually determined cash flows and through the sale ("Hold to Collect and Sell" business model), and
- the contractual conditions of the financial asset provide for cash flows on certain dates which consist only of payments of capital and interest on the amount of capital to be repaid ("SPPI test" passed).

This item also includes equity instruments not held for trading for which, at the time of first recognition, the option for designation at fair value through other comprehensive income has been exercised.

In particular this item includes:
- debt instruments related to a Hold to Collect and Sell model which have passed the SPPI test;
- shareholder interests that cannot be qualified as controlling, connected or joint control, which are not held for trading purposes, and for which an option for designation at fair value through comprehensive income has been exercised;
- loans connected to a Hold to Collect and Sell model that have passed the SPPI test, including shares in syndicated loans or other types of loan that, from the origin, are destined for sale and which relate to a Hold to Collect and Sell business model.

In general, IFRS 9 does not allow reclassifications to other categories of financial assets except where the entity changes its business model with regard to the management of financial assets.

In such cases, which are expected to be very infrequent, the financial assets may be reclassified from the category of assets measured at fair value through comprehensive income to one of the other two categories permitted by IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at fair value affecting profit or loss). The transfer value is represented by the fair value at the time of reclassification and the effects of reclassification operate on a forward-looking basis, from the date of reclassification. In the case of reclassification from this category to the amortised cost category, the cumulative profit or loss recognised in the revaluation reserve is carried as an adjustment to the fair value of the financial asset on the date of reclassification. In the case of reclassification into the category of fair value through profit or loss, the profit or loss that was previously recognised in the revaluation reserve is reclassified from shareholders' equity to profit (loss) for the year.

The initial recognition of financial assets takes place on the date of settlement for debt instruments and equity instruments, and on the date of disbursement for loans. At the time of first recognition, the assets are recognised at fair value inclusive of the transaction costs or income directly attributable to the instrument. This excludes costs or revenues that, despite meeting the above conditions, are the subject of reimbursement by the borrower or can be classified under normal internal administration costs.

After initial recognition, assets classified at fair value through other comprehensive income other than equity instruments are measured at fair value and the impacts from application of amortised cost are recognised on the income statement together with the effects of impairment and any foreign exchange effect, while the other profits or losses arising from a change in fair value are recognised in a specific shareholders' equity reserve until the financial asset is derecognised. At the time of total or partial disposal, the profit or loss in the revaluation reserve is reinstated, in full or in part, in the income statement. Subsequent to the initial recognition, therefore, with regard to accrued interest on interest-bearing instruments, they are recognised in the income statement according to the amortised cost criterion in the line item "Interest and similar income" where positive, or in the line item "Interest expense and similar charges" if negative. Profits and losses arising g from changes in fair value are instead recognised in the Statement of comprehensive income and shown in the item "Valuation reserves" of shareholders' equity.

Equity instruments that were classified in this category are measured at fair value and the amounts recognised as a contra-entry of shareholders' equity (Statement of comprehensive income) must not be subsequently transferred to the income statement, not even in the case of disposal (OCI exemption). The only item relating to the equity instruments in question that is recorded on the income statement is the related dividends.

The fair value is determined on the basis of the principles already illustrated, for the Financial assets designated at fair value through profit or loss.

For the equity instruments included in this category not listed on an active market, the cost criterion is used to estimate the fair value only on a secondary basis and limited to a small number of circumstances, namely if none of the above valuation methods can be applied or if there is a wide range of possible fair value valuations, within which the cost is the most significant estimate.

Financial assets designated at fair value through other comprehensive income - in the form of debt or credit instruments – are subject to verification of the significant increase in credit risk (impairment) provided for in IFRS 9, like Assets at amortised cost, and therefore a write-down is recognised in the income statement to cover the expected losses. These impairment losses are recognised in the income statement under the item "Net losses/recoveries for credit risk relating to: b) financial assets measured at fair value through other comprehensive income", offset by the statement of comprehensive income and also shown under the item "Reserves from valuation" of shareholders' equity. Equity instruments are not recognised in the income statement as impairment in accordance with IFRS9. Only dividends will be shown in the income statement under the item "Dividends and similar income".

Financial assets are eliminated from the accounts when the contractual rights to the related cash flows expire, or when the financial asset is sold with a substantial transfer of all the related risks and benefits.

Conversely, if a significant part of the risks and benefits of the sold assets has been maintained, the assets will still be recognised in the financial statements, even if legally, ownership of them has been effectively transferred.

If it is not possible to ascertain the material transfer of the risks and benefits, the financial assets will be eliminated if no type of control has been retained. Otherwise, even if partial control has been retained, the assets will be maintained to an extent equal to the residual involvement, which is measured by the exposure to changes in value of the sold assets and to changes in their cash flows.

Finally, sold financial assets are derecognised if the contractual rights to receive the related cash flows have been retained with the simultaneous acceptance of an obligation to pay those cash flows, and only those, without a significant delay, to other third parties.

In the case of disposal, profit and losses are recognised in the income statement under the item "Profits/losses on disposal or repurchase of: b) financial assets measured at fair value through other comprehensive income".

The amounts arising from the adjustment made to the carrying amounts of financial assets, considered gross of the related total write-downs/write-backs, in order to reflect changes made to contractual cash flows that do not give rise to write-offs, are recognised in the income statement under the item "Profits/losses on changes in contracts without derecognition; this item does not include the impact of contractual changes on the amount of expected losses that must be recognised under the item "Net losses/recoveries for credit risk associated with: b) financial assets measured at fair value through other comprehensive income".

With regard to equity instruments, in the case of disposal, accumulated profits and losses are recorded under "Reserves".

3. Financial assets measured at amortised cost

This category includes financial assets (in particular, loans and debt instruments) that meet both the following conditions:

- the financial asset is owned according to a business model of which the goal is achieved through the collection of contractually determined cash flows ("Hold to Collect" business model), and
- the contractual conditions of the financial asset provide for cash flows on certain dates which consist only of payments of capital and interest on the amount of capital to be repaid ("SPPI test" passed).

Specifically, this item includes: customer and bank loans disbursed directly or acquired from third parties that provide for fixed or determinable payments, which are not listed on an active market and which have not been classified at origin under Financial assets measured at fair value through other comprehensive income.

The receivables item also includes debt instruments, repos and securities acquired through subscription or private placement with determinate or determinable payments, which are not listed on active markets.

In general, IFRS 9 does not allow reclassifications to other categories of financial assets except where the entity changes its business model with regard to the management of financial assets. In such cases, which are expected to be extremely infrequent, the financial assets may be reclassified from the category measured at amortised cost in one of the other two IFRS 9 categories (Financial assets measured at amortised cost or Financial assets measured at fair value through profit or loss). The transfer value is represented by the fair value at the time of reclassification and the effects of reclassification operate on a forward-looking basis, from the date of reclassification. The profits or losses resulting from the difference between the amortised cost of the financial asset and its relative fair value are recognised on the income statement in the case of reclassification among Financial assets designated at fair value through profit or loss and Shareholders' equity, in the relevant revaluation reserve, in the case of reclassification among Financial assets designated at fair value through other comprehensive income.

The initial recognition of the financial assets takes place on the date of settlement for debt instruments and on the date of disbursement for loans. At the time of first recognition, the assets are recognised at fair value inclusive of the transaction costs or income directly attributable to the instrument.

With particular reference to loans, the date of disbursement is usually the date on which the contract is signed. If this is not the case, when the contract is signed a commitment will be included to disburse funds, and this commitment ends on the date the loan is drawn down. The loan will be recognised on the basis of its fair value, equal to the amount lent, or the subscription price including the costs or income directly linked to the individual loan and which can be determined from the outset of the operation, even if paid at a later date. This excludes costs that, despite meeting the above conditions, are the subject of reimbursement by the borrower or can be classified under normal internal administration costs.

After first recognition the loans are measured at the amortised cost which is equal to the value of first recognition, reduced or increased by the repayments of capital, the write-downs/write-backs and the amortisation – calculated according to the effective interest rate method – of the difference between the amount loaned and the amount repayable on maturity, which is typically linked to the costs and income directly attributable to the individual loan.

The effective interest rate is the rate that discounts the flow of estimated future payments for the expected duration of the loan in order to obtain an accurate net book value at the time of the first recognition, which includes both the transaction costs and revenues directly attributable and also all the payments made or received between the contracting parties. This method of accounting, which uses a financial logic, allows the economic effects of the costs and income to be distributed along the expected residual life of the loan. Accrued interest is shown in the item "Interest income and similar income" where positive, or in the item "Interest expenses and similar charges" where negative. Any adjustments/write-backs are recognised in the income statement under the item "Net losses/recoveries for credit risk associated with: a) financial assets measured at amortised cost". In the event of sale, profits and losses are recognised in the income statement under the item "Profits/losses on disposal or repurchase of: a) financial assets measured at amortised cost". The amounts arising from the adjustment made to the carrying amounts of financial assets, considered gross of the related total write-downs/write-backs, to reflect changes made to contractual cash flows that do not give rise to write-offs, are recognised in the income statement under the item "Profits/losses on changes in contracts without derecognition"; this item does not include the impact of contractual changes on the amount of expected losses that must be recognised under the item "Net losses/recoveries for credit risk associated with: a) financial assets measured at amortised cost".

The amortised cost method is not used for loans of a short term for which the effect of applying the discounting method is considered negligible. Those loans are measured at the historic cost. The same measurement principle is used for loans with no definite maturity date, or revolving credit.

The measurement criteria are closely connected to the inclusion of these instruments in one of the three stages of credit risk provided for in IFRS 9, the last of which (stage 3) includes non-performing financial assets and the others (stages 1 and 2) include performing assets.

With reference to the presentation of these valuations, the write-downs/write-backs referring to this type of asset are recognised in the income statement:
- at the time of initial recognition, for an amount equal to the loss expected at 12 months;
- at the time of subsequent measurement, if the credit risk has not increased significantly compared to the initial recognition, based on the changes in write-downs/write-backs due to expected losses over the following twelve months;
- at the time of subsequent measurement, if the credit risk has significantly increased compared to initial recognition, based on the recognition of write-downs/write-backs for expected losses over the entire residual contractual life of the asset;
- upon subsequent measurement, if – after there has been a significant increase in the credit risk compared to initial recognition – the materiality of that increase no longer exists in relation to the change in cumulative write-downs/write-backs to take into account the transition from a loss over the asset's lifetime, to one over twelve months.

If the financial assets in question are performing, they are subjected to a valuation intended to define the write-downs/write-backs to be taken from the financial statements for each loan account (or "tranche" of the security), based on the risk parameters: probability of default (PD), loss given default (LGD) and exposure at default (EAD), and are adjusted as necessary to reflect the provisions of IFRS 9.

If, together with a significant increase in the credit risk there is also objective evidence of a loss in value, the amount of the loss is measured as the difference between the book value of the asset – classified as non-performing, in the same way as all the other relations with the same counterpart – and the current value of the estimated future cash flows, discounted at the original effective interest rate. The amount of the loss recorded on the income statement is defined according to a detailed valuation process, or is determined for identical categories and therefore, is attributed in detail to each position, taking into account forward-looking information and potential alternative recovery scenarios.

Non-performing assets include financial instruments that have been given bad loan status, unlikely to pay or overrun/past-due for more than 90 days according to the Bank of Italy regulations, in line with the IAS/IFRS and European regulation.
The expected cash flows take into account the expected recovery times and the presumed realisation value of any guarantees.

The effective original rate of each asset remains unchanged over time, even if there has been a restructuring of the account that led to the change in the contractual rate, and even if the account is not, in practice, bearing contractual interest.

If the reasons for the impairment are removed following a subsequent event occurring after the recognition of the change in value, write-backs are made and allocated to the income statement. The write-back may not exceed the amortised cost that the financial instrument would have had without such adjustments having been made.

Write-backs connected to the passage of time are posted in the net interest margin.

In some cases, during the life of the financial assets in question and of the loans in particular, the original contractual conditions are then modified by the parties to the contract. If the contractual terms are modified during the life of an instrument, there is a need to check whether the original asset is still to be recognised or needs to be de-recognised, and a new financial instrument recognised in its place.

In general, changes to a financial asset lead to its de-recognition and the entry of a new asset, if the changes are substantial. Considerations about the "substantiality" of changes are based on qualitative and quantitative factors. In some cases it may be clear, without using complex analyses, that the changes have substantially modified the characteristics and/or cash flows of a certain asset while in other cases, additional quantitative analysis has to be done to assess the effects of the changes, and to check whether or not to de-recognise the asset and enter a new one.

The quali-quantitative analyses intended to define the substance of the contractual changes made to a financial asset must therefore consider:

- the reasons why the changes were made: for example, renegotiations for commercial reasons and concessions due to financial difficulties of the counterparty;
  a) commercial reasons, designed to "keep" the customer, involve a borrower that is not in a situation of financial difficulty. This type of case includes any renegotiation designed to adapt the burden of the debt to the market conditions. These operations involve a change to the original contractual conditions, usually requested by the borrower, and relate to the onerousness off the debt resulting in an economic benefit to the borrower. In general it is considered that whenever the Bank renegotiates to avoid losing a customer, the renegotiations must be considered as substantial because if they did not take place, the customer could be financed by another bank, and the Bank would see a decrease in its expected future revenue;

b) the second type of renegotiation, which is done for “credit risk reasons” (forbearance measures) relates to the Bank’s attempt to maximise the recovery of cash flows from the original loan. The underlying risks and benefits, after the changes, are not usually substantially transferred, and, therefore, the accounting presentation that gives the most relevant information to the reader (apart from the information given below on objective elements) is “modification accounting” – which implies the recognition in the income statement of the difference between the carrying amount and the discounted value of the modified cash flows, discounted at the original interest rate – and not through derecognition;

- the presence of objective elements or triggers that affect the characteristics and/or contractual flows of the financial instrument (including change of currency, or changes to the type of risk the Bank is exposed to, if it is correlated to equity and commodity criteria), which the derecognition is expected to involve considering their impact (expected to be significant) on the original contractual flows.

Financial assets are derecognised only if the disposal resulted in the substantial transfer of all the risks and benefits connected to the assets. Conversely, if a significant part of the risks and benefits of the sold assets has been maintained, the assets will still be recognised in the financial statements, even if legally, ownership of them has been effectively transferred.

If it is not possible to ascertain the material transfer of the risks and benefits, the financial assets will be eliminated if no type of control has been retained. Otherwise, even if partial control has been retained, the assets will be maintained to an extent equal to the residual involvement, which is measured by the exposure to changes in value of the sold assets and to changes in their cash flows.

Finally, sold financial assets are derecognised if the contractual rights to receive the related cash flows have been retained with the simultaneous acceptance of an obligation to pay those cash flows and only those, without a significant delay, to other third parties.

4. Hedging operations

As of 31 December 2021 the Bank did not hold hedging instruments.

5. Equity investments

This item must include holdings in subsidiaries, affiliated companies and companies subject to joint control (joint ventures) by the Bank.

Companies are considered to be subject to control if the Bank is exposed to variable returns or holds rights to such returns due to its relations with the companies, and can simultaneously affect the returns by exercising its power over them. Control only exists if all the following elements are present simultaneously:

- the power to direct the subsidiary’s main activities;
- exposure to, or rights to variable returns, arising from the relation with the investee company;
- the capacity to exercise its power on the investee company, to influence the amount of its returns.

Companies are considered to be subject to significant influence (affiliates) if the Bank holds at least 20% of the voting rights (including potential voting rights) or if the Bank has a smaller share of the voting rights but can participate in determining the affiliate’s financial and operational policies because of particular legal conditions such as participation in shareholder agreements.

Companies are considered to be subject to joint control if their control is shared between the Bank and one or more other parties or when the unanimous consent of all the controlling parties is necessary for decisions about significant assets.

Investments in subsidiaries and companies subject to significant influence are recognised at cost at the settlement date, adjusted as necessary to reflect impairment.

For the purposes of the information on equity investments as given in Part B to these Explanatory Notes, shareholdings are considered significant if their value represents at least 5% of the Equity investments item, or if they are held in fully-consolidated entities.

On each reporting date, any objective evidence that the investment has been impaired, is verified. The recoverable value will then be calculated by considering the discounted value of the future cash flows that the equity investment could generate, including the final disposal value. Any lesser value thus determined with respect to the book value, is recognised in the same year in the income statement under the item "Profits (Losses) on equity investments". This item also includes any future write-backs if the reasons that led to the previous write-downs no longer exist.

On each financial closing date, the Group assesses whether there are any indications of long-term loss of value of the equity investments. If such indicators do emerge, an impairment test is carried out. If the carrying amount of the equity investments exceeds the recoverable value, they will be written down to reflect the recoverable value. The recoverable value is the higher of the fair value of an asset or cash generating unit (CGU) net of the cost of sale or value in use, and is determined for each individual asset, except where that asset generates cash flows that are not largely independent of those generated by other assets or asset groups, in which case the Group will estimate the recoverable value of the CGU to which the asset belongs.

In determining the value in use, the Group discounts at present value the estimated future cash flows using the discount rate that reflects the market valuations of the time value of money and the specific risks of the business.

If the loss of value recognised in previous years no longer exists or has been reduced, a write-back is made on the income statement up to the amount of the value of the cost prior to the write-down.

Equity investments are eliminated from the financial statements when the contractual rights to the related cash flows expire, or when the investment is sold with a substantial transfer of all the related risks and benefits.

6. Property and equipment

This item includes property and equipment for functional use (IAS 16), those held for investment (IAS 40) and inventories of property and equipment (IAS 2). Property and equipment also include rights of use acquired through lease agreements relating to the use of property and equipment (for the lessee) and operating leasehold assets (for the lessor) under IFRS 16.

This item includes long-term assets held for the purpose of generating income, for leasing or for administration purposes such as land, instrumental real estate, property investments, technical installations, furniture and fittings, tools of any type, and works of art.

Property and equipment also include the costs of improvement to leasehold assets if they can be separated from the assets themselves. If these costs are not independently functional and usable but future benefits are expected, they are entered under “other assets” and are depreciated over the shortest of the foreseeable life of the improvements, and the residual term of the lease. The related depreciation is entered under “Other operating expenses/income”. The value of Property and equipment also includes any advances paid for acquisition, and the restructuring of any assets not yet included in the production process and therefore not depreciated.

Property and equipment held for the provision of services or for administration purposes are defined as “for use in the business” (IAS 16), while assets “for investment purposes” (IAS 40) are those held to collect leasing charges and/or for the appreciation of the invested capital. Property and equipment constitute inventories (IAS2) where they are held for sale in the normal course of business.

Property and equipment are recognised at the cost of acquisition, adjusted by the ancillary costs and any incremental expenses, and are presented in the financial statements net of any impairment loss and depreciation on a straight line basis from the period in which they were input into the production process. Maintenance and repair costs that do not lead to an increase in the value of the assets are charged to the income statement for the period.

Subsequent to initial recognition, property and equipment are recognised at cost net of accumulated depreciation and impairment losses. In fact, property and equipment are systematically depreciated using the straight-line method, over their useful life. The properties are depreciated for a portion deemed appropriate to represent the deterioration of the assets over time as a result of their use, taking into account extraordinary maintenance costs, which increase the value of the assets.

However, the following are not depreciated:

- the land, whether acquired individually or incorporated into the value of the buildings, as it has an indefinite useful life;
- investment property that, as required by IAS 40, is measured at fair value through profit or loss, must not be depreciated;
- inventories (IAS 2): these assets are measured at the lesser between cost and the net realisable value.

A tangible asset is eliminated from the statement of financial position at the time of disposal, or when the asset is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any difference between the disposal value or recoverable amount and the book value is then recognised in the income statement respectively under the item "Profits (losses) on disposal of investments" or "Net adjustments/recoveries on property and equipment".

In application of IFRS 16, the item property and equipment also includes the right of use referring to lease contracts on property and equipment. A lease is defined as a contract the fulfilment of which depends on the use of an identified asset, and that conveys the right to control the use of the asset for a period of time in exchange for consideration: IFRS 16, therefore, applies to all transactions that provide for a right to use the good, regardless of its contractual form. The scope of application of the Standard excludes contracts that have terms of less than 12 months or that refer to leased assets with low unit values when new.

In accordance with IFRS 16, the Bank shall initially recognise an asset representing the Right of use ("ROU") of the leased asset, together with a liability represented by the present value of the expected future lease payments over the life of the lease contract (the "Lease Liability") discounted at the implicit rate of the transaction (if determinable); if the rate cannot be easily determined, the lessee shall instead use the incremental borrowing rate (IBR). The ROU is, therefore, initially determined by increasing the Lease Liability of the initial direct costs incurred by the lessee.

With regard to measurements following the initial recognition of lease contracts, the lessee must measure the ROU on the basis of a cost model; therefore:

- the right of use was depreciated over the term of the contract or the useful life of the asset (on the basis of IAS 16) and is subject to impairment;
- the liability was progressively reduced due to the effect of the lease payments and the relevant interest expenses recognised and attributed separately to the income statement.

7. Intangible assets

Non-monetary identifiable non-physical assets held to be used over several years or for an indefinite period, are termed intangible. They are generally represented by software and the rights to use intellectual property, trademarks and other intangible assets. They are recognised at the cost of purchase adjusted for any ancillary costs only if the future economic benefits attributable to the asset are likely to be realised and if the cost of the asset can be reliably determined. Otherwise, the cost of intangible assets is recognised in the income statement of the year in which it was incurred. Intangible assets also include rights of use acquired through lease agreements relating to the use of intangible assets under IFRS 16.

They are only recognised if the assets can be identified and originate from legal or contractual rights. Otherwise, the cost of intangible assets is recognised in the income statement of the year in which it was incurred. An intangible asset is identifiable if:

- it is separable, in other words it can be separated or divided and sold, transferred, given under licence, leased or exchanged;
- it derives from contractual or other legal rights regardless of whether those rights can be transferred or separated from other rights and obligations.

The asset can be controlled by the company as a result of past events on the assumption that through its use, the company will receive economic benefits. The company has control of an asset if it has the power to use the future economic benefits arising from that asset and it can also limit access to those benefits by third parties. An intangible asset is recognised as such if:

- it is probable that the company will receive future economic benefits from that asset;
- the cost of the asset can be reliably measured.

The probability that there will be future economic benefits is assessed by representing the best estimate of all the economic conditions that will exist during the useful life of the asset, taking into account the available sources of information at the time of initial recognition.

For assets with a definite life, the cost is amortised on a straight line basis. Assets with an indefinite useful life, if existing, are not systematically amortised but undergo a periodic test to check the adequacy of the recognition value.

If there is any indication that demonstrates that an asset may have suffered an impairment of value, its recovery value is estimated. The amount of the loss, recognised in the income statement under the item "Net adjustments/recoveries on intangible assets" is equal to the difference between the asset' carrying amount and its recoverable value.

Intangible assets are categorised as goodwill, which is the positive difference between the cost of purchase and the fair value of the assets and liabilities belonging to an acquired entity. Whenever there is a loss in value, and in any case at least once a year, a check is carried out to ensure there are no long-term value impairments. For this purpose the CGU to which the goodwill should be allocated, will be identified. The CGU is the minimum level at which the goodwill is monitored for internal operational purposes and must not be greater than the operating segment determined in accordance with IFRS 8.

Any reduction in value is determined on the basis of the difference between the recognition value of the goodwill and its recovery value, if lower. The recovery value is equal to the higher of the fair value of the CGU, net of any costs of sale, and the related value in use. The value in use is the current value of the future cash flows expected from the CGU to which the goodwill was attributed.

In order to verify the adequacy of goodwill value, the impairment test is carried out, governed by accounting standard IAS 36 – Impairment of Assets, which provides that, at least on an annual basis and, in any case, whenever events arise that suggest a potential impairment, a test must be carried out to verify the adequacy of the goodwill value subject to recognition. The impairment test is carried out identifying the units generating financial flows to which goodwill is allocated and, if the value of goodwill is lower than its recoverable value (determined as its value in use), any impairment losses must be recognised in the income statement, they are not susceptible to future value recoveries.

The value of intangible assets having a specific duration is systematically amortised starting from the inclusion of such assets in the production process. An intangible asset is therefore eliminated from the statement of financial position (i) at the time of disposal, (ii) when it is fully amortised or (iii) when future economic benefits are not expected. Any difference between the disposal value or recoverable amount and the carrying amount is recognised in profit or loss respectively under the item "Profits (losses) on disposal of investments" or "Net adjustments/recoveries on intangible assets"

With reference to the methods of recognition of leases pertaining to intangible assets in accordance with IFRS 16, see the paragraph referring to property and equipment.

8. Non-current assets held for sale and discontinued operations

"Non-current assets and asset groups held for sale" are classified under assets, while "Liabilities associated with non-current assets held for sale and discontinued operations", non-current assets or asset/liability groups for which a sale process has been initiated and whose sale is considered highly likely, are classified under liabilities.

Such assets/liabilities are valued at the lower of carrying amount and fair value net of disposal costs, with the exception of certain kinds of asset (e.g. financial assets falling within the scope of application of IFRS 9), for which IFRS 5 specifies that the valuation criteria of the pertinent accounting standard must be applied.

Non-current assets and asset groups may be included in portfolios of assets for which there are no prices on an active market. In that case, they should be valued at fair value, referring, if an agreement has been reached with the purchasing counterparty, to the sale prices resulting from said agreement; in the absence of an agreement, specific valuation techniques should be applied depending on the asset, potentially making use of external fairness opinions.

Income and expense (net of tax effect), attributable to asset groups held for sale or recognised as such during the course of the financial year, are recognised in the income statement under a separate item.

9. Current and deferred taxes

Income taxes, calculated in accordance with current tax regulations, are recognised in the income statement according to the accruals principle, in line with the recognition of the costs and revenues that generated them, apart from those relating to entries debited or credited directly to shareholders' equity, for which the recognition of the related taxes is done in shareholders' equity, for the sake of consistency. Current and deferred taxes are recognised in the income statement under the item "Income tax for the year of continuing operations", with the exception of those taxes that refer to items that are credited or debited, in the same or another year, directly to shareholders' equity, such as, for example, those relating to profits or losses on financial assets at fair value through comprehensive income and those relating to changes in the fair value of financial derivative instruments hedging cash flows, whose changes in value are recognised, after taxes, directly in the Statement of Comprehensive Income, among the Valuation Reserves.

Provisions for income taxes are determined on the basis of the provision of the current tax burden, the advance taxes and the deferred taxes.

In general, deferred tax assets and liabilities arise in cases where the deductibility or taxability of the cost or income is deferred with respect to their accounting recognition. Deferred tax assets and liabilities are recognised according to the tax rates that, as of the reporting date, are expected to be applicable in the year in which the asset will be realised or the liability will be extinguished, based on current tax legislation and are periodically reviewed in order to take into account any regulatory changes.

Deferred tax assets are recognised only to the extent that they are expected to be recovered through the production of sufficient taxable income by the entity. In accordance with IAS 12, the likelihood of future taxable income sufficient for the use of deferred tax assets is subject to periodic review. If the aforementioned review reveals that future taxable income is insufficient, the deferred tax assets are correspondingly reduced.

Deferred tax assets and liabilities are recognised in the statement of financial position in open balances without set-offs, the former being included in "tax assets" and the latter in "tax liabilities". Any deferred tax liabilities payable on capital reserves under tax suspension are not recognised, as it can reasonably be considered that there will be no operations that will result in their being taxed.

10. Allowances for risks and charges

Commitments and guarantees given

Allowances for risks and charges against commitments and guarantees given are recognised against all commitments and guarantees, revocable and irrevocable, whether they fall within the scope of IFRS 9 or within the scope of IAS 37. For these cases, the same allocation methods are adopted, in principle, between the three stages (credit risk stages) as well as the same calculation methods of the expected losses shown with reference to financial assets measured at amortised cost or the fair value through other comprehensive income.

Post-employment benefits

Post-employment benefits are set up to reflect company agreements and are classified as defined benefit plans. The liabilities relating to these plans and the welfare cost of current workers are determined according to actuarial assumptions, applying the "Unit Credit Projection" method, which projects the future expenditure based on historical statistical analysis, the demographic curve, and the financial discounting of these cash flows based on the market interest rate. The contributions paid in each year are considered as separate units and are identified and valued individually for the purposes of determining the final obligation. The discounting rate used is determined according to the market returns recognised on the measurement date, for the obligations of leading companies taking into account the liability's average residual life. The current value of the obligation on the reporting date is also adjusted by the fair value of any assets servicing the plan.

Actuarial gains and losses (which are changes in the current value of the obligation arising from changes in the actuarial assumptions are recognised as counterpart to shareholders' equity under the item "Valuation reserves" and shown on the statement of comprehensive income.

Other Allowances

Other Allowances for risks and charges include provisions for legal obligations and those relating to employment relations or disputes, including tax disputes, originating from a past event, for which an outlay of financial resources is probable in order to fulfil the obligations, but for which a reliable estimate of the amount cannot be made.

Therefore an allowance is recognised if, and only if:

- there is a current legal or implied obligation resulting from a past event;
- it is probable that funds designated to produce economic benefits will have to be used to fulfil the obligation;
- a reliable estimate can be made of the amount of the obligation.

The amount recognised as an allowance represents the best estimate of the cost required to fulfil the obligation on the reference date and reflects any risks and uncertainties that characterise multiple events and circumstances.

If the temporal value of money is a relevant aspect, the amount of the provision must be discounted at a rate, inclusive of the fiscal effects, which reflects the market valuations of the passage of time on the value of the liabilities and which takes into account the specific risks of the liability itself (IAS 37 - 45, 47). The allowance and the increases due to the time factor are recognised in the income statement.

The provision is reversed if the use of funds designed to produce economic benefits is improbable, or when the obligation is discharged. A provision is used only for the charges for which it was originally recorded.

The allocation for the year, recorded under the item "Net allocations to allowances for risks and charges: b) other net provisions" of the income statement, includes increases in provisions due to the passage of time and is net of any adjustments.

This item also includes long-term employee benefits, the cost of which is determined using simplified actuarial criteria compared to those described for the pension funds. Actuarial gains and losses are immediately recognised in the income statement.

11. Amounts due to customers

This item includes financial instruments, other than trading liabilities and those designated at fair value, representative of the various forms of supply of funds from third parties (loans, repurchase agreements, securities lending and bonds) and includes: (i) amounts due to banks, (ii) amounts due to customers, and (iii) securities issued. The item includes operational payables with the exception of those to providers of services and goods, and lease liabilities.

These financial liabilities are initially recognised on the contractual settlement date which is normally the time of receipt of the sums collected, or the issue of the debt securities.

Initial recognition is based on the fair value of the liabilities, normally corresponding to the amount received or the issue price, adjusted for any additional costs/income directly attributable to the individual supply or issue transaction. This excludes costs or revenues that, despite meeting the above conditions, are the subject of reimbursement by the borrower or can be classified under normal internal administration costs.

After initial recognition these financial liabilities are measured at the amortised cost using the effective interest rate method. Accrued interest is shown in the item "Interest expense and similar charges" if negative, or in the item “interest income and similar income” if positive.

Securities issued are measured at amortised cost using the effective interest rate method and they are presented net of any repurchased share. In the case of operations in own shares, the difference between the cost of repurchasing the securities issued and the value of the amortised cost is charged to the income statement. The subsequent sale of securities previously repurchased is, for accounting purposes, a new placement and therefore there is a change in the average carrying cost of the related liabilities and of the corresponding effective interest.

Liabilities are derecognised when they have expired or been discharged. They are also derecognised if there is a repurchase, even temporary, of previously issued securities.

Any difference between the carrying value of the discharged liability and the amount paid is registered in the income statement under the item “Profits (loss) on disposal or repurchase of: c) financial liabilities”. If, after the repurchase, the treasury shares are returned to the market, this operation is considered as a new issue and the liability is recognised at the new placement price.

12. Financial liabilities held for trading

The financial instruments in question are recognised as of the subscription date or the issue date, at a value equal to the fair value of the instrument, without considering any transaction costs or income directly attributable to the instruments themselves.

This category of liabilities includes, in particular, trading derivatives with negative fair value, as well as any implied derivatives with negative fair value that are separated from liabilities valued at amortised cost.

All trading liabilities are valued at fair value, with the result of the valuation recognised in the income statement.

Financial liabilities held for trading are removed from the financial statements when the contractual rights relating to the relevant cash flows expire, or when the financial liability is sold, with the essential transfer of all risks and benefits derived from the ownership thereof.

13. Financial liabilities designated at fair value

As of 31 December 2021 the Bank does not hold financial liabilities measured at fair value.

14. Foreign currency transactions

Foreign currency transactions are recognised at the time of settlement, at the exchange rate for the transaction at the amount in the original currency. Foreign currency assets and liabilities are converted at the spot exchange rates in force on the closing date (ECB official average).

"Off balance sheet" transactions are valued:
- at the spot exchange rate on the closing date if they are cash transactions not yet settled;
- at the forward exchange rate on the above date, for maturities corresponding to those of the valued operations, if they are forward transactions.

Foreign exchange differences arising from the settlement of monetary elements or from the conversion of monetary elements at rates other than those of initial conversion, or of conversion of the previous financial statements, are recognised in the income statement in the period in which they arise.

15. Other information

Impairment of financial instruments

According to IFRS 9, the following assets are subject to impairment provisions:
- financial assets measured at amortised cost;
- financial assets measured at fair value through other comprehensive income other than equity instruments;
- commitments to lend funds and guarantees issued that are not measured at fair value through profit or loss;
- contractual activities resulting from operations covered by the scope of application of IFRS 15.

The quantification of "Expected Credit Losses" (ECL), which are expected losses to be recorded as write-downs/write-backs on the income statement, is determined according to whether or not there is a significant increase in the credit risk of a financial instrument compared to the risk determined on the date of initial recognition.

For that purpose, instruments subject to impairment regulations are usually associated to different stages, which have different criteria to quantify write-downs/write-backs:
- if there is no significant increase in the credit risk compared to the initial recognition, the financial instrument is kept in stage 1 and is written down by the amount of the loss expected over 12 months (or the expected loss resulting from a default on the asset considered possible within 12 months from the date of the reference period);
- if there is a significant increase in the credit risk compared to the initial recognition, the financial instrument is classified in stage 2 or in stage 3 if the instrument is non-performing, and a write-down is recorded equal to the amount of the expected lifetime loss (or the expected loss resulting from a default on the asset considered possible during its life cycle).

An exception to this are the "Purchased or originated credit impaired financial assets", so-called POCI, dealt with in the next point of this paragraph.

Any significant increase in credit risk is identified on a case by case basis, using quali-quantitative criteria.

The criteria adopted by the Bank to understand the significant increase in credit risk are shown below.
- Quantitative criteria
  a) Negative change in the rating class (so-called delta notch).
- Qualitative criteria
  a) Rebuttable presumption – 30 days past due;
  b) Forbearance;
  c) POCI;
  d) Watchlist.

For more detailed information on the criteria adopted by the Bank to understand the significant increase in credit risk, reference is made to Part E of the Explanatory Notes to these Financial Statements.

Once the financial assets have been classified in the different Stages, for each exposure, it is necessary to determine the relative write-downs/write-backs following the logic of Expected Credit Loss ("ECL"), using appropriate calculation models. The principle on which the ECL is based is to create a connection between improvement or worsening of the risk profile of the exposure compared to the date of initial recognition in the financial statements, respectively with the increase or decrease in the provision funds.

For more detailed information on the criteria adopted by the Bank for the calculation of expected losses on loans classified in stage 1 and stage 2, refer to Part E of the Explanatory Notes to these Financial Statements.

Estimate of expected losses on non-performing positions (stage 3)

Non-performing positions are usually evaluated using analytical techniques. The criteria for estimating the adjustments to be made to non-performing loans are based on the discounting of expected cash flows taking into account any supporting guarantees, and any advances received. The fundamental elements in determining the current value of the cash flows are the identification of the estimated receipts, the related due dates, and the discounting rate to be applied. The amount of the adjustment is equal to the difference between the book value of the asset and the current value of the expected future cash flows, discounted at the original effective interest rate, which is updated as necessary in the case of a variable-rate instrument or, for positions classified as bad loans, at the effective interest rate in force on the date of transition to bad loan status.

Depending on the seriousness of the impairment and the materiality of the exposure, estimates of the recovery value will be based on a going concern approach which assumes that the counterparty's business will continue and will continue to generate cash flows, or alternatively on a gone-concern approach. The gone-concern approach is based on the assumption that the business that leads to the only source of cash available to recover the debt, will cease trading and that the underlying guarantees will be called on.

With particular regard to "bad loan" positions, the analytical assessment rules include forward-looking elements:

- in estimating the percentage of reduction in value of the real estate given as guarantee (estimated on the basis of the updated valuation reports or the report of the Court-appointed Expert);
- by introducing recovery scenarios for specific exposures, considering that they are expected to be sold within a reasonable period of time to a third party in order to maximise the cash flow and also based on a specific strategy for managing non-performing loans. Therefore, the estimated expected losses of such positions reflects not only recovery of the debt through ordinary management of the loan but also the presence of a suitably adjusted sale scenario and therefore, of the cash flows arising from this operation.

For more information on the criteria adopted by the Bank for the calculation of expected losses on positions classified in stage 3, refer to the contents of Part E of the Explanatory Notes.

Purchased or originated credit impaired financial assets (POCI)

Under IFRS 9, loans considered to be non-performing right from initial recognition due to the high level of associated credit risk, are termed Purchased or Originated Credit Impaired Assets (POCI). POCI also include loans acquired as part of sale operations (individual or portfolio sales) and business combinations.

Such loans, when included in the impairment perimeter for the purposes of IFRS 9, are valued by allocating, from the initial recognition date, provisions to cover the losses along the entire lifetime of the loan (Expected Credit Loss lifetime). As these are non-performing loans, the initial recognition takes place in stage 3, but they may be moved during their lifetime to stage 2 if they are no longer impaired, based on an analysis of the credit risk.

These assets are not identified under a specific financial statement item but are classified according to the business model in which the asset is managed, under the following headings:

- "Financial assets measured at fair value through comprehensive income";
- "Financial assets measured at amortised cost".

In terms of the initial recognition, measurement and derecognition criteria, refer to the criteria mentioned in the respective items.

Interest income must be calculated by applying the effective interest rate on the net value of the instrument (therefore also considering expected losses on loans) for POCI.

As for POCI, in some cases the financial asset is considered to be non-performing at the time of initial recognition because the credit risk is very high and in the case of acquisition, it has been acquired at a significant discount. In this case it is necessary to include in the cash flow estimates the expected losses on initial receivables for the purpose of calculating the credit-adjusted effective interest rate (also called "adjusted credit") for financial assets that are considered non-performing financial assets purchased or originated at the time of initial recognition.

Treasury shares

Treasury shares are recognised as a direct reduction of shareholders' equity.

Accruals and deferrals

Items that include costs and income pertaining to the period, accruing on assets and liabilities, are recognised as an adjustment to the assets and liabilities to which they refer.

Costs of leasehold improvements

The costs of refurbishing non-proprietary real estate are capitalised in consideration of the fact that the lessee has control of the property throughout the term of the rental agreement, and can derive future economic benefits from it. The aforementioned costs, classified under Other assets as they are not included in the scope of IFRS 16, as required by the Bank of Italy Instructions, are amortised over a period that never exceeds the duration of the rental agreement.

Employee benefits

Employee benefits are any type of remuneration paid by the company in exchange for work done by employees. Employee benefits are classified as:

1. short-term benefits (other than those due to employees the termination of employment contract, and share ownership benefits), which are expected to be paid in full within twelve months from the end of the year in which the employees did the work, and are recognised entirely in the income statement at the time of accrual (this category includes wages and salaries, and overtime);
2. post-employment benefits due after termination of the working relationship, which require the company to make future payments to staff. This type of benefit includes employee severance pay and pension fund which in turn can be divided into defined-contribution plans and defined-benefit plans or company pension schemes;
3. early retirement benefits, which are payments made by the company to employees in return for termination of the employment contract following the employee's decision to retire earlier than the normal retirement date;
4. long-term benefits other than the above, which are not expected to be paid in full within twelve months after the end of the year in which the employees did the work.

Employee severance pay

Employee severance pay ("TFR") is defined, under IAS 19 "Employee benefits" as a "post-employment benefit".

Following the entry into force of the 2007 Finance Act, which brought forward to 1 January 2007 the supplementary pension reforms in legislative decree no. 252 of 5 December 2005, amounts accruing from 1 January 2007 must be allocated, at the discretion of the employee, either to a supplementary pension fund or be kept within the company. For companies with at least 50 staff, the benefits must be transferred by the company to a fund managed by INPS. The obligation towards employees is considered a:

1. "defined contribution plan" for employee severance pay accruing from 1 January 2007 (the date of entry into force of the supplementary pension reforms in legislative decree no. 252 of 5 December 2005) whether the employee opts for a supplementary pension fund or whether the provision is allocated to the INPS Treasury fund. For these amounts, the amount recognised under personnel expenses is determined on the basis of the contributions due, without applying actuarial calculation methods;
2. "defined benefit plan" recognised according to the actuarial value determined according to the unitary credit projection method, for the amount of employee severance pay accruing up until 31 December 2006.

According to this method, the amount already accrued must be increased by the current service cost, which is projected into the future until the expected date of termination of the contract, and therefore discounted to the reference date. The current service cost is also determined on the basis of the employee's expected working life.

However in this specific case, the past liability is valued without applying the prorate of the services rendered, as the service cost ("service cost") of the TFR is already accrued in full. The annual provision thus only includes the "interest cost" pertaining to the revaluation of the service expected, as a result of the passage of time.

For discounting purposes, the rate used is determined on the basis of the market yield of the bonds of leading companies taking into account the average residual life of the liabilities, weighted according to the percentage of the amount paid and advanced, for each due date, compared to the total to be paid and advanced until the whole bond is completely discharged.

The costs of servicing the plan are recognised under personnel expenses, while the actuarial gains and losses are recognised on the statement of comprehensive income.

Share-based payments

Share-based personnel remuneration plans are recorded in the income statement, with a corresponding increase in shareholders' equity, based on the fair value of the financial instruments attributed on the assignment date, dividing the burden over the period provided for by the plan. In the presence of options, the fair value of the same is calculated using a model that considers, in addition to information such as the exercise price and the life of the option, the current price of the shares and their expected volatility, the expected dividends and the risk-free interest rate, as well as the specific characteristics of the existing plan. In the valuation model, the option and the probability of realisation of the conditions under which the options were assigned are assessed separately. The combination of the two values provides the fair value of the allocated instrument. Any reduction in the number of financial instruments allocated shall be accounted for as derecognition of part of them.

Recognition of revenues for commission income

The basic principle of IFRS 15 provides for the recognition of revenues when the transfer of control over the contractual goods or services takes place, at an amount that reflects the price that the company receives or expects to receive from the sale (IFRS15-31).

For the purposes of recognising these revenues on the accounts, there is a five-step process:
- Identification of the contract: contract for the sale of goods or services (or a combination of contracts);
- Identification of the performance obligations in the contract;
- Determination of the transaction price: the transaction price of the contract is defined by taking into account its various components;
- Allocation of price to the contract "performance obligations;
- Recognition of income when (or to the extent to which) the performance obligation has been fulfilled.

Business combinations

The accounting standard applicable to business combinations is IFRS 3.

The transfer of control of a company (or of a group of integrated assets and goods, which are managed as a single unit) constitutes a business combination.

Control is considered to have been transferred when the investor is exposed to variable returns or holds rights to such returns due to its relations with the investee company, and can simultaneously affect the returns by exercising its power over the investee.

Identifying the acquirer

IFRS 3 requires that for all business combinations an acquirer is identified. This is the person who obtains the control of another entity, in the sense of the power to determine that entity's financial and operational policies in order to receive benefits from its activities. If there are business combinations that determine the exchange of shareholdings, the acquirer's identification will be based on factors such as:
1. the number of new ordinary voting shares that will make up the capital of the existing company, post-combination;
2. the fair value of the businesses that participate in the combination;
3. the composition of the new corporate bodies;
4. the entity that issues the new shares.

Determining the cost of the combination

The price transferred in a business combination operation must be determined as a sum of the fair value, on the date of the exchange, of the assets transferred, the liabilities incurred or accepted and the equity instruments issued by the acquirer in exchange for control.

The price transferred by the acquirer in exchange for the acquired entity includes any asset or liability resulting from an agreement on the potential price, to be recorded on the acquisition date based on the fair value. The transferred price may be modified if additional information arises, about facts and events existing on the acquisition date and which can be recognised during the measurement period of the business combination (twelve months from the date of acquisition, as specified below). Any other change arising from any events or circumstances after the acquisition, such as a change for the vendor, linked to the achievement of certain income targets, must be recognised in the income statement.

The costs of the acquisition, including intermediation fees, advisory, legal, accounting and professional expenses, and general administration costs, are recognised in the income statement when they are incurred.

Segment reporting

The operating segment of the Bank is identified on the basis of IFRS 8 Operating Segments. This standard requires that information is given about the valuations made by company management in the aggregation of the operating segments, by describing the aggregated segments and performance measures used to determine that the aggregated segments have similar economic characteristics. As regards the above, reference is made to Part L – Segment reporting.

The fair value of financial instruments

The fair value is the price that would be received for a sale of an asset or which would be paid for the transfer of a liability in a normal operation between market operators (in other words, not a forced liquidation or sale below cost) on the valuation date. The fair value is a market valuation criterion, not specific to the entity. An entity needs to assess the fair value of an asset or liability by adopting the assumptions that the market operators would use when determining the price of the asset or liability, assuming that the market operators act to satisfy their own economic interests in the best possible way.

For financial instruments, the fair value is determined by using the market prices, in the case of instruments listed on active markets, or by using valuation models for the other financial instruments. A market is considered active if the listed prices, representing actual, regular market operations carried out during an appropriate reference period, are readily and regularly available on stock exchanges, through intermediaries, companies in the sector, pricing services or authorised entities.

The measurement method for a financial instrument is adopted on a continuing basis, and is only changed if there are significant variations in the market conditions.

Mutual open-end investment funds are considered to be listed on an active market, together with the equivalent investment instruments, spot and forward exchange transactions, futures, options and securities listed on a regulated market. Bonds for which at least two "executable" prices are continuously available on a pricing service are also considered to be listed on an active market, if the difference between the demand and supply price is below a range considered to be fair.

Instruments that do not fall into the above categories are not considered to be listed on an active market.
For financial instruments listed on active markets, the reference prices are used, namely the official closing prices or the prices of liquidation of the contract (always recorded at the end of the trading on the last market trading day in the reference period).

Units in mutual investment funds and similar instruments are valued on the basis of the prices given by the management companies, on dates consistent with the prices of the underlying financial instruments.
If there is no active, liquid market, the fair value of the financial instruments is mainly determined by using valuation techniques aimed at establishing the price of a hypothetical independent transaction motivated by normal market considerations, on the valuation date. In incorporating all the factors considered by the operators when setting the price, the valuation models take into account the financial value of time at the risk free rate, the risks of insolvency, early payment and redemption, volatility of the financial instrument and, applicable, the exchange rates, prices of raw materials and share prices.

For bonds and derivatives, valuation models have been defined that refer to current market values of substantially identical instruments, to the financial value of time and to options pricing models, by making reference to specific elements of the entity being valued and considering the market-observable criteria. These criteria are identified and applied in view of the liquidity, depth and observability of the reference markets, and the changes in the credit ratings of counterparties and issuers.

Tax credits connected with the "Cura Italia" and "Rilancio" Decrees

Decree Laws 18/2020 (Cura Italia) and 34/2020 ("Rilancio") introduced tax incentives which are commensurate with a percentage of expenditure incurred, and are disbursed as tax credits or tax deductions. Most of the tax credits covered by the tax incentives may be sold to third parties, that will use them according to specific applicable regulations. In fact these receivables are tax credits arising from incentives of which the use, unlike receivables arising from the payment of excess taxes, is governed by the provisions that introduce them.

The receivables in question may be used to offset taxes and contributions or may be further sold to third parties. None of the receivables in question may be refunded (wholly or in party) directly by the State. Moreover, receivables may be used, as applicable, for offsetting, without the possibility of carrying forward or requesting a refund for the part not offset in the reference year due to insufficient balances.

As indicated in the Document of the Bank of Italy/Consob/Ivass no. 9, once acquired from a third party, the specific aspects of the receivables do not allow for them to be immediately attributable to a specific international accounting standard: in fact these receivables are excluded from the provisions of IAS 12 "Income taxes" as they do not come under the taxes that cover the company's ability to generate income; they do not come under the definition of government grants given in IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance", as ownership of the receivable as regards the Revenue Agency only arises following the payment of an amount to the assignor; IFRS 9 Financial Instruments is not directly applicable, as the assets comprising the tax credits acquired do not originate from a contract between the assignee and the Italian government; lastly, IAS 38 "Intangible assets" does not apply as the tax credits in question cannot be considered as monetary assets, allowing for the payment of tax payables usually settled in cash. Therefore reference must be made to the provisions of IAS 8, which establish the following: In the absence of a Standard or an Interpretation that specifically applies to a transaction, other event or condition, management must use its judgement in developing and applying an accounting policy that results in information that is a) relevant for the economic decisions of users; and b) reliable [...]".

Based on these considerations, the Bank considered the following approach applicable:

a) *Initial recognition*: recognition of the tax receivable at the time of purchase for a value corresponding to the fair value, under the item "Other assets";
b) *Subsequent measurement*: application of IFRS 9, which provides for measurement at amortised cost.

With reference to the economic effects of income and expenses arising from the purchase and use of tax credits, this method reflects how financial instruments are managed at amortised cost.

Tax consolidation

illimity Bank S.p.A. has opted to be a part of the national tax consolidation scheme for Corporate Income Tax (IRES), as provided for in Articles 117-129 of the Consolidated Income Tax Act (TUIR). Under this scheme, the taxable income or tax losses of each company which is consolidated are transferred to the consolidating company - along with excess amounts of ACE (economic aid for growth), withheld taxes, tax deductions and receivables - for which a single taxable income or a single tax loss to carry forward is calculated, corresponding to the algebraic sum of the taxable income or tax losses of each company.

Regulations on national tax consolidation establish optional take-up, which is binding for three financial years (with automatic renewal) and is allowed for companies between which control exists as contemplated in Article 2359, paragraph 1) no. 1 of the Italian Civil Code.

A.3 Information on transfers between portfolios of financial assets

There were no such transfers in 2021.

A.4 Information on fair value

Qualitative information

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

Assessment of non-contributed shares and equity instruments

Items classified as level 3 are shares and equity instruments without market value contributions and for which it is not possible to identify transactions, in particular with reference to the M&A market, that, due to the time from the measurement date or nature of said provide significant information on the instruments being measured, nor are measurement techniques based on observable market multiples applicable.

In these cases, the measurement technique uses estimates of expected cash flows of the assessed entity and their expected value at the measurement date is determined. Significant exposures in non-contributed shares and equity instruments are, currently, ancillary to loan transactions, therefore the measurement techniques are consistent with the model used to measure loan transactions that evaluate the subject's capacity to repay the entire liability, including equity instruments and shares.

Measurement of structured loan products

Structured loan products are attributable to two types. The first relates to the subordinate tranches of securitisations of NPL portfolios, the second, to securitisations of investments in receivables linked to the energy sector.

In the first case the exposures are part of an investment strategy that involves the subscription of the senior quota by the bank; as the originator, it is required to subscribe to part of the subordinate tranches. The starting point for the valuation is the purchase transaction; the congruency of the price is based on an analysis of the portfolio's capacity to repay firstly the senior quota and thereafter the underlying tranches, according to a waterfall mechanism. This capacity is therefore monitored during payments in order to confirm expectations of recovery predicted during the origination stage.

In the second case, the exposures are single-tranche notes mandatorily valued at fair value through profit or loss.

Lastly, the valuation includes assumptions about the capacity of the underlying asset to generate cash flows, and therefore favours the inclusion of expected cash flows when the realisation of said cash flows has a high probability of occurring.

Valuation of OTC derivatives

Over The Counter (OTC) derivatives, whose value cannot be directly observed on the market, are valued using specific models and inputs pursuant to the asset class and the characteristics of the specific financial product. The valuation of OTC derivatives takes into consideration, as well as the market variables to which the instruments are sensitive, the specific risks pertaining to the counterparties with which they are traded, in particular:

- for transactions negotiated within a netting and margining agreement (CSA), the counterparty risk is considered non-material and the valuation of the instruments is based exclusively on the underlying risk factors, in accordance with the principle of non-arbitrage;
- for transactions negotiated without a netting and margining agreement, the valuation is carried out by adding the valuation of the instrument, as if it were subject to netting and margining, to the adjustments associated with the counterparty risk (i.e. credit valuation adjustment and debt valuation adjustment).

Derivatives in place at the end of the financial year are allocated, on the underlying basis, to the interest rate and foreign exchange rate classes. For both classes, the prevalent model adopted is the discounting cash flow model, with the addition of the Black model for the valuation of caps and floors that are ancillary to interest rate swaps.

The table below shows information about the measurement models and non-observable inputs for assets and liabilities measured at level 3 fair value.

Financial assets	Valuation method	Principal non-observable input
Securities and loans	Discounting Cash Flows	Recovery Rate
ABSs	Discounting Cash Flows	Recovery Rate
Fund units	NAV	

A.4.2 Processes and sensitivity of valuations

For a description of the process to measure instruments classified as having a level 3 fair value, reference is made to section A.4.1.

The table below shows the sensitivity of assets and liabilities valued at level 3 fair value with regard to one or more non-observable parameters. Data are reported for instruments measured using models that allow for analysis.

Financial assets	Non-observable parameters	Sensitivity (thousands of euros)	Change in non-observable parameter
FVTPL securities	Credit spread	(6)	1 bp
FVTPL securities	Recovery rate	(77)	(1%)

A.4.3 Fair value hierarchy

For transfers between the various fair value levels, the Bank uses the following principles:

- the presence or absence of a price on a regulated market;
- the presence or absence of a price on a non-regulated market, or of one or more counterparties willing to commit to price the stock;
- the quantity of the financial instrument held, such that would allow the forecast, or not, of a negative fluctuation in its valuation or price;
- new elements on which a new methodology could be based;
- the timing (date of the event or change, start and end of year) will be common to all the changes among the various valuation classes.

For securities held at fair value level 2:

- no transfers have been made between different fair value levels;
- the method used was the market price (Bloomberg BGN bid on the last available day), without making any modifications or adjustments;
- as the financial instruments are only debt instruments (bonds) at fixed or variable rates, this method reflects the trends in market interest rates and the risk level associated with the instruments' counterparties and issuers;
- this is the same measurement method used last year, for the same securities.

For securities held at fair value level 3:

- no transfers have been made between different fair value levels;
- as the quantity of shares held and the accounting method have not changed, no gains or losses were recorded;
- in the absence of prices on active markets and without any other elements such as the financial statements, the cost method is the only method that approximates the security's fair value.

To summarise the characteristics of the different fair value levels:

Level 1

The measurement is based on observable inputs or listed prices (without adjustment) on active markets for identical assets or liabilities, which the entity can access on the measurement date. The presence of official prices on active market, namely a market where the listed prices reflect ordinary operations (not forced, readily and regularly available), is the best evidence of fair value. These prices are the prices to be used preferentially, for the purposes of an accurate measurement of these financial instruments (the Mark to Market Approach). To determine the fair value of financial instruments listed on an active market, the market prices on the last day of the financial year are used.

Level 2

The measurement takes place using methods used if the instrument is not listed on an active market, and is based on inputs other than those for Level 1. The measurement of the instrument is based on prices taken from the market prices for similar assets, or using measurement techniques whereby all the significant factors are deduced from market-observable parameters. The pricing is non-discretionary as the main parameters used are drawn from the market and the calculation methods replicate the prices on active markets. If there is no active market, the estimation methods will be based on the measurement of listed instruments with similar characteristics, on the amounts recognised in recent comparable transactions, or by using measurement models that discount future cash flows, also taking into account all the risk factors connected to the instruments, and which are based on market-observable data.

Level 3

The measurement methods will value a non-listed instrument using significant non-market observable data and therefore they require the adoption of estimates and assumptions by management (the "Mark to Model Approach").

With reference to the instruments classified at level 3, a sensitivity analysis was carried out which showed that the changes in fair values are not material.

A.4.4 Other information

As of the reporting date there is no information to be given in relation to IFRS 13, paragraphs 51, 93 (i), 96 as:

- there are no assets measured at fair value on the basis of "highest and best use";
- there was no measurement of fair value at the level of total portfolio exposure to take into account the set-off of credit risk and market risk for a certain group of financial assets or liabilities (an exception ex IFRS 13, para. 48).

Quantitative information

A.4. *Fair value* hierarchy

Below is the information required by IFRS 7, for portfolios of financial assets and liabilities measured at *fair value* based on the three-level hierarchy illustrated above.

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

	31 December 2021			31 December 2020		
	L1	L2	L3	L1	L2	L3
1. Financial assets measured at fair value through profit or loss	98	896	75,553	106	-	18,396
a) financial assets held for trading	-	896	32	7	-	45
b) financial assets at fair value	-	-	-	-	-	-
c) other financial assets mandatorily measured at fair value	98	-	75,521	99	-	18,351
2. Financial assets measured at fair value through other comprehensive income	299,489	-	19	91,357	-	18
3. Hedging derivatives	-	-	-	-	-	-
4. Property and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	**299,587**	**896**	**75,572**	**91,463**	**-**	**18,414**
1. Financial liabilities held for trading	-	59	-	-	-	-
2. Financial liabilities designated at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	**-**	**59**	**-**	**-**	**-**	**-**

Key:

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

Instruments that are measured to a significant extent on the basis of non-observable parameters (Level 3) amount to 20.10% of the total financial assets measured at *fair value*, and on the reporting date are mainly represented by investments classified in the portfolio of "*Financial assets mandatorily measured at fair value*", referable to the Distressed Credit and Growth Credit divisions.

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

	Financial assets measured at fair value through profit or loss				Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Property and equipment	Intangible assets
	Total	of which: a) financial assets held for trading	of which: b) financial assets at fair value	of which: c) other financial assets mandatorily measured at fair value				
1. Opening balance	**18,397**	**45**	-	**18,352**	**18**	-	-	-
2. Increases	**62,533**	-	-	**62,533**	**1**	-	-	-
2.1. Purchases	50,395	-	-	50,395	-	-	-	-
2.2. Gains recognised in:	12,138	-	-	12,138	-	-	-	-
2.2.1. Income Statement	12,138	-	-	12,138	-	-	-	-
- of which capital gains	12,138	-	-	12,138	-	-	-	-
2.2.2. Shareholders' equity	-	X	X	X	-	-	-	-
2.3. Transfers from other levels	-	-	-	-	-	-	-	-
2.4. Other increases	-	-	-	-	1	-	-	-
3. Decreases	**5,377**	**13**	-	**5,364**	**-**	-	-	-
3.1. Sales	1,454	-	-	1,454	-	-	-	-
3.2. Repayments	3,826	-	-	3,826	-	-	-	-
3.3. Losses recognised in:	97	13	-	84	-	-	-	-
3.3.1. Income Statement	97	13	-	84	-	-	-	-
- of which capital losses	97	13	-	84	-	-	-	-
3.3.2. Shareholders' equity	-	X	X	X	-	-	-	-
3.4. Transfers from other levels	-	-	-	-	-	-	-	-
3.5. Other decreases	-	-	-	-	-	-	-	-
4. Closing balance	**75,553**	**32**	-	**75,521**	**19**	-	-	-

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

There are no liabilities measured at fair value on a recurring basis (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 levels of fair value

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis	31 December 2021				31 December 2020			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets measured at amortised cost	3,433,056	21,496	2,993	3,458,501	2,953,865	4,525		3,025,853
2. Property and equipment held for investment	-	-	-	-				
3. Non-current assets and groups of assets held for disposal	43,117	-	-	-				
Total	**3,476,173**	**21,496**	**2,993**	**3,458,501**	**2,953,865**	**4,525**	**-**	**3,025,853**
1. Amounts due to customers	3,909,121	516,329	-	3,409,334	3,526,373	304,716	2,234	3,150,796
2. Liabilities associated with non-current assets held for sale and discontinued operations	-	-	-	-				
Total	**3,909,121**	**516,329**	**-**	**3,409,334**	**3,526,373**	**304,716**	**2,234**	**3,150,796**

Key:

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

For the other financial instruments recognised at amortised cost and mainly classified among credits to banks or customers and among the financial liabilities, a fair value has been determined for the purposes of the Explanatory Notes, as required by the reference accounting standard, IFRS 7.

A.5 Information on "day one profit/loss"

According to paragraph 28 of IFRS 7, it is necessary to provide evidence of the "day one profit or loss" to be recognised on the income statement at year end, together with a reconciliation compared to the initial balance. "Day one profit or loss" refers to the difference between the fair value of a financial instrument acquired or issued at the time of initial recognition (transaction price) and the amount determined on that date using a valuation technique.

There are no cases that require reporting in this section.

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

	Total 31/12/2021	Total 31 December 2020
a) Cash and cash equivalents	308	382
b) Current accounts and on-demand deposits with central banks	492,599	944,439
c) Current accounts and on-demand deposits with banks	13,991	6,361
Total	**506,898**	**951,182**

The sub-item "b) On-demand deposits with Central Banks" records the liquidity deposited with the Bank of Italy.

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

2.1 Financial assets held for trading: breakdown

Items/values	Total 31 December 2021			Total 31 December 2020		
	L1	L2	L3	L1	L2	L3
A. Cash assets						
1. Debt securities	-	-	-	-	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	-	-	-	-
2. Equity securities	-	-	-	-	-	-
3. Units of UCIs	-	-	32	7	-	45
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Others	-	-	-	-	-	-
Total (A)	**-**	**-**	**32**	**7**	**-**	**45**
B. Derivatives						
1. Financial derivatives	-	896	-	-	-	-
1.1 held for trading	-	896	-	-	-	-
1.2 connected to the fair value option	-	-	-	-	-	-
1.3 others	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 held for trading	-	-	-	-	-	-
2.2 connected to the fair value option	-	-	-	-	-	-
2.3 others	-	-	-	-	-	-
Total (B)	**-**	**896**	**-**	**-**	**-**	**-**
Total (A+B)	**-**	**896**	**32**	**7**	**-**	**45**

Key:

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

2.2 Financial assets held for trading: borrower/issuer/counterparty breakdown

Items/values	Total 31 December 2021	Total 31 December 2020
A. CASH ASSETS		
1. Debt securities	-	-
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
2. Equity securities	-	-
a) Banks	-	-
b) Other financial companies	-	-
of which: insurance companies	-	-
c) Non-financial companies	-	-
d) Other issuers	-	-
3. Units of UCIs	32	52
4. Loans	-	-
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total (A)	**32**	**52**
B. DERIVATIVES		
a) Central counterparties	-	-
b) Others	896	-
Total (B)	**896**	**-**
Total (A+B)	**928**	**52**

2.3 Financial assets at fair value: breakdown by product type

The Bank does not hold financial assets at fair value.

2.4 Financial assets at fair value: breakdown by borrower/issuer

The Bank does not hold financial assets at fair value.

2.5 Other financial assets mandatorily measured at fair value: breakdown

Items/values	Total 31 December 2021			Total 31 December 2020		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**-**	**-**	**61,992**	**-**	**-**	**11,660**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	61,992	-	-	11,660
2. Equity securities	**-**	**-**	**9,875**	**-**	**-**	**6,691**
3. Units of UCIs	**98**	**-**	**3,654**	**99**	**-**	**-**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Others	-	-	-	-	-	-
Total	**98**	**-**	**75,521**	**99**	**-**	**18,351**

Key:

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

Financial instruments mandatorily measured at fair value through profit or loss as of 31 December 2021 amounted to EUR 75.6 million and include investments in equity instruments/earnouts for EUR 9.5 million attributable to the Growth Credit Division, and for EUR 0.8 million attributable to the Distressed Credit Division. The item also includes an energy business operation for EUR 59.0 million, units of an investment fund of illimity SGR for EUR 3.7 million, attributable to the Growth Credit Division, investments in Senior Financing for EUR 2.0 million and in junior and mezzanine notes for EUR 0.6 million.

2.6 Other financial assets mandatorily measured at fair value: breakdown by borrower/issuer

	Total 31 December 2021	Total 31 December 2020
1. Equity securities	**9,875**	**6,691**
of which: Banks	-	-
of which: other financial companies	-	-
of which: other non-financial companies	9,875	6,691
2. Debt securities	**61,992**	**11,660**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	32	17
d) Other financial companies	61,483	11,166
of which: insurance companies	-	-
e) Non-financial companies	477	477
3. Units of UCIs	**3,752**	**99**
4. Loans	**-**	**-**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**75,619**	**18,450**

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 type

Items/values	Total 31 December 2021			Total 31 December 2020		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**299,489**	**-**	**-**	**91,357**	**-**	**-**
1.1 Structured securities	2,986	-	-	-	-	-
1.2 Other debt securities	296,503	-	-	91,357	-	-
2. Equity securities	**-**	**-**	**19**	**-**	**-**	**18**
3. Loans	**-**	**-**	**-**	**-**	**-**	**-**
Total	**299,489**	**-**	**19**	**91,357**	**-**	**18**

Key:

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

The debt securities in the financial statement item were issued by governments (approximately EUR 199.2 million), credit institutions (approximately EUR 61.4 million), financial companies (approximately EUR 10.8 million) and non-financial companies (approximately EUR 28.1 million).

Equity instruments classified as "Financial assets measured at fair value through other comprehensive income (IAS)" are represented by equity holdings not qualifying as investments in subsidiaries, associates or joint ventures.

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

Items/values	Total 31 December 2021	Total 31 December 2020
1. Debt securities	**299,489**	**91,357**
a) Central banks	-	-
b) Public administrations	199,177	-
c) Banks	61,375	79,448
d) Other financial companies	10,837	11,909
of which: insurance companies	-	-
e) Non-financial companies	28,100	-
2. Equity securities	**19**	**18**
a) Banks	-	-
b) Other issuers:	19	18
- other financial companies	11	10
of which: insurance companies	-	-
- non-financial companies	8	8
- others	-	-
3. Loans	**-**	**-**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**299,508**	**91,375**

3.3 Financial assets measured at fair value through comprehensive income: gross amount and total write-downs/write-backs

	Gross amount					Total write-downs/write-backs			
	Stage one	of which: Instruments with low credit risk	Stage two	Stage three	Purchased or originated impaired	Stage one	Stage two	Stage three	Purchased or originated impaired
Debt securities	300,510	181,300	-	-	-	1,021	-	-	-
Loans	-	-	-	-	-	-	-	-	-
Total 31/12/2021	**300,510**	**181,300**	**-**	**-**	**-**	**1,021**	**-**	**-**	**-**
Total 31/12/2020	**91,471**	**8,648**	**-**	**-**	**-**	**114**	**-**	**-**	**-**

With regard to the approach used in the representation of the gross amount and total write-downs/write-backs of non-performing financial assets, refer to Part A - Accounting policies.

3.3a Financial assets measured at fair value through comprehensive income receiving Covid-19 support measures: gross amount and total write-downs/write-backs

The Group does not hold financial assets measured at fair value through comprehensive income subject to COVID-19 support measures.

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

4.1 Financial assets measured at amortised cost: breakdown of amounts due from banks

Type of operations/Values	Total 31 December 2021						Total 31 December 2020					
	Book value			Fair value			Book value			Fair value		
	Stage one and Stage two	Stage three	Purchased or originated impaired	L1	L2	L3	Stage one and Stage two	Stage three	Purchased or originated impaired	L1	L2	L3
A. Due from Central Banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Time deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Reserve requirements	-	-	-	X	X	X	-	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	-	-	-	X	X	X	-	-	-	X	X	X
B. Due from banks	**267,969**	**-**	**-**	**-**	**-**	**268,029**	**522,146**	**-**	**-**	**-**	**-**	**522,281**
1. Loans	267,969	-	-	-	-	268,029	522,146	-	-	-	-	522,281
1.1. Current accounts	-	-	-	X	X	X	-	-	-	X	X	X
1.2. Time deposits	69,792	-	-	X	X	X	114,477	-	-	X	X	X
1.3. Other loans:	198,177	-	-	X	X	X	407,669	-	-	X	X	X
- Reverse repurchase agreements	191,292	-	-	X	X	X	395,167	-	-	X	X	X
- Loans for leasing	-	-	-	X	X	X	-	-	-	X	X	X
- Others	6,885	-	-	X	X	X	12,502	-	-	X	X	X
2. Debt securities	-	-	-	-	-	-	-	-	-	-	-	-
2.1. Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2. Other debt securities	-	-	-	-	-	-	-	-	-	-	-	-
Total	**267,969**	**-**	**-**	**-**	**-**	**268,029**	**522,146**	**-**	**-**	**-**	**-**	**522,281**

Key:

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

The obligations to maintain the Compulsory reserve are fulfilled indirectly through BFF Bank S.p.A., with the balance recognised in the sub item "Time deposits". As can be seen from the above table, the financial statement item largely consists of Reverse Repurchase Agreements.

4.2 Financial assets measured at amortised cost: breakdown of loans to customers

Type of operations/Values	Total 31 December 2021						Total 31 December 2020					
	Book value			Fair value			Book value			Fair value		
	Stage one and Stage two	Stage three	Purchased or originated impaired	L1	L2	L3	Stage one and Stage two	Stage three	Purchased or originated impaired	L1	L2	L3
1. Loans	**1,655,298**	**21,024**	**417,427**	**-**	**-**	**2,233,415**	**1,000,545**	**51,552**	**245,345**	**-**	**-**	**1,369,720**
1.1. Current accounts	16,966	5,492	44,765	X	X	X	37,411	4,854	25,406	X	X	X
1.2. Reverse Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
1.3. Mortgages	211,066	5,335	251,737	X	X	X	291,499	45,124	166,073	X	X	X
1.4. Credit cards and personal loans, including wage assignment loans	683	143	-	X	X	X	673	57	-	X	X	X
1.5. Loans for leasing	-	-	-	X	X	X	-	-	-	X	X	X
1.6. Factoring	350,659	4,868	-	X	X	X	151,850	276	-	X	X	X
1.7. Other loans	1,075,924	5,186	120,925	X	X	X	519,112	1,241	53,866	X	X	X
2. Debt securities	**242,019**	**-**	**829,318**	**21,496**	**2,993**	**957,058**	**249,913**	**-**	**878,003**	**4,525**	**-**	**1,127,483**
2.1. Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2. Other debt securities	242,019	-	829,318	21,496	2,993	957,058	249,913	-	878,003	4,525	-	1,127,483
Total	**1,897,317**	**21,024**	**1,246,745**	**21,496**	**2,993**	**3,190,473**	**1,250,458**	**51,552**	**1,123,348**	**4,525**	**-**	**2,497,203**

Key:

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

“Other performing debt securities” primarily includes securities connected to securitisation operations for a total of EUR 217.8 million referring to the Distressed Credit division, as well as high-yield bonds for EUR 24.2 million referring to the Growth Credit division. The “Impaired financial assets” item under “Debt securities” also includes EUR 10 million of securities classified as “unlikely-to-pay”, relating to the Growth Credit division, as well as EUR 819 million of notes issued by vehicles belonging to the Group.

4.3 Financial assets measured at amortised cost: breakdown by borrower/issuer of loans to customers

Type of operations/Values	Total 31 December 2021			Total 31 December 2020		
	Stage one and Stage two	Stage three	Assets purchased or originated impaired	Stage one and Stage two	Stage three	Assets purchased or originated impaired
1. Debt securities	**242,019**	**-**	**829,318**	**249,913**	**-**	**878,003**
a) Public administrations	-	-	-	-	-	-
b) Other financial companies	227,612	-	819,281	245,760	-	878,003
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	14,407	-	10,037	4,153	-	-
2. Loans to:	**1,655,298**	**21,024**	**417,427**	**1,000,545**	**51,552**	**245,345**
a) Public administrations	13,085	35	-	11,409	-	-
b) Other financial companies	393,453	25	16,367	231,874	25	16,483
of which: insurance companies	239	-	-	454	-	-
c) Non-financial companies	1,211,308	18,646	361,805	712,159	48,654	202,217
d) Households	37,452	2,318	39,255	45,103	2,873	26,645
Total	**1,897,317**	**21,024**	**1,246,745**	**1,250,458**	**51,552**	**1,123,348**

4.4 Financial assets measured at amortised cost: gross amount and total write-downs/write-backs

	Gross amount					Total write-downs/write-backs				Total partial write-offs (*)
	Stage one	of which: Instruments with low credit risk	Stage two	Stage three	Purchased or originated impaired	Stage one	Stage two	Stage three	Purchased or originated impaired	
Debt securities	241,293	-	2,024	-	831,426	1,181	118	-	2,108	-
Loans	1,869,423	384,143	63,082	39,554	417,764	8,787	450	18,530	337	-
Total 31/12/2021	**2,110,716**	**384,143**	**65,106**	**39,554**	**1,249,190**	**9,968**	**568**	**18,530**	**2,445**	**-**
Total 31/12/2020	**1,724,868**	**154,661**	**58,525**	**69,899**	**1,126,453**	**9,471**	**1,318**	**18,347**	**3,105**	**-**

(*) Values to be stated for information purposes.

With regard to the approach used in the representation of the gross amount and total write-downs/write-backs of non-performing financial assets, refer to Part A - Accounting policies.

4.4a Loans measured at amortised cost receiving COVID-19 support measures: gross amount and total write-downs/write-backs

	Gross amount					Total write-downs/write-backs				Total partial write-offs (*)
	Stage one	of which: Instruments with low credit risk	Stage two	Stage three	Purchased or originated impaired	Stage one	Stage two	Stage three	Purchased or originated impaired	
1. Loans granted in accordance with GL	-	-	-	-	-	-	-	-	-	-
2. Loans subject to moratorium measures no longer in accordance with GL and not valued as forborne	-	-	-	-	-	-	-	-	-	-
3. Loans subject to other forbearance measures	12,294	-	8,023	367	-	52	116	81	-	-
4. New funding	487,451	-	20,546	5,222	-	2,436	107	739	-	-
Total 31/12/2021	**499,745**	**-**	**28,569**	**5,589**	**-**	**2,488**	**223**	**820**	**-**	**-**
Total 31/12/2020	**225,680**	**-**	**6,187**	**6,397**	**-**	**1,799**	**179**	**314**	**-**	**-**

(*) Values to be stated for information purposes.

Section 5 – Hedging derivatives – Item 50

The Bank has no Hedging operations.

Section 6 – Fair value change of financial assets in hedged portfolios – Item 60

The Bank has no Hedging operations.

Section 7 – Equity investments – Item 70

7.1 Equity investments: information on shareholding relationships

Name	Registered office	Operational headquarters	Shareholding %	Votes %
A. Wholly-owned subsidiaries				
1. Soperga RE S.r.l.	Milan	Milan	100%	100%
2. Friuli LeaseCo S.r.l.	Milan	Milan	100%	100%
3. Doria LeaseCo S.r.l.	Milan	Milan	100%	100%
4. River LeaseCo S.r.l.	Milan	Milan	100%	100%
5. neprix s.r.l.	Milan	Milan	100%	100%
6. illimity SGR S.p.A.	Milan	Milan	100%	100%
7. Pitti LeaseCo S.r.l.	Milan	Milan	100%	100%
8. River Immobiliare S.r.l.	Milan	Milan	100%	100%
9. Aporti S.r.l.	Milan	Milan	66.7%	66.7%
10. Friuli SPV S.r.l.	Milan	Milan	100%	100%
11. Doria SPV S.r.l.	Milan	Milan	100%	100%
12. Pitti SPV S.r.l.	Milan	Milan	100%	100%
13. River SPV S.r.l.	Milan	Milan	100%	100%
B. Jointly-owned associates				
14. Hype S.p.A.	Biella	Biella	50%	50%
C. Companies in which significant influence is exercised				
15. SpicyCo S.r.l.	Milan	Milan	49%	49%
16. SpicyCo 2 S.r.l.	Milan	Milan	49%	49%

7.2 Significant shareholdings: book values, fair values and dividends received

Name	Book value	Fair Value	Dividends received
A. Wholly-owned subsidiaries			
1. Soperga RE S.r.l.	10	n.a	-
2. Friuli LeaseCo S.r.l.	10	n.a	-
3. Doria LeaseCo S.r.l.	10	n.a	-
4. River LeaseCo S.r.l.	10	n.a	-
5. neprix s.r.l.	22,040	n.a	-
6. illimity SGR S.p.A.	4,022	n.a	-
7. Pitti LeaseCo S.r.l.	10	n.a	-
8. River Immobiliare S.r.l.	10	n.a	-
9. Aporti S.r.l.	11	n.a	-
10. Pitti SPV S.r.l.	14	n.a	-
11. Friuli SPV S.r.l.	14	n.a	-
12. Doria SPV S.r.l.	14	n.a	-
13. River SPV S.r.l.	14	n.a	-
B. Jointly-owned associates			
14. Hype S.p.A.	87,696	n.a	-
C. Companies in which significant influence is exercised			
15. SpicyCo S.r.l.	5	n.a	-
16. SpicyCo 2 S.r.l.	5	n.a	-
Total	**113,895**	**n.a**	**-**

7.3 Significant shareholdings: accounting information

The information in this Paragraph is not provided pursuant to the provisions of Circular 262.

7.4 Non-significant shareholdings: accounting information

The Bank does not hold such shareholdings as of the reporting date.

7.5 Equity investments: annual changes

	Total 31 December 2021	Total 31 December 2020
A. Opening balance	**23,512**	**1,079**
B. Increases	**90,383**	**23,423**
B.1 Purchases	87,773	21,423
- from business combinations	-	-
B.2 Write-backs	-	-
B.3 Revaluations	-	-
B.4 Other changes	2,610	2,000
C. Decreases	**-**	**990**
C.1 Sales	-	-
- from business combinations	-	-
C.2 Write-downs	-	-
C.3 Impairment	-	990
C.4 Other changes	-	-
D. Closing balance	**113,895**	**23,512**
E. Total revaluations	**-**	**-**
F. Total write-downs	**-**	**-**

illimity acquired a 50% stake in Hype, as part of a joint venture with the Sella Group. The partnership was established at the beginning of 2021, with the aim of creating and developing a digital platform for financial and payment services that is more innovative than traditional banking models. The price paid was determined by the parties based on their shared targets for the growth and development of the partnership.

Due to the life cycle stage of the company and of the joint venture project on which the investment is based, at the time the stake in Hype was acquired, no intangible assets could be identified that were distinguishable from goodwill, i.e. from the overall expectations of the future economic benefits generated by the investment in the context of the partnership. Consequently, the transaction generated implied goodwill of EUR 65.1 million.

The impairment test, governed by accounting standard IAS 36, is aimed at verifying that the recoverable value of an asset is not lower than its book value on the reference date. If the test shows a recoverable value that is less than the book value, the difference constitutes an impairment loss to be recognised in the income statement by aligning the book value with the recoverable value determined.

For the purposes of the impairment test, the recoverable value is defined as the greater of Value in Use and Fair Value net of sales costs. Value in Use expresses the current value of the future cash flows expected to be generated by the continued "use" of the asset. Fair Value represents the price that would be received for the sale of the asset in a regular transaction between market operators on the valuation date, less sales costs.

Pursuant to IAS 36, it is not always necessary to determine both configurations of recoverable value, if one of the two is greater than the book value. It is therefore sufficient for at least one of the two configurations of recoverable value to be greater than the book value for the impairment test to be considered to have been passed.

In the case in question, taking into account the company's specific business model, its current life cycle stage and the availability of preliminary projections, which are in the process of being drawn up and finalised by management, the impairment test was carried out by referring to the configuration of recoverable value based on value in use, estimated using the Excess Capital variant of the Dividend Discount Model.

In order to corroborate the results of the impairment test achieved by estimating the value in use, the fair value net of sales costs was also estimated, using (i) the Stock Market Multiples method and (ii) the Transaction Multiples method.

The impairment test yielded positives results using both the Dividend Discount Model and the control methods.

Section 8 – Property and equipment – Item 80

8.1 Property and equipment with functional use: breakdown of assets measured at cost

Assets/Values	Total 31 December 2021	Total 31 December 2020
1. Proprietary assets	**1,025**	**2,317**
a) land	-	-
b) buildings	-	943
c) furniture and fittings	546	673
d) electronic systems	454	608
e) others	25	93
2. Rights of use acquired through lease agreements	**18,781**	**18,970**
a) land	-	-
b) buildings	17,783	17,854
c) furniture and fittings	-	-
d) electronic systems	-	-
e) others	998	1,116
Total	**19,806**	**21,287**
of which: obtained by enforcement of guarantees received	-	-

8.2 Property and equipment held for investment: breakdown of assets measured at cost

The Bank does not hold such assets as of the reporting date.

8.3 Property and equipment with functional use: breakdown of revalued assets

The Bank does not hold such assets as of the reporting date.

8.4 Property and equipment held for investment: breakdown of assets measured at fair value

The Bank does not hold Property and Equipment held for investment measured at fair value as of the reporting date.

8.5 Inventories of property and equipment governed by IAS 2: breakdown

The Bank does not hold these items as of the reporting date.

8.6 Property and equipment with functional use: annual changes

	Land	Buildings	Furnishings	Electronic systems	Others	Total
A. Gross opening balance	**-**	**22,480**	**1,676**	**1,963**	**1,876**	**27,995**
A.1 Total net write-downs	-	3,683	1,003	1,355	668	6,709
A.2 Opening net balance	**-**	**18,797**	**673**	**608**	**1,208**	**21,286**
B. Increases:	**-**	**1,678**	**24**	**51**	**374**	**2,127**
B.1 Purchases	-	1,678	24	51	374	2,127
- from business combinations	-	-	-	-	-	-
B.2 Capitalised expenditure on improvements	-	-	-	-	-	-
B.3 Write-backs	-	-	-	-	-	-
B.4 Positive changes in fair value charged to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Positive foreign exchange differences	-	-	-	-	-	-
B.6 Transfers from properties held for investment purposes	-	-	X	X	X	-
B.7 Other changes	-	-	-	-	-	-
C. Decreases:	**-**	**2,692**	**151**	**205**	**559**	**3,607**
C.1 Sales	-	600	-	-	-	600
- from business combinations	-	-	-	-	-	-
C.2 Depreciation	-	1,691	151	205	507	2,554
C.3 Write-downs/write-backs from impairment charged to	-	331	-	-	-	331
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	331	-	-	-	331
C.4 Negative changes in fair value charged to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Negative foreign exchange differences	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) property and equipment held for investment	-	-	X	X	X	-
b) non-current assets and groups of assets held for disposal	-	-	-	-	-	-
C.7 Other changes	-	70	-	-	52	122
D. Closing net balance	**-**	**17,783**	**546**	**454**	**1,023**	**19,806**
D.1 Total net write-downs	-	4,577	1,150	1,560	1,137	8,424
D.2 Gross closing balance	**-**	**22,360**	**1,696**	**2,014**	**2,160**	**28,230**
E. Measurement at cost	-	-	-	-	-	-

8.7 Property and equipment held for investment: annual changes

The Bank does not hold such assets as of the reporting date.

8.8 Inventories of property and equipment governed by IAS 2: annual changes

The Bank does not hold these items as of the reporting date.

8.9 Commitments to purchase Property and equipment

The Bank did not hold such commitments as of the reporting date.

Section 9 - Intangible assets – Item 90

9.1 Intangible assets: breakdown

Assets/Values	Total 31 December 2021		Total 31 December 2020	
	Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life
A.1 Goodwill	**X**	**21,643**	**X**	**21,643**
A.2 Other intangible assets	**43,588**	**-**	**30,107**	**-**
of which software	40,417	-	25,988	-
A.2.1 Assets measured at cost:	43,588	-	30,107	-
a) internally generated intangible assets	4,791	-	3,252	-
b) other assets	38,797	-	26,855	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) internally generated intangible assets	-	-	-	-
b) other assets	-	-	-	-
Total	**43,588**	**21,643**	**30,107**	**21,643**

Impairment Tests

The estimate of the value in use, for impairment testing purposes, of intangible assets with an indefinite life (including goodwill), that do not generate cash flows unless with the contribution of other company assets, in line with provisions in IAS 36, requires the preliminary allocation of such intangible assets to organisational units that are fairly autonomous in management terms, that can generate flows of financial resources widely independent of those produced by other areas of activities, but interdependent within the organisational unit generating them. These units are known as *Cash Generating Units* (CGU).

According to IAS 36, when identifying whether incoming cash flows originating from an asset (or group of assets) are widely independent of those arising from other assets (or groups of assets), the entity considers various factors, including the way in which company management controls the operations of the entity or how company management takes decisions on keeping the goods and assets of the entity operational or on their disposal.

In line with provisions in IAS 36, the level at which goodwill is tested must be correlated with the level of *reporting* within which management controls the dynamics that increase and decrease this value. Under this profile, the definition of such a level depends closely on the organisational models and allocation of management responsibilities for the purposes of defining guidance for operating activities and consequent monitoring. The organisational models may leave aside the structure of the legal entities through which operations take place and, very often, are closely related to the definition of operating segments used in the segment reporting contemplated in IFRS 8.

IAS 36 and IFRS 8 require that one factor to be considered when identifying CGUs is the organisation of the information system determined by the entity, to allow *management* to assess the results achieved by the various sectors of the business in order to take strategic decisions.

As the organisational model adopted by illimity Bank is not structured by legal entity, as the adoption of strategic decisions by illimity's *management* takes place at Group level, overall, and not at the level of individual *legal entity*, and as the activities performed by the investees are strictly functional to the activities performed directly by the parent company, the CGUs are identified under a broader scope which coincides with the one used as a reference for the consolidated financial reports . Thus the impairment test performed a consolidation level is also relevant for the individual financial reports, in order to verify the value for the recognition of goodwill that emerged at the time of the *allocation* by SPAXS (the company which merged with illimity on 5 March 2019) of the purchase price of EUR 21.6 million for Banca Interprovinciale, and of the controlling interests.

In light of the above, the impairment testing carried out for the purposes of preparing the Consolidated Financial Statements was considered valid also with reference to the Separate Financial Statements. Where there is a write-down of the goodwill for a certain CGU on the consolidated financial reports, that write-down must be attributed on the individual financial reports to the assets of the same CGU, not tested individually, namely goodwill and the controlling interests.

For a description of the criteria used to determine the CGU and procedures for goodwill impairment testing, reference is made to Part B - Intangible assets of the Explanatory Notes to the Consolidated Financial Statements.

9.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: internally generated		Other intangible assets: others		Total
		DEF	INDEF	DEF	INDEF	
A. Opening balance	**21,643**	**3,974**	**-**	**32,608**	**-**	**58,225**
A.1 Total net write-downs	-	723	-	5,752	-	6,475
A.2 Opening net balance	**21,643**	**3,251**	**-**	**26,856**	**-**	**51,750**
B. Increases	**-**	**2,643**	**-**	**19,038**	**-**	**21,681**
B.1 Purchases	-	2,169	-	18,576	-	20,745
- from business combinations	-	-	-	-	-	-
B.2 Increases in internal intangible assets	X	-	-	-	-	-
B.3 Write-backs	X	-	-	-	-	-
B.4 Increases in fair value	-	-	-	-	-	-
- to shareholders' equity	X	-	-	-	-	-
- to the income statement	X	-	-	-	-	-
B.5 Positive foreign exchange differences	-	-	-	-	-	-
B.6 Other changes	-	474	-	462	-	936
C. Decreases	**-**	**1,103**	**-**	**7,097**	**-**	**8,200**
C.1 Sales	-	-	-	-	-	-
- from business combinations	-	-	-	-	-	-
C.2 Write-downs/write-backs	-	641	-	6,077	-	6,718
- Amortisation	X	641	-	6,077	-	6,718
- Write-downs	-	-	-	-	-	-
+ shareholders' equity	X	-	-	-	-	-
+ income statement	-	-	-	-	-	-
C.3 Negative changes in fair value:	-	-	-	-	-	-
- to shareholders' equity	X	-	-	-	-	-
- to the income statement	X	-	-	-	-	-
C.4 Transfer to non-current assets held for sale	-	-	-	-	-	-
C.5 Negative foreign exchange differences	-	-	-	-	-	-
C.6 Other changes	-	462	-	1,020	-	1,482
D. Closing net balance	**21,643**	**4,791**	**-**	**38,797**	**-**	**65,231**
D.1 Total net write-downs/write-backs	-	1,213	-	11,590	-	12,803
E. Gross closing balance	**21,643**	**6,004**	**-**	**50,387**	**-**	**78,034**
F. Valuation at cost	-	-	-	-	-	-

Key:

DEF: finite life;
INDEF: indefinite useful life.

9.3 Intangible assets: other information

The following information is provided in accordance with IAS 38:

1) there are no revalued intangible assets nor impediments to the distribution of the related gains to shareholders;
2) there are no intangible assets acquired through government concession;

3) there are no intangible assets provided as a guarantee to secure own liabilities nor commitments to buy such assets;
4) there are no leases pertaining to intangible assets.

SECTION 10 – Tax assets and tax liabilities – Item 100 of assets and Item 60 of liabilities

Tax assets amounted to approximately EUR 37 million as of 31 December 2021, up from the EUR 28 million recognised as of 31 December 2020. Details of the breakdown of tax assets are shown below.

10.1 Deferred tax assets: breakdown

	Total 31 December 2021	Total 31 December 2020
– As a contra entry to the income statement	32,170	26,403
– As a contra entry to shareholders' equity	4,726	1,704
Total	**36,896**	**28,107**

Main deductible temporary differences: IRES	31 December 2021	31 December 2020
Depreciation of loans and receivables with customers	1,324	1,573
Tax losses	560	10,608
ACE	-	5,422
Write-down of securities HTCS	2,696	134
Goodwill	5,357	5,952
Others	20,885	2,714
Total	**30,822**	**26,403**

Main deductible temporary differences: IRAP	31 December 2021	31 December 2020
Depreciation of loans and receivables with customers	163	193
Write-down of securities HTCS	546	27
Goodwill	1,085	1,205
Others	4,280	279
Total	**6,074**	**1,704**

10.2 Deferred tax liabilities: breakdown

As regards tax liabilities, relating to deferred taxes, as of 31 December 2021 they amounted to Euro 0.6 million, compared to Euro 0.1 million as of 31 December 2020.

Main taxable temporary differences: IRES	31 December 2021	31 December 2020
Revaluation of securities HTCS - FVOCI	32	55
Others	517	33
Total	**549**	**88**

Main taxable temporary differences: IRAP	31 December 2021	31 December 2020
Revaluation of securities HTCS - FVOCI	7	11
Others	57	7
Total	**64**	**18**

Deferred tax liabilities are recognised to reflect the temporary differences between the book value of an asset or liability, and its fiscal value. This recognition takes place in accordance with current tax laws.

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

	Total 31 December 2021	Total 31 December 2020
1. Initial amount	**26,403**	**29,480**
2. Increases	**24,548**	**10,395**
2.1 Deferred tax assets recognised during the year	24,548	10,395
a) related to previous years	-	-
b) due to changes in accounting criteria	-	-
c) write-backs	-	-
d) others	24,548	10,395
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
– from business combinations	-	-
3. Decreases	**18,781**	**13,472**
3.1 Deferred tax assets derecognised during the year	18,781	13,418
a) reversals	18,781	13,418
b) write-downs of non-recoverable items	-	-
c) changes in accounting criteria	-	-
d) others	-	-
3.2 Reductions in tax rates	-	54
3.3 Other reductions:	-	54
a) conversion into tax credits pursuant to Law no. 214/2011	-	-
b) other	-	-
– from business combinations	-	-
4. Final amount	**32,170**	**26,403**

Deferred tax assets are recognised on the basis of the probability of their recovery or the possibility of there being sufficient future taxable income.

In support of the reasonable certainty of the future recovery of the deferred tax assets that justifies their recognition in the financial statements pursuant to IAS 12, a so-called probability test was conducted. The test consists of simulating the ability to recover the deductible temporary differences and tax losses accrued at the reporting date using future taxable income. The probability test conducted on the basis of the Bank's income plans yielded positive results, indicating that deferred tax assets would be reabsorbed by 2022.

The rates used for advance taxes for IRES and IRAP purposes are 27.50% (including the supplement) and 5.57% respectively.

10.3bis Changes in deferred tax assets pursuant to Law no. 214/2011

	Total 31 December 2021	Total 31 December 2020
1. Initial amount	**1,767**	**1,821**
2. Increases	**-**	**-**
- from business combinations	-	-
3. Decreases	**279**	**54**
3.1 Reversals	279	-
3.2 Conversion into tax credits	-	54
a) arising from losses for the year	-	54
b) arising from tax losses	-	-
3.3 Other reductions	-	-
4. Final amount	**1,488**	**1,767**

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

	Total 31 December 2021	Total 31 December 2020
1. Initial amount	**2**	**2**
2. Increases	**234**	**-**
2.1 Deferred tax liabilities recognised during the year	-	-
a) related to previous years	-	-
b) due to changes in accounting criteria	-	-
c) other	-	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	234	-
– from business combinations	-	-
3. Decreases	**-**	**-**
3.1 Deferred tax liabilities derecognised during the year	-	-
a) reversals	-	-
b) due to changes in accounting criteria	-	-
c) other	-	-
3.2 Reductions in tax rates	-	-
3.3 Other reductions	-	-
– from business combinations	-	-
4. Final amount	**236**	**2**

10.5 Changes in deferred tax assets (recognised in shareholders' equity)

	Total 31 December 2021	Total 31 December 2020
1. Initial amount	**1,704**	**2,348**
2. Increases	**3,717**	**51**
2.1 Deferred tax assets recognised during the year	3,717	51
a) related to previous years	-	-
b) due to changes in accounting criteria	-	-
c) other	3,717	51
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
– from business combinations	-	-
3. Decreases	**695**	**695**
3.1 Deferred tax assets derecognised during the year	695	695
a) reversals	695	695
b) write-downs of non-recoverable items	-	-
c) due to changes in accounting criteria	-	-
d) others	-	-
3.2 Reductions in tax rates	-	-
3.3 Other reductions	-	-
– from business combinations	-	-
4. Final amount	**4,726**	**1,704**

10.6 Changes in deferred taxes (recognised in shareholders' equity)

	Total 31 December 2021	Total 31 December 2020
1. Initial amount	**104**	**653**
2. Increases	**300**	**-**
2.1 Deferred taxes recognised during the year	300	-
a) related to previous years	-	-
b) due to changes in accounting criteria	-	-
c) other	300	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
– from business combinations	-	-
3. Decreases	**27**	**549**
3.1 Deferred taxes derecognised during the year	27	549
a) reversals	-	-
b) due to changes in accounting criteria	-	-
c) other	27	549
3.2 Reductions in tax rates	-	-
3.3 Other reductions	-	-
– from business combinations	-	-
4. Final amount	**377**	**104**

10.7 Other information

Current taxes for the year and for prior years, where unpaid, are recognised as liabilities; any surplus paid in terms of an advance on the amount due, is recognised as an asset. The current fiscal liabilities (assets) for the current year and for prior years are determined at the value expected to be paid/recovered from the tax authorities, applying the current tax rates and regulations. Current fiscal assets and liabilities are derecognised in the year in which the assets are realised or the liabilities are discharged. The tables below show the amounts of the current fiscal assets and liabilities.

Current fiscal assets: breakdown

Type of operations/Values	31 December 2021	31 December 2020
Deferred taxes paid to tax authority	4,546	1,995
Withholding taxes	1	1
Other receivables from the Treasury	441	1,052
Total	**4,988**	**3,048**

Current fiscal liabilities: breakdown

Type of operations/Values	31 December 2021	31 December 2020
Balance for the previous year	2,930	-
Provision for taxes	16,064	2,930
Withdrawals to pay taxes	(2,930)	-
Other changes	-	-
Total	**16,064**	**2,930**

Section 11 – Non-current assets and groups of assets held for disposal and associated liabilities - Item 110 of assets and Item 70 of liabilities

11.1 Non-current assets and asset groups held for sale: breakdown by asset type

	Total 31 December 2021	Total 31 December 2020
A. Assets held for sale		
A.1 Financial assets	43,117	-
A.2 Equity investments	-	-
A.3 Property and equipment	-	-
of which: obtained by enforcement of guarantees received	-	-
A.4 Intangible assets	-	-
A.5 Other non-current assets	-	-
Total (A)	**43,117**	**-**
of which measured at cost	43,117	-
of which measured at level 1 fair value	-	-
of which measured at level 2 fair value	-	-
of which measured at level 3 fair value	-	-
B. Discontinued operations		
B.1 Financial assets measured at fair value through profit or loss	-	-
– financial assets held for trading	-	-
– financial assets designated at fair value	-	-
– other financial assets mandatorily measured at fair value	-	-
B.2 Financial assets measured at fair value through other comprehensive income	-	-
B.3 Financial assets measured at amortised cost	-	-
B.4 Equity investments	-	-
B.5 Property and equipment	-	-
of which: obtained by enforcement of guarantees received	-	-
B.6 Intangible assets	-	-
B.7 Other assets	-	-
Total (B)	**-**	**-**
of which measured at cost	-	-
of which measured at level 1 fair value	-	-
of which measured at level 2 fair value	-	-
of which measured at level 3 fair value	-	-
C. Liabilities associated with assets held for sale		
C.1 Payables	-	-
C.2 Securities	-	-
C.3 Other liabilities	-	-
Total (C)	**-**	**-**
of which measured at cost	-	-
of which measured at level 1 fair value	-	-
of which measured at level 2 fair value	-	-
of which measured at level 3 fair value	-	-
D. Liabilities associated with discontinued operations		
D.1 Amounts due to customers	-	-
D.2 Financial liabilities held for trading	-	-
D.3 Financial liabilities designated at fair value	-	-
D.4 Funds	-	-
D.5 Other liabilities	-	-
Total (D)	**-**	**-**
of which measured at cost	-	-
of which measured at level 1 fair value	-	-
of which measured at level 2 fair value	-	-
of which measured at level 3 fair value	-	-

Section 12 – Other assets – Item 120

12.1 Other assets: breakdown

Items	
Ecobonus tax credits	91,982
Miscellaneous items	49,607
Various borrowers	26,253
Items being processed	15,489
Leasehold improvements	974
Total 31/12/2021	**184,305**
Total 31/12/2020	**33,767**

The item is largely composed of ecobonus tax credits, various borrowers and miscellaneous items linked to normal banking operations, which will be properly recorded in the days following their generation.

LIABILITIES

Section 1 – Amounts due to customers – Item 10

1.1 Amounts due to customers: breakdown of amounts due to banks

Type of operations/Values	Total 31/12/2021				Total 31/12/2020			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
1. Due to central banks	**182,355**	X	X	X	**184,721**	X	X	X
2. Due to banks	**228,932**	X	X	X	**339,728**	X	X	X
2.1 Current accounts and on-demand deposits	-	X	X	X	5	X	X	X
2.2 Time deposits	37,843	X	X	X	30,353	X	X	X
2.3 Loans	190,649	X	X	X	308,546	X	X	X
2.3.1 Repurchase agreements - payable	190,649	X	X	X	308,546	X	X	X
2.3.2 Others	-	X	X	X	-	X	X	X
2.4 Liabilities in respect of commitments to repurchase equity instruments	-	X	X	X	-	X	X	X
2.5 Lease liabilities	-	X	X	X	-	X	X	X
2.6 Other payables	440	X	X	X	824	X	X	X
Total	**411,287**	**-**	**-**	**411,287**	**524,449**	**-**	**-**	**524,449**

Key:

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

The explanation of the criteria for determining fair value is reported in Part A - Accounting policies. Repurchase agreements - payable against financial assets sold and not derecognised are detailed in Part E - Section E of the Explanatory Notes.

As per the ESMA communication of 6 January 2021 the book value of the TLTRO III operation as of 31 December 2021 amounted to EUR 182.4 million.

1.2 Amounts due to customers: breakdown of amounts due to customers

Type of operations/Values	Total 31/12/2021				Total 31/12/2020			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and on-demand deposits	1,076,440	X	X	X	833,413	X	X	X
2. Time deposits	1,888,702	X	X	X	1,769,012	X	X	X
3. Loans	7,636	X	X	X	74,597	X	X	X
3.1 Repurchase agreements - payable	-	X	X	X	-	X	X	X
3.2 Others	7,636	X	X	X	74,597	X	X	X
4. Debt for commitments to repurchase equity instruments	-	X	X	X	-	X	X	X
5. Payables for leasing	22,571	X	X	X	21,748	X	X	X
6. Other payables	2,697	X	X	X	2,175	X	X	X
Total	**2,998,046**	**-**	**-**	**2,998,046**	**2,700,945**	**-**	**-**	**2,626,349**

Key:

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

1.3 *Amounts due to customers: breakdown of securities issued*

Type of securities/Values	Total 31/12/2021				Total 31/12/2020			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. bonds	499,788	516,329	-	-	300,980	304,716	2,234	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 others	499,788	516,329	-	-	300,980	304,716	2,234	-
2. other securities	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 others	-	-	-	-	-	-	-	-
Total	**499,788**	**516,329**	**-**	**-**	**300,980**	**304,716**	**2,234**	**-**

Key:

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

Securities issued were equal to EUR 500 million, up on the previous year, due to the issue of the subordinated bond during the third quarter of 2021.

1.4 *Breakdown of subordinated payables/securities*

	31 December 2021	31 December 2020
Subordinated securities	**200,432**	**-**
– banks	-	-
– customers	200,432	-

1.5 *Breakdown of structured debts*

The Group does not hold such structured debts on the reporting date.

1.6 *Payables for leases*

At the reporting date, the Bank had outstanding payables for leases equal to EUR 22.6 million, divided between EUR 21.6 million relating to the rental component of Properties for personal and business use, and EUR 1.0. million relating to the component of long-term rental of automobiles.

Section 2 – Financial liabilities held for trading – Item 20

2.1 Financial liabilities held for trading: breakdown by product type

Type of operations/Values	Total 31 December 2021					Total 31 December 2020				
	Net Value	Fair Value			Fair Value (*)	Net Value	Fair Value			Fair Value (*)
		L1	L2	L3			L1	L2	L3	
A. On-balance sheet liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Amounts due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	X	-	-	-	-	X
3.1 Bonds	-	-	-	-	X	-	-	-	-	X
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	X	-	-	-	-	X
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Others	-	-	-	-	X	-	-	-	-	X
Total (A)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivatives										
1. Financial derivatives	X	-	59	-	X	X	-	-	-	X
1.1 Held for trading	X	-	59	-	X	X	-	-	-	X
1.2 Connected to the fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Others	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	X	-	-	-	X	X	-	-	-	X
2.1 Held for trading	X	-	-	-	X	X	-	-	-	X
2.2 Connected to the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Others	X	-	-	-	X	X	-	-	-	X
Total (B)	**X**	**-**	**59**	**-**	**X**	**X**	**-**	**-**	**-**	**X**
Total (A+B)	**X**	**-**	**59**	**-**	**X**	**X**	**-**	**-**	**-**	**X**

Key:

BV = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3
Fair value (*) = Fair value calculated excluding changes in value due to a change in the issuer's creditworthiness compared with the issue date.

Section 3 – Financial liabilities designated at fair value – Item 30

The Group does not hold such financial liabilities measured at fair value on the reporting date.

Section 4 – Hedging derivatives – Item 40

The Group does not hold such hedging derivatives on the reporting date.

Section 5 – Fair value change of financial liabilities in hedged portfolio – Item 50

The Bank does not hold such generic hedging financial liabilities on the reporting date.

Section 6 – Tax liabilities – Item 60

Refer to Section 10 of Assets.

Section 7 – Liabilities associated with non-current assets held for sale and discontinued operations – Item 70

The Group does not hold liabilities associated with non-current assets held for sale and discontinued operations at the reporting date.

Section 8 – Other liabilities – Item 80

8.1 Other liabilities: breakdown

Items	
Miscellaneous items	24,309
Due to suppliers	20,589
Due to the Treasury	13,273
Due to employees	9,692
Due to social security and welfare bodies	2,614
Various borrowers	1,990
Total 31/12/2021	**72,467**
Total 31/12/2020	**50,135**

The item consists mainly of miscellaneous items and trade payables to suppliers; this item also includes tax payables.

Section 9 – Employee severance pay – Item 90

Following the reforms to supplementary pensions in legislative decree no. 252 of 5 December 2005, post-employment benefits accruing from 1 January 2007 can be allocated either to supplementary pension schemes or transferred to the INPS pension fund, at the employee's discretion. The provisions take into account the actuarial valuations.

9.1 Employee severance pay: annual changes

	Total 31/12/2021	Total 31/12/2020
A. Opening balance	**1,682**	**1,059**
B. Increases	**788**	**724**
B.1 Provisions for the year	686	691
B.2 Other changes	102	33
– from business combinations	-	-
C. Decreases	**135**	**101**
C.1 Payments made	81	97
C.2 Other changes	54	4
– from business combinations	-	-
D. Closing balance	**2,335**	**1,682**
Total	**2,335**	**1,682**

The following criteria were used to calculate the TFR for IAS purposes:

SUMMARY OF TECHNICAL ECONOMIC ASSUMPTIONS

	31 December 2021	31 December 2020
Annual discount rate	1.09%	0.53%
Annual inflation rate	1.75%	0.80%
Annual rate of TFR increase	2.81%	2.10%
Annual rate of salary increase	1.00%	1.00%

It should be noted that:

- the annual discount rate used to determine the current value of the obligation is taken, in accordance with paragraph 83 of IAS 19, from the Iboxx Corporate A index with a duration of 10+ as recorded on the measurement date. The yield with a comparable duration to that of the collective body of workers being valued was chosen for this purpose;
- the annual rate of increase in TFR as provided for in Article 2120 of the Italian civil code is 75% of inflation +1.5 percentage points;

- the annual salary increase rate applied exclusively to companies with on average fewer than 50 staff during 2006 was determined in accordance with the information provided by the Company's Managers.

The technical demographic assumptions used are illustrated below.

SUMMARY OF TECHNICAL DEMOGRAPHIC ASSUMPTIONS

Death	RG 48 mortality tables published by the State General Accounting Office
Incapacity	INPS tables by age and gender
Retirement	100% on reaching the AGO requirements

9.2 Other information

The new IAS19 for post-employment defined benefit plans requires a series of additional pieces of information which must be included in the Explanatory Notes to the financial statements, such as:

- a sensitivity test for each actuarial scenario at year-end, highlighting the effect that would arise if there were changes to the actuarial scenarios that were reasonably possible on that date, in absolute terms;
- an indication of the contribution for the following year;
- an indication of the average financial duration of the obligation for defined-benefit plans;
- the payments provided for in the plan.

That information is detailed below:

Sensitivity test for the main valuation criteria	31 December 2021
Turnover rate +1.00%	2,282,448.83
Turnover rate -1.00%	2,401,059.95
Inflation rate +0.25%	2,408,440.22
Inflation rate -0.25%	2,267,442.42
Discount rate +0.25%	2,247,161.07
Discount rate -0.25%	2,431,168.20

Estimated future payments	31 December 2021
Payments scheduled for 1st year	101,899.02
Payments scheduled for 2nd year	115,428.81
Payments scheduled for 3rd year	217,188.62
Payments scheduled for 4th year	221,652.69
Payments scheduled for 5th year	174,451.54

Reconciliation of IAS 19 valuations for the period	31 December 2021
Defined Benefit Obligation as of 01/01/21	1,681,869.97
Service Cost	671,745.07
Interest Cost	14,906.82
Benefits paid	(80,774.47)
Transfers in/(out)	(52,983.77)
Expected DBO as of 31/12/2021	2,234,763.61
Actuarial (Gains)/ Losses from experience	12,060.89
Actuarial (Gains) or Losses due to change in financial assumptions	89,566.14

Reconciliation of TFR IAS 19 and statutory TFR	31 December 2021
Defined Benefit Obligation as of 31/12/21	2,336,390.64
Statutory TFR as of 31/12/2021	1,820,010.72
Surplus/(Deficit)	(516,379.92)

Service Cost and Duration	31 December 2021
Service Cost per future year	774,045.58
Duration of plan (years)	24.5

The book values, relating to the interval between the previous valuation and the current one are represented by the following components:

- the initial DBO, namely the current expected value of benefits payable in the future for work done in the past, already available at the start of the period;
- the Curtailment/Settlement, i.e. the change in the liability due to modifications to the plan or events resulting in a reduction in personnel, such as plant closures, mobility, etc.;
- the Service Cost (SC), which is the current expected value of benefits payable in the future in relation to work done in the current period, which in conceptual terms is assimilated to the accruing quota of statutory TFR (obviously if the methodology described in paragraph 3 point B is used, this amount will be nil);
- the Interest Cost (IC), which is the interest on what was set aside at the start of the period and on the corresponding changes in the same period; this element is conceptually similar to the net legal revaluation of TFR;
- the Benefits paid and Transfers in/(out) which represent all the payments and any incoming or outgoing transfers in relation to the period in question, elements that result in the utilisation of the provision set aside.

The sum of the above elements gives the Expected DBO for the end of the period of observation. When this is compared with the DBO recalculated at the end of the period based on the actual collective, as of that date and based on the new valuation scenarios, this identifies the Actuarial Gains/Losses (AGL).

Section 10 – Allowances for risks and charges – Item 100

10.1 Allowances for risks and charges: breakdown

Items/values	Total 31 December 2021	Total 31 December 2020
1. Allowances for credit risk relating to commitments and financial guarantees given	4,482	3,296
2. Provisions for other commitments and guarantees issued	-	-
3. Post-employment benefits and similar commitments	-	-
4. Other allowances for risks and charges	1,159	804
4.1 legal and tax disputes	510	-
4.2 personnel cost	609	673
4.3 others	40	131
Total	**5,641**	**4,100**

10.2 Allowances for risks and charges: annual changes

	Provisions for other commitments and guarantees issued	Pension/ retirement funds	Other allowances for risks and charges	Total
A. Opening balance	**-**	**-**	**804**	**804**
B. Increases	**-**	**-**	**1,070**	**1,070**
B.1 Provision for the year	-	-	-	-
B.2 Changes due to the passage of time	-	-	-	-
B.3 Changes due to variations in the discount rate	-	-	-	-
B.4 Other changes	-	-	1,070	1,070
– from business combinations	-	-	-	-
C. Decreases	**-**	**-**	**715**	**715**
C.1 Utilisations for the year	-	-	-	-
C.2 Changes due to variations in the discount rate	-	-	-	-
C.3 Other changes	-	-	715	715
– from business combinations	-	-	-	-
D. Closing balance	**-**	**-**	**1,159**	**1,159**

10.3 *Allowances for credit risk relating to commitments and financial guarantees given*

	Allowances for credit risk relating to commitments and financial guarantees given				
	Stage one	Stage two	Stage three	Purchased or originated impaired	Total
1. Commitments to disburse funds	57	-	-	4,130	4,187
2. Financial guarantees	280	10	5	-	295
Total	**337**	**10**	**5**	**4,130**	**4,482**

10.4 *Allowances for other commitments and guarantees issued*

The Bank does not have any allowance for other commitments and guarantees issued as of the reporting date.

10.5 *Defined-benefit pension funds*

The Bank does not present any corporate pension funds as of the reporting date.

10.6 *Allowances for risks and charges– other provisions*

The item mainly includes other allowances for risks and charges undertaken in the year related to operations of the Distressed Credit and Growth Credit Divisions.

Section 11 - Redeemable shares - Item 120

The Bank does not hold redeemable shares as of the reporting date.

Section 12 - Bank's equity - Items 110, 130, 140, 150, 160, 170 and 180

12.1 *"Capital" and "Treasury shares": breakdown*

At 31 December 2021, the Bank's share capital amounted to EUR 54,189,951.66, of which EUR 52,619,881.24 was subscribed and paid up, divided into 79,300,100 ordinary shares and 1,440,000 special shares without par value.

12.2 Capital - Number of shares: annual changes

Items/Type	Ordinary	Others
A. Shares as of the beginning of the year	**66,083,417**	**1,440,000**
– fully paid up	66,083,417	1,440,000
– not fully paid up	-	-
A.1 Treasury shares (-)	(98,505)	-
A.2 Shares issued: initial balance	**65,984,912**	**1,440,000**
B. Increases	**13,216,683**	**-**
B.1 New issues	13,216,683	-
– against payment:	13,096,168	-
– business combinations	-	-
– bonds converted	-	-
– warrants exercised	-	-
– other	13,096,168	-
– free:	120,515	-
– for employees	120,515	-
– for directors	-	-
– other	-	-
B.2 Sales of treasury shares	-	-
B.3 Other changes	-	-
C. Decreases	**-**	**-**
C.1 Cancellation	-	-
C.2 Purchase of treasury shares	-	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Shares issued: closing balance	**79,103,090**	**1,440,000**
D.1 Treasury shares (+)	98,505	-
D.2 Shares existing as of the end of the year	79,201,595	1,440,000
– fully paid up	79,201,595	1,440,000
– not fully paid up	-	-

12.3 Capital - other information

On 5 January 2021, illimity announced the new composition of its share capital, as follows: (i) the reserved capital increase for Fabrick S.p.A. totalling EUR 44,670,596.42 (of which EUR 3,491,882.89 as capital) freed up via the transfer to illimity of shares representing 37.66% of Hype S.p.A. (which took place on 29 December 2020, effective from 1 January 2021), the registration in the Companies' Register of the statement of the directors pursuant to Article 2343-quater of the Italian civil code (made on 5 January 2021) and consequent issue of 5,358,114 new ordinary shares for this increase, as well as (ii) the cash increase in capital for Banca Sella Holding S.p.A. for a total of EUR 16,544,676.46 (of which EUR 1,293,290.83 as capital), subscribed on 29 December 2020 with effect from 1 January 2021 (with regulation dated 5 January 2021), and consequent issue of 1,984,488 new ordinary shares, for this increase.

On 10 June 2021, the illimity reported the issue of 120,515 ordinary shares for the "Employee Stock Ownership Plan - ESOP" for 2021, with an increase in share capital for a total of EUR 78,542.13.

On 1 October 2021, illimity announced the new breakdown of its share capital, following the full increase in share capital with the exclusion of the option right pursuant to Article 2441, paragraph 4, second sentence of the Italian Civil Code, for a total amount of EUR 57,535,660.00 (including the share premium) with an increase in share capital for a total of EUR 3,749,598.96 and issuance of all 5,753,566 ordinary shares, on 30 September, following the increase subscribed by FermION Investment Group Limited, a subsidiary of ION Investment Corporation S.à r.l.

On 15 December 2021, the Extraordinary Shareholders' Meeting approved the capital increase intended to finance the new LTI Plan for a nominal maximum amount of EUR 1,323,663.96, through the issue of a maximum of 2,031,094 new ordinary shares in illimity.

12.4 Profit reserves: other information

Items/values	31 December 2021	31 December 2020
A. Profit reserves	**30,577**	**(4,929)**
1. Legal reserve	1,590	804
2. Reserve for purchase of treasury shares	-	-
3. Extraordinary reserve	10,521	10,599
4. Profits (losses) carried forward	14,935	(16,840)
5. First-time reserves	508	508
6. Other reserves	3,023	-
B. Capital reserves	**34,906**	**26,804**
1. Reserve on account of future capital increase	-	-
2. Other reserves	34,906	26,804
Total	**65,483**	**21,876**

The profit reserves as of 31 December 2021 amount to a positive EUR 30,577 thousand.

As required by Article 2427, paragraph 1, no. 7 bis) Italian civil code, below is a report summarising the shareholders' equity items, distinguished by origin, with details of the possibility of use and distribution.

Nature/Description	Amount	Possible use	Available share	Summary of the amounts used in the last three years	
				to cover losses	for other reasons
Share capital	**52,620**		**-**		
Share premium reserve	**597,589**	**ABC (1)**	**597,589**	**(29,124)**	
Valuation reserves	**(6,036)**	**-**	**-**		
Financial assets at fair value through other comprehensive income	(5,799)	-	-		
Actuarial gains (losses) relating to defined benefit plans	(237)	-	-		
Reserves	**65,483**		**63,893**	**(16,840)**	
Legal reserve	1,590	B (2)	-		
Reserve for purchase	-	ABC	-		
treasury shares					
Extraordinary reserve	10,521	ABC	10,521		
Other reserves	53,372	ABC	53,372	(16,840)	
Treasury shares	**(832)**		**-**		
Profit (loss) for the year	**69,123**		**-**		
Total	**777,947**		**508,444**	**(45,964)**	

Key:

A = for capital increases

B = to cover losses

C = for distribution to shareholders

(1) According to Article 2431 Italian Civil Code, the issue premium reserve can be fully utilised, as the legal reserve has reached the limit of one-fifth of the share capital as required by Article 2430 of the Italian civil code.

(2) The legal reserve is available for a capital increase and distribution only for the portion exceeding one-fifth of the share capital, according to Article 2430 (1) of the Italian civil code.

(3) The revaluation reserve is not available pursuant to Article 6 of Legislative Decree no. 38/2005.

12.5 *Equity instruments: breakdown and annual changes*

The Bank does not hold equity instruments.

12.6 *Other information*

Basic and diluted earnings per share

The basic earnings (loss) per share is calculated by dividing the Bank's net profit (loss) for the year by the weighted average number of ordinary shares in issue during the year.

(amounts in thousands of euros)

Basic and diluted earnings per share	Net profit/loss for the year	Average number of shares	Basic and diluted earnings per share
Period ended 31 December 2021	69,123	74,768,897	0.92
Period ended 31 December 2020	32,561	65,700,601	0.50

(amounts in thousands of euros)

Diluted earnings (loss) per share	Net profit/loss for the year	Average number of shares	Diluted earnings (loss) per share
Period ended 31 December 2021	69,123	75,377,813	0.92
Period ended 31 December 2020	32,561	65,700,601	0.50

Other information

1. Commitments and financial guarantees given

	Nominal value on commitments and financial guarantees issued				Total 31 December 2021	Total 31 December 2020
	Stage one	Stage two	Stage three	Purchased or originated impaired		
1. Commitments to disburse funds	**43,702**	**752**	**81,671**	**-**	**126,125**	**114,469**
a) Central banks	-	-	-	-	-	-
b) Public administrations	-	-	-	-	-	-
c) Banks	1,766	-	-	-	1,766	-
d) Other financial companies	12,601	-	15,809	-	28,410	366
e) Non-financial companies	27,199	729	65,585	-	93,513	111,447
f) Households	2,136	23	277	-	2,436	2,656
2. Financial guarantees	**4,274**	**908**	**1,249**	**-**	**6,431**	**7,022**
a) Central banks	-	-	-	-	-	-
b) Public administrations	-	-	-	-	-	-
c) Banks	-	-	-	-	-	-
d) Other financial companies	-	-	12	-	12	96
e) Non-financial companies	4,234	908	1,235	-	6,377	6,797
f) Households	40	-	2	-	42	129

2. Other commitments and guarantees issued

	Nominal value Total 31 December 2021	Nominal value Total 31 December 2020
1. Other guarantees issued		
of which: non-performing	-	-
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
2. Other commitments		
of which: non-performing	2,447	186
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	11,159	5,654
e) Non-financial companies	67,068	32,591
f) Households	-	-

3. Assets given as collateral for own liabilities and commitments

Portfolios	Amount 31 December 2021	Amount 31 December 2020
1. Financial assets measured at fair value through profit or loss	98	99
2. Financial assets measured at fair value through other comprehensive income	107,121	68,964
3. Financial assets measured at amortised cost	69,300	211,215
4. Property and equipment	-	-
of which: Property and Equipment held as inventories	-	-

4. Administration and brokerage for third parties

Type of service	Amount 31 December 2021
1. Execution of orders for customers	**-**
a) purchases	-
1. settled	-
2. not settled	-
b) sales	-
1. settled	-
2. not settled	-
2. Individual portfolio management	**-**
3. Custody and administration of securities	**2,607,803**
a) third-party securities held in deposit: relating to depositary bank activities (excluding portfolio management)	-
1. securities issued by the reporting bank	-
2. other securities	-
b) third party securities deposited (excluding portfolio management): others	228,078
1. securities issued by the reporting bank	-
2. other securities	228,078
c) third party securities deposited with third parties	103,323
d) proprietary securities deposited with third parties	2,276,402
4. Other transactions	**-**

5. Assets subject to offsetting in financial statements, or subject to master netting agreements or similar agreements

Technical formats	Gross amount of financial assets (a)	Amount of financial liabilities offset in the financial statements (b)	Net amount of financial assets reported in the financial statements (c=a-b)	Related amounts not offset in the financial statements		Net amount (f=c-d-e) 31 December 2021	Net amount 31 December 2020
				Financial instruments (d)	Cash deposits received as guarantees (e)		
1. Derivatives	-	-	-	-	-	-	-
2. Repurchase agreements	191,292	-	191,292	191,292	-	-	-
3. Loan of securities	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-
Total 31/12/2021	**191,292**	**-**	**191,292**	**191,292**	**-**	**-**	**X**
Total 31/12/2020	**395,167**	**-**	**395,167**	**395,167**	**-**	**X**	**-**

6. Financial liabilities subject to offsetting in financial statements, or subject to master netting agreements and or similar agreements

Technical formats	Gross amount of financial liabilities (a)	Amount of financial assets offset in the financial statements (b)	Net amount of financial liabilities reported in the financial statements (c=a-b)	Related amounts not subject to accounting offsetting		Net amount (f=c-d-e) 31 December 2021	Net amount 31 December 2020
				Financial instruments (d)	Cash deposits as guarantees (e)		
1. Derivatives	-	-	-	-	-	-	-
2. Repurchase agreements	190,649	-	190,649	190,649	-	-	-
3. Loan of securities	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total 31/12/2021	**190,649**	**-**	**190,649**	**190,649**	**-**	**-**	**X**
Total 31/12/2020	**308,546**	**-**	**308,546**	**308,546**	**-**	**X**	**-**

7. Securities lending transactions

illimity Bank is active in securities lending transactions with institutional counterparties, potentially for both active loans (in which illimity lends securities) and passive loans (in which illimity receives securities); in 2021 the Bank carried out active securities lending transactions, lending government securities to institutional counterparties in exchange for the payment of a commission. The transactions in question were loans of unsecured securities governed by a GMSLA.

8. Disclosure on joint control activities

There are no joint control activities at the reference date.

PART C - Information on the income statement

Section 1 - Interest - Items 10 and 20

1.1 Interest income and similar income: breakdown

Items/Technical forms	Debt securities	Loans	Other transactions	Total 31 December 2021	Total 31 December 2020
1. Financial assets measured at fair value through profit or loss:	**1,329**	**-**	**-**	**1,329**	**112**
1.1 Financial assets held for trading	80	-	-	80	-
1.2 Financial assets at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	1,249	-	-	1,249	112
2. Financial assets measured at fair value through other comprehensive income	**4,191**	**-**	**X**	**4,191**	**2,434**
3. Financial assets measured at amortised cost:	**112,250**	**72,497**	**X**	**184,747**	**146,646**
3.1 Due from banks	-	591	X	591	517
3.2 Loans to customers	112,250	71,906	X	184,156	146,129
4. Hedging derivatives	**X**	**X**	**-**	**-**	**-**
5. Other assets	**X**	**X**	**580**	**580**	**5**
6. Financial liabilities	**X**	**X**	**X**	**2,806**	**745**
Total	**117,770**	**72,497**	**580**	**193,653**	**149,942**
of which: interest income on impaired assets	108,603	33,085	-	141,688	103,632
of which: interest income on finance leasing	X	-	X	-	-

1.2 Interest income and similar income: other information

1.2.1 Interest income on assets denominated in foreign currency

Items/values	31 December 2021	31 December 2020
Interest income on assets denominated in foreign currency	377	311

1.3 Interest expense and similar charges: breakdown

Items/Technical forms	Debt	Securities	Other transactions	Total 31 December 2021	Total 31 December 2020
1. Amounts due to customers	(41,883)	(15,143)	X	(57,026)	(38,522)
1.1 Amounts due to central banks	(27)	X	X	(27)	(17)
1.2 Amounts due to banks	(4,385)	X	X	(4,385)	(5,155)
1.3 Amounts due to customers	(37,471)	X	X	(37,471)	(32,637)
1.4 Securities issued	X	(15,143)	X	(15,143)	(713)
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities designated at fair value	-	-	-	-	-
4. Other liabilities and provisions	X	X	-	-	-
5. Hedging derivatives	X	X	-	-	-
6. Financial assets	X	X	X	(3,791)	(2,609)
Total	**(41,883)**	**(15,143)**	**-**	**(60,817)**	**(41,131)**
of which: interest expense relative to leasing liabilities	(1,460)	X	X	(1,460)	(1,515)

1.4 Interest expense and similar charges: other information

1.4.1 Interest expense on liabilities denominated in foreign currency

Items/values	31 December 2021	31 December 2020
Interest expenses on liabilities denominated in foreign currency	(75)	(2)

1.5 Differentials arising from hedging transactions

The Group has no *hedge accounting* operations.

Section 2 - Commission – Items 40 and 50

2.1 Fee and commission income: breakdown

Type of service/Amounts	Total 31 December 2021	Total 31 December 2020
a) Financial instruments	3	7
1. Placement of securities	3	7
1.1 With underwriting and/or on the basis of an irrevocable commitment	-	-
1.2 Without an irrevocable commitment	3	7
2. Receipt and transmission of orders and execution of orders for customers	-	-
2.1 Receipt and transmission of orders of one or more financial instruments	-	-
2.2 Execution of orders for customers	-	-
3. Other fees and commissions connected with activities related to financial instruments	-	-
of which: proprietary trading	-	-
of which: individual portfolio management	-	-
b) Corporate Finance	3,559	-
1. Consultancy on mergers and acquisitions	-	-
2. Treasury services	-	-
3. Other fees and commissions connected with corporate finance services	3,559	-
c) Investment consultancy activities	-	-
d) Netting and settlement	-	-
e) Custody and administration	1	2
1. Custodian bank	-	-
2. Other fees and commissions related to custody and administration activities	1	2
f) Central administrative services for collective portfolio management	-	-
g) Fiduciary activities	-	-
h) Payment services	1,131	760
1. Current accounts	405	293
2. Credit cards	323	192
3. Debit cards and other payment cards	81	59
4. Bank transfers and other payment orders	105	86
5. Other fees and commissions related to payment services	217	130
i) Distribution of third party services	133	118
1. Collective portfolio management	-	-
2. Insurance products	5	2
3. Other products	128	116
of which: individual portfolio management	-	-
j) Structured finance	-	-
k) Servicing activities for securitisation operations	13	-
l) Commitments to disburse funds	-	-
m) Financial guarantees	68	85
of which: credit derivatives	-	-
n) Loan operations	15,514	9,116
of which: for factoring operations	3,401	1,848
o) Currency trading	48	25
p) Goods	-	-
q) Other fee and commission income	6,726	341
of which: for management of multilateral trading systems	-	-
of which: for management of organised trading systems	-	-
Total	**27,196**	**10,454**

The sub-item "q) Other fee and commission income" relates mainly to Ecobonus commissions.

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

Channel/Amount	Total 31 December 2021	Total 31 December 2020
a) at own branches:	**3**	**14**
1. portfolio management	-	-
2. placement of securities	3	7
3. third-party services and products	-	7
b) off-site:	**-**	**-**
1. portfolio management	-	-
2. placement of securities	-	-
3. third-party services and products	-	-
c) other distribution channels:	**132**	**310**
1. portfolio management	-	-
2. placement of securities	-	-
3. third-party services and products	132	310

2.3 *Fee and commission expenses: breakdown*

Service/Amount	Total 31 December 2021	Total 31 December 2020
a) Financial instruments	(198)	-
of which: trading in financial instruments	(198)	-
of which: placement of financial instruments	-	-
of which: individual portfolio management	-	-
– Proprietary	-	-
– Delegated to third parties	-	-
b) Netting and settlement	-	-
c) Custody and administration	(156)	(124)
d) Collection and payment services	(995)	(732)
of which: credit cards, debit cards and other payment cards	(764)	(535)
e) Servicing activities for securitisation operations	-	-
f) Commitments to receive funds	-	-
g) Financial guarantees received	(1)	(2)
of which: credit derivatives	-	-
h) Off-site distribution of financial instruments, products and services	-	-
i) Currency trading	-	-
j) Other fee and commission expense	(2,168)	(2,105)
Total	**(3,518)**	**(2,963)**

Section 3 - Dividends and similar income – Item 70

No dividends were collected during the year.

Section 4 - Profits (losses) on trading – Item 80

4.1 Profits (losses) on trading: breakdown

Transaction/Income items	Capital gains (A)	Profits from trading (B)	Losses (C)	Losses from trading (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading	**-**	**425**	**(13)**	**(141)**	**271**
1.1 Debt securities	-	15	-	-	15
1.2 Equity instruments	-	-	-	-	-
1.3 UCITS units	-	410	(13)	(141)	256
1.4 Loans	-	-	-	-	-
1.5 Others	-	-	-	-	-
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Others	-	-	-	-	-
3. Financial assets and liabilities: foreign exchange differences	**X**	**X**	**X**	**X**	**502**
4. Derivatives	**4,631**	**180**	**(2,320)**	**(99)**	**2,394**
4.1 Financial derivatives:	4,631	180	(2,320)	(99)	2,394
– On debt securities and interest rates	4,631	180	(2,320)	(99)	2,392
– On equity securities and share indices	-	-	-	-	-
– On currencies and gold	X	X	X	X	2
– Others	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedging related to the fair value option	X	X	X	X	-
Total	**4,631**	**605**	**(2,333)**	**(240)**	**3,167**

Section 5 - Fair value adjustments in hedge accounting – Item 90

The Group has no hedge accounting operations.

Section 6 - Profits (Losses) on disposal/repurchase – Item 100

6.1 Profits (Losses) on disposal/repurchase: breakdown

Item/Income item	Total 31 December 2021			Total 31 December 2020		
	Profit	Loss	Net profit/ loss	Profit	Loss	Net profit/ loss
A. Financial assets						
1. Financial assets measured at amortised cost	306	(4)	302	2,410	(547)	1,863
1.1 Due from banks	-	-	-	-	-	-
1.2 Loans to customers	306	(4)	302	2,410	(547)	1,863
2. Financial assets measured at fair value through other comprehensive income	6,268	(1,177)	5,091	10,120	(4,283)	5,837
2.1 Debt securities	6,268	(1,177)	5,091	10,120	(4,283)	5,837
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**6,574**	**(1,181)**	**5,393**	**12,530**	**(4,830)**	**7,700**
B. Amounts due to customers				**-**	**-**	**-**
1. Due to banks	-	-	-	-	-	-
2. Amounts due to customers	-	-	-	-	-	-
3. Securities issued	-	-	-	-	(1)	(1)
Total liabilities (B)	**-**	**-**	**-**	**-**	**(1)**	**(1)**

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

7.1 Profit (loss) on other financial assets and liabilities measured at fair value through profit or loss: breakdown of financial assets and liabilities designated at fair value

Bank did not record any profits or losses from such assets or liabilities in 2021.

7.2 Profit (loss) on other financial assets and liabilities measured at fair value through profit or loss: breakdown of other financial assets mandatorily measured at fair value

Transaction/Income items	Capital gains (A)	Realised profits (B)	Losses (C)	Losses on disposal (D)	Net result [(A+B) - (C+D)]
1. Financial assets	**8,319**	**3,820**	**(84)**	**(2,111)**	**9,944**
1.1 Debt securities	5,069	1	(83)	(1)	4,986
1.2 Equity instruments	3,184	3,819	-	-	7,003
1.3 UCITS units	66	-	(1)	(2,110)	(2,045)
1.4 Loans	-	-	-	-	-
2. Financial assets denominated in foreign currencies: foreign exchange differences	**X**	**X**	**X**	**X**	**-**
Total	**8,319**	**3,820**	**(84)**	**(2,111)**	**9,944**

Section 8 - Net losses/recoveries for credit risk – Item 130

8.1 Net losses/recoveries for credit risk relating to financial assets measured at amortised cost: breakdown

Transaction/Income items	Adjustments (1)						Recoveries (2)				Total 31 December 2021	Total 31 December 2020
	Stage one	Stage two	Stage three		Purchased or originated impaired		Stage one	Stage two	Stage three	Purchased or originated impaired		
			Write-offs	Others	Write-offs	Others						
A. Due from banks	**(165)**	**-**	**-**	**-**	**-**	**-**	**73**	**-**	**-**	**-**	**(92)**	**104**
- Loans	(165)	-	-	-	-	-	73	-	-	-	(92)	104
- Debt securities	-	-	-	-	-	-	-	-	-	-	-	-
B. Loans to customers	**(2,087)**	**(139)**	**-**	**(5,600)**	**-**	**(29,292)**	**1,723**	**832**	**3,307**	**51,269**	**20,013**	**16,369**
- Loans	(1,259)	(21)	-	(5,600)	-	(29,292)	1,708	832	3,307	50,829	20,504	18,493
- Debt securities	(828)	(118)	-	-	-	-	15	-	-	440	(491)	(2,124)
Total	**(2,252)**	**(139)**	**-**	**(5,600)**	**-**	**(29,292)**	**1,796**	**832**	**3,307**	**51,269**	**19,921**	**16,473**

The sub-item "purchased or originated *impaired* financial assets" refers to the amount of write-downs/write-backs of loans classified as purchased or originated *impaired* loans as a result of receipts or revisions of business plans.

8.1a Net losses/recoveries for credit risk relating to loans measured at amortised cost subject to COVID-19 support measures: breakdown

Transaction/Income items	Net adjustments/recoveries						Total 31 December 2021	Total 31 December 2020
	Stage one	Stage two	Stage three		Purchased or originated impaired			
			Write-offs	Others	Write-offs	Others		
1. Loans granted in accordance with GL	-	-	-	-	-	**-**	**-**	**(168)**
2. Loans subject to moratorium measures no longer in accordance with GL and not valued as forborne	-	-	-	-	-	-	**-**	**-**
3. Loans subject to other forbearance measures	50	54	-	(51)	-	-	**53**	**(58)**
4. New funding	(1,680)	(35)	-	(739)	-	-	**(2,454)**	**(1,746)**
Total	**(1,630)**	**19**	**-**	**(790)**	**-**	**-**	**(2,401)**	**(1,972)**

8.2 Net losses/recoveries for credit risk relating to financial assets measured at fair value through other comprehensive income: breakdown

Transaction/Income items	Adjustments (1)						Recoveries (2)				Total 31 December 2021	Total 31 December 2020
	Stage one	Stage two	Stage three		Purchased or originated impaired		Stage one	Stage two	Stage three	Purchased or originated impaired		
			Write-offs	Others	Write-offs	Others						
A. Debt securities	**(2,344)**	**-**	**-**	**-**	**-**	**-**	**1,437**	**-**	**-**	**-**	**(907)**	**82**
B. Loans	**-**	**-**	**-**	**-**	**-**	**(107)**	**-**	**-**	**-**	**643**	**536**	**-**
– to customers	-	-	-	-	-	(107)	-	-	-	643	536	-
– to banks	-	-	-	-	-	-	-	-	-	-	-	-
Total	**(2,344)**	**-**	**-**	**-**	**-**	**(107)**	**1,437**	**-**	**-**	**643**	**(371)**	**82**

8.2a Net losses/recoveries for credit risk relating to loans measured at fair value through other comprehensive income which are receiving COVID-19 support measures: breakdown

The Group does not hold financial assets measured at fair value through comprehensive income subject to COVID-19 support measures.

Section 9 - Profits/losses on changes in contracts without derecognition – item 140

Profits (losses) on changes in contracts without derecognition amounted to EUR 196 thousand as of 31 December 2021.

Section 10 - Administrative expenses – Item 160

10.1 Personnel expenses: breakdown

Type of expense/Amount	Total 31 December 2021	Total 31 December 2020
1) Employees	(49,941)	(37,049)
a) wages and salaries	(25,636)	(20,828)
b) social security contributions	(7,614)	(6,804)
c) provision for employee severance pay	-	-
d) pension costs	-	-
e) provision for employee severance pay	(684)	(632)
f) provision for post-employment benefits and similar provisions:	-	-
– defined contribution	-	-
– defined benefits	-	-
g) payments to external supplementary pension funds:	(1,085)	(810)
– defined contribution	(1,085)	(810)
– defined benefits	-	-
h) costs related to share-based payments	-	-
i) other employee benefits	(14,922)	(7,975)
2) Other personnel in service	(1,329)	(1,428)
3) Directors and statutory auditors	(1,566)	(1,413)
4) Early retirement costs	-	-
5) Recoveries of costs of employees seconded to other companies	715	191
6) Reimbursement of costs of third-party employees seconded to the company	(1)	-
Total	**(52,122)**	**(39,699)**

10.2 Average number of employees per category

Category	2021
a) senior managers	50
b) middle managers	226
c) other employees	120
Total employees	**396**
Other personnel	**38**

10.3 Defined-benefit pension funds: costs and revenues

There are no company defined-benefit pension funds.

10.4 Other employee benefits

The other benefits to employees mainly relate to remunerated benefits, canteen vouchers and various insurance policies.

10.5 Other administrative expenses: breakdown

Type of expense/Amount	31 December 2021
Insurance	(1,987)
Various consulting services	(7,074)
Sundry contributions	(5,068)
Cost of services	(2,362)
Financial information	(2,629)
Adverts and advertising	(825)
Financial statement audit	(411)
IT and software expenses	(20,769)
Legal and notary's fees	(1,716)
Property management expenses	(955)
Expenses for professional services	(14,306)
Utilities and services	(1,359)
Other indirect taxes and duties	(4,995)
Others	(1,234)
Total 31/12/2021	**(65,690)**
Total 31/12/2020	**(54,230)**

Section 11 - Net provisions for allowances for risks and charges – Item 170

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

Income item/Amount	Adjustments			Recoveries			31 December 2021	31 December 2020
	Stage one and Stage two	Stage three	Impaired	Stage one and Stage two	Stage three	Impaired		
Guarantees issued	(39)	-	-	63	1	-	25	(1,011)
Irrevocable commitments to disburse funds	(193)	-	(3,213)	315	-	662	(2,429)	30
Total	**(232)**	**-**	**(3,213)**	**378**	**1**	**662**	**(2,404)**	**(981)**

11.2 Net provisions relating to other commitments and guarantees issued: breakdown

In 2021 the Bank did not make any net provisions relating to other commitments and guarantees issued.

11.3 Net provisions for other allowances for risks and charges: breakdown

The item Net provisions for other allowances for risks and charges, the balance of which is negative in the amount of EUR 511 thousand, includes allocations and releases for the year that mainly related to passive causes and provisions for personnel expenses; see Part B of the Explanatory Notes for more details.

Section 12 – Net adjustments/recoveries on property and equipment - Item 180

12.1. Net adjustments/recoveries on property and equipment: breakdown

Asset/Income items	Amortisation (a)	Write-downs/ write-backs for impairment (b)	Recoveries (c)	Net profit/loss (a + b - c)
A. Property and equipment				
1 For business use	(2,555)	(331)	-	(2,886)
- Owned	(371)	(331)	-	(702)
- Rights of use acquired through lease agreements	(2,184)	-	-	(2,184)
2 Held for investment	-	-	-	-
- Owned	-	-	-	-
- Rights of use acquired through lease agreements	-	-	-	-
3 Inventories	X	-	-	-
Total	**(2,555)**	**(331)**	**-**	**(2,886)**

Section 13 - Net adjustments/recoveries on intangible assets – Item 190

13.1 Net adjustments on intangible assets: breakdown

Asset/Income item	Amortisation (a)	Write-downs/ write-backs for impairment (b)	Recoveries (c)	Net profit/loss (a + b - c)
A. Intangible assets				
of which: software	-	-	-	-
A.1 Owned	(6,718)	-	-	(6,718)
– Generated internally by the company	(641)	-	-	(641)
– Other	(6,077)	-	-	(6,077)
A.2 Rights of use acquired through lease agreements	-	-	-	-
B. Assets held for sale	X	-	-	-
Total	**(6,718)**	**-**	**-**	**(6,718)**

Section 14 - Other operating expenses/income – Item 200

14.1 Other operating expenses: breakdown

Items/Technical forms		31 December 2021
Amortisation of expenses for improvements on third party assets		(74)
Other operating expenses		(470)
Total	**Other operating expenses 31/12/2021**	**(544)**
Total	**Other operating expenses 31/12/2020**	**(255)**

14.2 Other operating income: breakdown

Items/Technical forms		31 December 2021
Recoveries of expenses from other customers		5,978
Other income		10,289
Total	**Other operating income 31/12/2021**	**16,267**
Total	**Other operating income 31/12/2020**	**4,434**

Section 15 - Profits (losses) on equity investments – Item 220

15.1 Profits (losses) on equity investments: breakdown

Income item/Amount	Total 31 December 2021	Total 31 December 2020
A. Income	-	-
1. Revaluations	-	-
2. Gains on disposal	-	-
3. Recoveries	-	-
4. Other income	-	-
B. Costs	-	(990)
1. Write-downs	-	(990)
2. Write-downs/write-backs for impairment	-	-
3. Losses on disposal	-	-
4. Other charges	-	-
Net profit/loss	**-**	**(990)**

Section 16 - Net gains/losses on the measurement at fair value of property and equipment and intangible assets - Item 230

The Bank did not hold any property and equipment or intangible assets measured at fair value over the course of the year.

Section 17 - Write-downs/write-backs of goodwill - item 240

The Bank did not carry out any write-downs/write-backs of goodwill during the financial year.

Section 18 - Profits (losses) on disposal of investments - Item 250

18.1 Profits (losses) on disposal: breakdown

Income item/Amount	Total 31 December 2021	Total 31 December 2020
A. Property	-	-
– Gains on disposal	-	-
– Losses on disposal	-	-
B. Other assets	2,278	-
– Gains on disposal	2,278	-
– Losses on disposal	-	-
Net profit/loss	**2,278**	**-**

Section 19 – Income tax for the year on continuing operations – Item 270

19.1 Income tax for the year on continuing operations: breakdown

Items/Components	Total 31 December 2021	Total 31 December 2020
1. Current tax (-)	(19,098)	(6,511)
2. Adjustment to current taxes for prior years (+/-)	-	-
3. Reduction of current taxes for the year (+)	-	-
3.bis Reduction of current tax for the year due to tax credits (Law 214/2011 (+))	-	-
4. Change in deferred tax assets (+/-)	5,767	(2,982)
5. Change in deferred taxes (+/-)	(234)	-
6. Tax expense for the year (-) (-1+/-2+3+3bis+/-4+/-5)	**(13,565)**	**(9,493)**

During the course of the year, pursuant to Article 15, paragraphs 10-bis and 10-ter of Legislative Decree 185/2008, the effect of tax relief was recognised in relation to the goodwill arising in the consolidated financial statements following the acquisition of the 30% stake in IT Auction and the acquisition of the stake in Hype S.p.A. as part of a joint control arrangement. Specifically, in relation to the amount pertaining to substitute tax, corresponding to 16% of the higher values recognised in the financial statements for goodwill and other intangible assets, totalling EUR 11.7 million, prepaid taxes (corporate income tax and regional production tax - IRES and IRAP) of EUR 22.7 million were recognised. These prepaid taxes will be released in five annual instalments, simultaneously with lower current taxes.

19.2 Reconciliation of theoretical tax charge with actual tax charge

Items/Components	31.12.2021
Profit (loss) from continuing operations before tax	**82,435**
IRES - theoretical tax charge (27.5%)	(22,670)
- effect of lower rate	-
- effect of non-deductible expenses and other increases - permanent	(819)
- effect of non-taxable income and other decreases - permanent	3,665
- Non-current IRES	17,326
IRES - actual tax charge	**(19,823)**
IRAP - theoretical tax charge (5.57%)	(4,592)
- effect of lower rate	-
- effect of income/charges that to not contribute to the taxable base	(874)
- Non-current IRAP	(141)
IRAP - actual tax charge	**(5,465)**
Other taxes	**11,724**
Financial statements actual tax charge	**(13,565)**

The theoretical tax charge, considered on an individual basis, was equal to 33.07% (27.5% ordinary and additional IRES and 5.57% IRAP), for banks and financial entities. The effective tax rate in 2021 was 16.5%. The tax rate for the year was positively affected, in particular, by the tax relief on the goodwill recognised the consolidated financial statements, arising from the acquisition of equity investments in IT Auction S.r.l., equal to 30%, and in Hype S.p.A., equal to 50%.

Section 20 - Profit (loss) from discontinued operations after tax - Item 290

20.1 Profit (loss) from discontinued operations after tax - breakdown

Income items/Sectors	Total 31 December 2021	Total 31 December 2020
1. Income	391	-
2. Costs	(121)	-
3. Result of the valuations of the asset group and associated liabilities	-	-
4. Profits/losses on disposals	79	-
5. Taxes and duties	(96)	-
Profit (loss)	**253**	**-**

20.2 Breakdown of income taxes relating to discontinued operations

	Amount 31 December 2021	Amount 31 December 2020
1. Current taxes (-)	(96)	-
2. Change in deferred tax assets (+/-)	-	-
3. Change in deferred taxes (+/-)	-	-
4. Income taxes for the year (-1+/-2+/-3)	**(96)**	**-**

Section 21 - Other information

There is no other information as of the reporting date.

Section 22 - Earnings per share

The basic earnings (loss) per share is calculated by dividing the Bank's net profit (loss) for the year by the weighted average number of ordinary shares in issue during the year.

Basic and diluted earnings per share	Net profit/loss for the year	Average number of shares	Basic and diluted earnings per share
Period ended 31 December 2021	69,123	74,768,897	0.92
Period ended 31 December 2020	32,561	65,700,601	0.50

Diluted earnings (loss) per share	Net profit/loss for the year	Average number of shares	Diluted earnings (loss) per share
Period ended 31 December 2021	69,123	75,377,813	0.92
Period ended 31 December 2020	32,561	65,700,601	0.50

PART D – Consolidated comprehensive income

Analytical statement of comprehensive income

		31.12.2021	31.12.2020
10.	**Profit (Loss) for the year**	**69,123**	**32,561**
	Other income components not transferred to the income statement		
20.	Equity instruments measured at fair value through other comprehensive income	1	(1)
	a) fair value changes	1	(1)
	b) transfers to other items of shareholders' equity	-	-
30.	Financial liabilities designated at fair value through profit or loss (changes in creditworthiness)	-	-
	a) fair value changes	-	-
	b) transfers to other items of shareholders' equity	-	-
40.	Hedging of equity instruments measured at fair value through other comprehensive income	-	-
	a) fair value changes (hedged instrument)	-	-
	b) fair value changes (hedging instrument)	-	-
50.	Property and equipment	-	-
60.	Intangible assets	-	-
70.	Defined-benefit plans	(102)	(70)
80.	Non-current assets held for sale and discontinued operations	-	-
90.	Share of valuation reserves for equity investments measured at equity	-	-
100.	Other income components without recycling to the income statement	28	17
	Other income components with recycling to the income statement		
110.	Hedging of foreign investments	-	-
	a) fair value changes	-	-
	b) reclassification through income statement	-	-
	c) other changes	-	-
120.	Foreign exchange differences	-	-
	a) fair value changes	-	-
	b) reclassification through income statement	-	-
	c) other changes	-	-
130.	Cash flow hedges	-	-
	a) fair value changes	-	-
	b) reclassification through income statement	-	-
	c) other changes	-	-
140.	Hedging instruments (undesignated elements)	-	-
	a) fair value changes	-	-
	b) reclassification through income statement	-	-
	c) other changes	-	-
150.	Financial assets (other than equities) measured at fair value through other comprehensive income	(8,493)	(1,752)
	a) fair value changes	(9,236)	(3,086)
	b) reclassification through income statement	743	1,334
	– adjustments for credit risk	907	(82)
	– profits/losses on disposals	(164)	1,416
	c) other changes	-	-
160.	Non-current assets and asset groups held for sale:	-	-
	a) fair value changes	-	-
	b) reclassification through income statement	-	-
	c) other changes	-	-
170.	Share of valuation reserves for equity investments measured at equity:	-	-
	a) fair value changes	-	-
	b) reclassification through income statement	-	-
	– write-downs from impairment	-	-
	– profits/losses on disposals	-	-
	c) other changes	-	-
180.	Income taxes relating to other income components with recycling to the income statement	2,808	582
190.	**Total other income components**	**(5,758)**	**(1,224)**
200.	**Other comprehensive income (Item 10+190)**	**63,365**	**31,337**

PART E - Information on risks and related hedging policies

Preamble

Quantitative information on the risks referred to the Bank is provided in this part of the Explanatory Notes to the Financial Statements. For qualitative information, refer to the exposure in Part E of the Explanatory Notes to the consolidated financial statements.

The qualitative and quantitative information is presented in the order established by Bank of Italy Circular No. 262, which also regulates, in a timely manner – in addition to the form of the table – the sequence of the different topics, with the exception of the section relating to market risks in relation to the application of internal models.

Section 1 - Credit Risk

Qualitative information

Qualitative information on credit quality is illustrated in Part E of the Explanatory Notes to the consolidated financial statements.

Quantitative information

For the purposes of quantitative information on credit quality, the term "credit exposures" means financial assets excluding equity securities and units of UCIs.

A. CREDIT QUALITY

A.1 Non-performing and performing credit exposures: amounts, write-downs/write-backs, trends and economic distribution

A.1.1 Breakdown of financial assets by portfolio and credit quality (book value)

Portfolio/quality	Bad loans	Unlikely-to-pay	Non-performing past due exposures	Performing past due exposures	Other performing exposures	Total
1. Financial assets measured at amortised cost	908,533	359,100	136	3,410	2,161,877	3,433,056
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	299,489	299,489
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	61,991	61,991
5. Financial assets held for sale	-	-	-	-	43,117	43,117
Total 31/12/2021	**908,533**	**359,100**	**136**	**3,410**	**2,566,474**	**3,837,653**
Total 31/12/2020	**922,647**	**249,416**	**506**	**10,618**	**1,867,334**	**3,050,521**

A.1.2 Breakdown of financial assets by portfolio and credit quality (gross and net amounts)

Portfolio/quality	Non-performing				Performing			Total (net exposure)
	Gross exposure	Total write-downs/ write-backs	Net exposure	Total partial write-offs (*)	Gross exposure	Total write-downs/ write-backs	Net exposure	
1. Financial assets measured at amortised cost	1,288,407	(20,638)	1,267,769	-	2,176,159	(10,872)	2,165,287	3,433,056
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	300,510	(1,021)	299,489	299,489
3. Financial assets designated at fair value	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	X	X	61,991	61,991
5. Financial assets held for sale	-	-	-	-	43,117	-	43,117	43,117
Total 31/12/2021	**1,288,407**	**(20,638)**	**1,267,769**	**-**	**2,519,786**	**(11,893)**	**2,569,884**	**3,837,653**
Total 31/12/2020	**1,193,464**	**(20,895)**	**1,172,569**	**-**	**1,877,750**	**(11,459)**	**1,877,952**	**3,050,521**

(*) Values to be stated for information purposes.

A.1.3 Breakdown of financial assets by past due bracket (book values)

Portfolios/risk stages	Stage one			Stage two			Stage three			Purchased or originated impaired		
	Between 1 and 30 days	Between 30 and 90 days	More than 90 days	Between 1 and 30 days	Between 30 and 90 days	More than 90 days	Between 1 and 30 days	Between 30 and 90 days	More than 90 days	Between 1 and 30 days	Between 30 and 90 days	More than 90 days
1. Financial assets measured at amortised cost	966	105	1,532	103	215	48	284	111	7,420	3,675	3,843	1,011,621
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-	-	-	-	-	-	-
Total 31/12/2021	**966**	**105**	**1,532**	**103**	**215**	**48**	**284**	**111**	**7,420**	**3,675**	**3,843**	**1,011,621**
Total 31/12/2020	**6,007**	**93**	**1,629**	**112**	**232**	**455**	**73**	**235**	**9,281**	**7,892**	**4,916**	**986,055**

A.1.4 Financial assets, commitments to disburse funds and financial guarantees issued: trend in the total write-downs/write-backs and total provisions

Descriptions/risk stages	Total write-downs/write-backs																	
	Assets in stage one						Assets in stage two						Assets in stage three					
	Due from banks and central banks on demand	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which individual write-downs	of which collective write-downs	Due from banks and central banks on demand	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which individual write-downs	of which collective write-downs	Due from banks and central banks on demand	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which individual write-downs	of which collective write-downs
Opening total adjustments	**8**	**9,472**	**114**	**-**	**-**	**9,594**	**-**	**1,318**	**-**	**-**	**-**	**1,318**	**-**	**18,348**	**-**	**-**	**18,193**	**155**
Increases in purchased or originated financial assets	-	4,474	1,017	-	-	5,492	-	180	-	-	-	180	-	2,523	-	-	2,487	36
Derecognitions other than write-offs	-	(2,413)	(111)	-	-	(2,523)	-	(665)	-	-	-	(665)	-	(2,659)	-	-	(2,543)	(116)
Net losses/recoveries for credit risk (+/-)	-	(896)	-	-	-	(896)	-	(288)	-	-	-	(288)	-	(942)	-	-	(908)	(35)
Contractual amendments without derecognitions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in estimate methodology	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs not recognised directly in the income statement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other changes	9	(670)	-	-	-	(661)	-	23	-	-	-	23	-	1,261	-	-	1,258	3
Final total adjustments	**17**	**9,967**	**1,020**	**-**	**-**	**11,006**	**-**	**568**	**-**	**-**	**-**	**568**	**-**	**18,531**	**-**	**-**	**18,487**	**43**
Recoveries from receipts on written-off financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs recognised directly in the income statement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.1.4 Financial assets, commitments to disburse funds and financial guarantees issued: trend in the total write-downs/write-backs and total provisions

Descriptions/risk stages	Total write-downs/write-backs					Total provisions on commitments to disburse funds and financial guarantees issued				Total
	Financial assets purchased or originated impaired									
	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which individual write-downs	of which collective write-downs	Stage one	Stage two	Stage three	Commitments to disburse funds and financial guarantees issued purchased or originated impaired	
Opening total adjustments	**3,106**	**-**	**-**	**2,549**	**557**	**418**	**74**	**6**	**2,798**	**35,662**
Increases in purchased or originated financial assets	X	X	X	X	X	229	-	-	3,686	12,109
Derecognitions other than write-offs	-	-	-	-	-	-350	-36	-	-2,333	-8,567
Net losses/ recoveries for credit risk	-278	-	-	-	-278	-30	-1	-	-18	-2,453
Contractual amendments without derecognitions	-	-	-	-	-	-	-	-	-	-
Changes in estimate methodology	-	-	-	-	-	-	-	-	-	-
Write-offs not recognised directly in the income statement	-	-	-	-	-	-	-	-	-	-
Other changes	-382	-	-	-440	58	70	-27	-1	-2	281
Final total adjustments	**2,446**	**-**	**-**	**2,109**	**337**	**337**	**10**	**5**	**4,131**	**37,032**
Recoveries from receipts on written-off financial assets	-	-	-	-	-	-	-	-	-	281
Write-offs recognised directly in the income statement	-	-	-	-	-	-	-	-	-	-

A.1.5 Financial assets, commitments to disburse funds and financial guarantees issued: transfers between the various credit risk stages (gross and nominal amounts)

Portfolios/risk stages	Gross exposure/nominal value					
	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
1. Financial assets measured at amortised cost	28,189	4,240	3,447	181	452	-
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	1,179	5,964	-	-	-	10
Total 31/12/2021	**29,368**	**10,204**	**3,447**	**181**	**452**	**10**
Total 31/12/2020	**34,067**	**6,918**	**985**	**497**	**8,556**	**112**

A.1.5a Loans subject to Covid-19 support measures: transfers between the various credit risk stages (gross values)

Portfolio/quality	Gross values / nominal value					
	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
A. Loans measured at amortised cost	**-**	**-**	**-**	**-**	**-**	**-**
A.1 subject to forbearance in accordance with GL	-	-	-	-	-	-
A.2 subject to moratorium measures no longer in accordance with GL and not valued as forborne	-	-	-	-	-	-
A.3 subject to other forbearance measures	-	-	-	-	-	-
A.4 new loans	-	-	-	-	-	-
B. Loans measured at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**
B.1 subject to forbearance in accordance with GL	-	-	-	-	-	-
B.2 subject to moratorium measures no longer in accordance with GL and not valued as forborne	-	-	-	-	-	-
B.3 subject to other forbearance measures	-	-	-	-	-	-
B.4 new loans	-	-	-	-	-	-
Total 31/12/2020	**-**	**-**	**-**	**-**	**-**	**-**
Total 31/12/2021	**5,573**	**1,071**	**96**	**-**	**6,397**	**40**

A.1.6 On and off-balance-sheet credit exposures to banks: gross and net

Type of exposures/values	Gross exposure					Total write-downs/write-backs and total provisions					Net exposure	Total partial write-offs (*)
		Stage one	Stage two	Stage three	Purchased or originated impaired		Stage one	Stage two	Stage three	Purchased or originated impaired		
A. ON-BALANCE SHEET CREDIT EXPOSURES												
A.1 ON DEMAND	**14,007**	**14,007**	**-**	**-**	**-**	**17**	**17**	**-**	**-**	**-**	**13,990**	**-**
a) Non-performing	-	X	-	-	-	-	X	-	-	-	-	-
b) Performing	14,007	14,007	-	X	-	17	17	-	X	-	13,990	-
A.2 OTHER	**329,706**	**329,706**	**-**	**-**	**-**	**331**	**331**	**-**	**-**	**-**	**329,375**	**-**
a) bad loans	-	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	-	X	-	-	-	-	X	-	-	-	-	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	-
d) Performing past due exposures	25	25	-	X	-	1	1	-	X	-	24	-
- of which: forborne exposures	-	-	-	X	-	-	-	-	X	-	-	-
e) Other performing exposures	329,681	329,681	-	X	-	330	330	-	X	-	329,351	-
- of which: forborne exposures	-	-	-	X	-	-	-	-	X	-	-	-
TOTAL (A)	**343,713**	**343,713**	**-**	**-**	**-**	**348**	**348**	**-**	**-**	**-**	**343,365**	**-**
B. OFF-BALANCE SHEET CREDIT EXPOSURES						-	-	-	-	-		
a) Non-performing	-	X	-	-	-	-	X	-	-	-	-	-
b) Performing	2,048	2,048	-	X	-	-	-	-	X	-	2,048	-
TOTAL (B)	**2,048**	**2,048**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,048**	**-**
TOTAL (A+B)	**345,761**	**345,761**	**-**	**-**	**-**	**348**	**348**	**-**	**-**	**-**	**345,413**	**-**

(*) Values to be stated for information purposes.

A.1.7 Prudential consolidation – On and off-balance sheet credit exposures to customers: gross and net

Type of exposures/values	Gross exposure					Total write-downs/write-backs and total provisions					Net exposure	Total partial write-offs (*)
		Stage one	Stage two	Stage three	Purchased or originated impaired		Stage one	Stage two	Stage three	Purchased or originated impaired		
A. ON-BALANCE SHEET CREDIT EXPOSURES												
a) bad loans	924,669	X	-	19,014	905,655	16,135	X	-	14,027	2,108	908,534	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	-
b) Unlikely-to-pay	363,568	X	-	20,370	343,198	4,468	X	-	4,468	-	359,100	-
- of which: forborne exposures	22,266	X	-	4,277	17,989	1,269	X	-	1,269	-	20,997	-
c) Non-performing past due exposures	170	X	-	170	-	34	X	-	34	-	136	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	-
d) Performing past due exposures	3,450	2,591	368	X	491	64	13	2	X	49	3,386	-
- of which: forborne exposures	25	-	25	X	-	-	-	-	X	-	25	-
e) Other performing exposures	2,248,621	2,180,984	64,739	X	2,897	11,498	10,644	566	X	288	2,237,122	-
- of which: forborne exposures	18,752	-	18,752	X	-	116	-	116	X	-	18,636	-
TOTAL (A)	**3,540,477**	**2,183,575**	**65,107**	**39,554**	**1,252,241**	**32,199**	**10,657**	**568**	**18,529**	**2,445**	**3,508,278**	**-**
B. OFF-BALANCE SHEET CREDIT EXPOSURES												
a) Non-performing	69,559	X	-	69,559	-	4,136	X	-	4,136	-	65,423	-
b) Performing	140,073	136,194	3,879	X	-	273	263	10	X	-	139,800	-
TOTAL (B)	**209,632**	**136,194**	**3,879**	**69,559**	**-**	**4,409**	**263**	**10**	**4,136**	**-**	**205,223**	**-**
TOTAL (A+B)	**3,750,110**	**2,319,769**	**68,986**	**109,113**	**1,252,241**	**36,608**	**10,920**	**578**	**22,665**	**2,445**	**3,713,502**	**-**

(*) Values to be stated for information purposes.

A.1.7a Loans subject to COVID-19 support measures: gross and net

Type of exposures/Values	Gross exposure					Total write-downs/write-backs and total provisions					Net exposure	Total partial write-offs (*)
		Stage one	Stage two	Stage three	Purchased or originated impaired		Stage one	Stage two	Stage three	Purchased or originated impaired		
A. BAD LOANS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Subject to forbearance in accordance with GL	-	-	-	-	-	-	-	-	-	-	-	-
b) Subject to moratorium measures no longer in accordance with GL and not valued as forborne	-	-	-	-	-	-	-	-	-	-	-	-
c) Subject to other forbearance measures	-	-	-	-	-	-	-	-	-	-	-	-
d) New loans	-	-	-	-	-	-	-	-	-	-	-	-
B. LOANS UNLIKELY TO PAY	**5,589**	**-**	**-**	**5,589**	**-**	**(820)**	**-**	**-**	**(820)**	**-**	**4,769**	**-**
a) Subject to forbearance in accordance with GL	-	-	-	-	-	-	-	-	-	-	-	-
b) Subject to moratorium measures no longer in accordance with GL and not valued as forborne	-	-	-	-	-	-	-	-	-	-	-	-
c) Subject to other forbearance measures	367	-	-	367	-	(81)	-	-	(81)	-	286	-
d) New loans	5,222	-	-	5,222	-	(739)	-	-	(739)	-	4,483	-
C. NON-PERFORMING PAST DUE LOANS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Subject to forbearance in accordance with GL	-	-	-	-	-	-	-	-	-	-	-	-
b) Subject to moratorium measures no longer in accordance with GL and not valued as forborne	-	-	-	-	-	-	-	-	-	-	-	-
c) Subject to other forbearance measures	-	-	-	-	-	-	-	-	-	-	-	-
d) New loans	-	-	-	-	-	-	-	-	-	-	-	-
D. OTHER PERFORMING LOANS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Subject to forbearance in accordance with GL	-	-	-	-	-	-	-	-	-	-	-	-
b) Subject to moratorium measures no longer in accordance with GL and not valued as forborne	-	-	-	-	-	-	-	-	-	-	-	-
c) Subject to other forbearance measures	-	-	-	-	-	-	-	-	-	-	-	-
d) New loans	-	-	-	-	-	-	-	-	-	-	-	-
E. OTHER PERFORMING LOANS	**528,314**	**499,745**	**28,569**	**-**	**-**	**(2,713)**	**(2,488)**	**(223)**	**-**	**-**	**525,601**	**-**
a) Subject to forbearance in accordance with GL	-	-	-	-	-	-	-	-	-	-	-	-
b) Subject to moratorium measures no longer in accordance with GL and not valued as forborne	-	-	-	-	-	-	-	-	-	-	-	-
c) Subject to other forbearance measures	20,317	12,294	8,023	-	-	(169)	(52)	(116)	-	-	20,148	-
d) New loans	507,997	487,451	20,546	-	-	(2,544)	(2,436)	(107)	-	-	505,453	-
TOTAL (A+B+C+D+E)	**533,903**	**499,745**	**28,569**	**5,589**	**-**	**(3,533)**	**(2,488)**	**(223)**	**(820)**	**-**	**530,370**	**-**

(*) Values to be stated for information purposes.

A1.8 On-balance sheet credit exposures to banks: trend in gross non-performing exposures

There are no on-balance sheet exposures to banks non-performing as initial and/or final exposures for the year, nor have they occurred during the year.

A.1.8bis On-balance sheet credit exposures to banks: trend in gross non-performing forborne exposures, distinguished by credit quality

There are no on-balance sheet exposures to banks non-performing as initial and/or final exposures for the year, nor have they occurred during the year.

Descriptions/Categories	Bad loans	Unlikely-to-pay	Non-performing past due exposures
A. Opening balance - gross exposure	**939,075**	**253,856**	**532**
– of which: assets sold but not derecognised	-	-	-
B. Increases	**128,460**	**252,524**	**2,000**
B.1 transfers from performing exposures	9	5,667	1,957
B.2 transfers from purchased or originated credit impaired financial assets	72,757	147,854	-
B.3 transfers from other non-performing exposures	4,342	599	-
B.4 Contractual amendments without derecognition	-	-	-
B.5 other increases	51,352	98,404	43
C. Decreases	**142,866**	**142,812**	**2,362**
C.1 transfers to performing exposures	-	695	2,086
C.2 write-offs	-	-	-
C.3 collections	125,564	135,743	97
C.4 proceeds from disposals	-	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other non-performing exposures	421	4,341	179
C.7 Contractual amendments without derecognition	-	-	-
C.8 other decreases	16,881	2,033	-
D. Gross exposure closing balance	**924,669**	**363,568**	**170**
– of which: assets sold but not derecognised	-	-	-

A.1.9 On-balance sheet credit exposures to customers: trend in non-performing exposures (of which POCI)

Descriptions/Categories	Bad loans	Unlikely-to-pay	Non-performing past due exposures
A. Opening balance - gross exposure	**919,088**	**204,399**	**79**
– of which: assets sold but not derecognised	-	-	-
B. Increases	**126,846**	**241,932**	
B.1 transfers from performing exposures	-	-	-
B.2 transfers from purchased or originated credit impaired financial assets	72,757	147,854	-
B.3 transfers from other non-performing exposures	2,746	79	-
B.4 Contractual amendments without derecognition	-	-	-
B.5 other increases	51,343	93,999	-
C. Decreases	**140,279**	**103,133**	**79**
C.1 transfers to performing exposures	-	-	-
C.2 write-offs	-	-	-
C.3 collections	123,397	98,355	-
C.4 proceeds from disposals	-	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other non-performing exposures	-	2,746	79
C.7 Contractual amendments without derecognition	-	-	-
C.8 other decreases	16,882	2,032	-
D. Gross exposure closing balance	**905,655**	**343,198**	**-**
– of which: assets sold but not derecognised			

A.1.9 On-balance sheet credit exposures to customers: trend in non-performing exposures (of which organic)

Descriptions/Categories	Bad loans	Unlikely-to-pay	Non-performing past due exposures
A. Opening balance - gross exposure	**19,988**	**49,457**	**453**
– of which: assets sold but not derecognised	-	-	-
B. Increases	**1,614**	**10,594**	**2,000**
B.1 transfers from performing exposures	9	5,667	1,957
B.2 transfers from purchased or originated credit impaired financial assets	-	-	-
B.3 transfers from other non-performing exposures	1,597	519	-
B.4 Contractual amendments without derecognition	-	-	-
B.5 other increases	8	4,408	43
C. Decreases	**2,588**	**39,681**	**2,283**
C.1 transfers to performing exposures	-	695	2,086
C.2 write-offs	-	-	-
C.3 collections	2,167	37,390	97
C.4 proceeds from disposals	697	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other non-performing exposures	421	1,596	100
C.7 Contractual amendments without derecognition	-	-	-
C.8 other decreases	-	-	-
D. Gross exposure closing balance	**19,014**	**20,370**	**170**
– of which: assets sold but not derecognised			

A.1.9bis On-balance sheet credit exposures to customers: gross forborne exposures by credit quality

Descriptions/Quality	Forborne exposures: non-performing	Forborne exposures: performing
A. Opening balance - gross exposure	**8,410**	**26,160**
– of which: assets sold but not derecognised	-	-
B. Increases	**61,809**	**4,382**
B.1 transfers from performing exposures not forborne	611	2,422
B.2 transfers from performing forborne exposures	444	X
B.3 transfers from non-performing forborne exposures	X	185
B.4 inflows from non-performing, non-forborne exposures	-	-
B.4 other increases	60,754	1,775
C. Decreases	**47,953**	**11,765**
C.1 transfers to performing exposures not forborne	X	-
C.2 transfers to performing forborne exposures	185	X
C.3 outflows towards non-performing forborne exposures	X	444
C.4 write-offs	-	-
C.5 collections	13,636	11,321
C.6 proceeds from disposals	-	-
C.7 losses on disposal	-	-
C.8 other decreases	34,132	-
D. Gross exposure closing balance	**22,266**	**18,777**
– of which: assets sold but not derecognised	-	-

A.1.10 On-balance sheet non-performing credit exposures to banks: trend in total write-downs/write-backs

There are no on-balance sheet exposures to banks non-performing as initial and/or final exposures for the year, nor have they occurred during the year.

A.1.11 On-balance sheet non-performing credit exposures to customers: trend of total write-downs/write-backs

Descriptions/Categories	Bad loans		Unlikely-to-pay		Non-performing past due exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Total opening adjustments	**16,429**	**-**	**4,440**	**624**	**27**	**-**
– of which: assets sold but not derecognised	-	-	-	-	-	-
B. Increases	**2,016**	**-**	**2,932**	**1,568**	**309**	**-**
B.1 write-downs/write-backs from purchased or originated credit impaired financial assets	-	X	-	X	-	X
B.2 other write-downs/write-backs	972	-	2,027	1,566	309	-
B.3 losses on disposal	-	-	-	-	-	-
B.4 transfers from other non-performing exposures	1,044	-	234	-	-	-
B.5 contractual amendments without derecognition	-	-	-	-	-	-
B.6 other increases	-	-	671	2	-	-
C. Decreases	**2,310**	**-**	**2,904**	**923**	**302**	**-**
C.1 write-backs from measurement	431	-	420	416	8	-
C.2 write-backs from recoveries	328	-	1,324	507	7	-
C.3 gains on disposal	-	-	-	-	-	-
C.4 write-offs	-	-	-	-	-	-
C.5 transfers to other non-performing exposures	209	-	1,043	-	26	-
C.6 contractual amendments without derecognition	-	-	-	-	-	-
C.7 other decreases	1,342	-	117	-	261	-
D. Total closing adjustments	**16,135**	**-**	**4,468**	**1,269**	**34**	**-**
– of which: assets sold but not derecognised	-	-	-	-	-	-

A.2 Classification of financial assets, of commitments to disburse funds and financial guarantees issued on the basis of external and internal ratings

For the purposes of calculating the capital requirement for credit risk, illimity Bank uses the external rating agency (ECAI) Fitch Ratings only for positions included in the "Exposures to central governments or central banks" and "Exposures to institutions" classes; no external ratings are used for other asset classes.

Furthermore, since 2021, the Bank has adopted the ratings of Standard & Poor's Global Ratings ("S&P"), as well as those of ECAI (External Credit Assessment Institution), to calculate its minimum capital requirements in relation to credit risk (standard method), for exposures to insurance companies.

A.2.1 Distribution of financial assets, commitments to disburse funds and financial guarantees issued, by classes of external ratings (gross values)

Exposures	External rating classes						No rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets measured at amortised cost	**111,358**	**80**	**85,629**	**3,849**	**-**	**-**	**3,263,650**	**3,464,566**
– Stage one	111,358	80	85,629	3,849	-	-	1,906,745	2,107,661
– Stage two	-	-	-	-	-	-	65,107	65,107
– Stage three	-	-	-	-	-	-	39,554	39,554
– Purchased or originated impaired	-	-	-	-	-	-	1,252,244	1,252,244
B. Financial assets measured at fair value through comprehensive income	**2,137**	**-**	**69,703**	**51,289**	**2,575**	**-**	**174,806**	**300,510**
– Stage one	2,137	-	69,703	51,289	2,575	-	174,806	300,510
– Stage two	-	-	-	-	-	-	-	-
– Stage three	-	-	-	-	-	-	-	-
– Purchased or originated impaired	-	-	-	-	-	-	-	-
C. Financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**43,117**	**43,117**
– Stage one	-	-	-	-	-	-	43,117	43,117
– Stage two	-	-	-	-	-	-	-	-
– Stage three	-	-	-	-	-	-	-	-
– Purchased or originated impaired	-	-	-	-	-	-	-	-
Total (A+B + C)	**113,495**	**80**	**155,332**	**55,138**	**2,575**	**-**	**3,481,573**	**3,808,193**
D. Commitments to disburse funds and financial guarantees given	**-**	**(21)**	**(177)**	**-**	**-**	**-**	**(133,255)**	**(133,453)**
– Stage one	-	(21)	(177)	-	-	-	(48,674)	(48,872)
– Stage two	-	-	-	-	-	-	(1,660)	(1,660)
– Stage three	-	-	-	-	-	-	(82,921)	(82,921)
– Purchased or originated impaired	-	-	-	-	-	-	-	-
Total (D)	**-**	**(21)**	**(177)**	**-**	**-**	**-**	**(133,255)**	**(133,453)**
Total (A+B+C+D)	**113,495**	**59**	**155,155**	**55,138**	**2,575**	**-**	**3,348,318**	**3,674,740**

A.2.2 Distribution of financial assets, commitments to disburse funds and financial guarantees issued, by classes of internal ratings (gross values)

p.1

Exposures	Internal rating classes							
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	Class 7	Class 8
A. Financial assets measured at amortised cost	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
– Stage one	-	-	-	-	-	-	-	-
– Stage two	-	-	-	-	-	-	-	-
– Stage three	-	-	-	-	-	-	-	-
– Purchased or originated impaired	-	-	-	-	-	-	-	-
B. Financial assets measured at fair value through comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
– Stage one	-	-	-	-	-	-	-	-
– Stage two	-	-	-	-	-	-	-	-
– Stage three	-	-	-	-	-	-	-	-
– Purchased or originated impaired	-	-	-	-	-	-	-	-
C. Financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
– Stage one	-	-	-	-	-	-	-	-
– Stage two	-	-	-	-	-	-	-	-
– Stage three	-	-	-	-	-	-	-	-
– Purchased or originated impaired	-	-	-	-	-	-	-	-
Total (A+B + C)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
D. Commitments to disburse funds and financial guarantees given	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
– Stage one	-	-	-	-	-	-	-	-
– Stage two	-	-	-	-	-	-	-	-
– Stage three	-	-	-	-	-	-	-	-
– Purchased or originated impaired	-	-	-	-	-	-	-	-
Total (D)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B + C)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

A.2.2 Distribution of financial assets, commitments to disburse funds and financial guarantees issued, by classes of internal ratings (gross values)

p.2

Exposures	Internal rating classes							Total
	Class 9	Class 10	Class 11	Class 12	Class 13	Class 14	No rating	
A. Financial assets measured at amortised cost	**-**	**-**	**-**	**-**	**-**	**-**	**3,464,566**	**3,464,566**
– Stage one	-	-	-	-	-	-	2,107,661	2,107,661
– Stage two	-	-	-	-	-	-	65,107	65,107
– Stage three	-	-	-	-	-	-	39,554	39,554
– Purchased or originated impaired	-	-	-	-	-	-	1,252,244	1,252,244
B. Financial assets measured at fair value through comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**300,510**	**300,510**
– Stage one	-	-	-	-	-	-	300,510	300,510
– Stage two	-	-	-	-	-	-	-	-
– Stage three	-	-	-	-	-	-	-	-
– Purchased or originated impaired	-	-	-	-	-	-	-	-
C. Financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**43,117**	**43,117**
– Stage one	-	-	-	-	-	-	43,117	43,117
– Stage two	-	-	-	-	-	-	-	-
– Stage three	-	-	-	-	-	-	-	-
– Purchased or originated impaired	-	-	-	-	-	-	-	-
Total (A+B + C)	**-**	**-**	**-**	**-**	**-**	**-**	**3,808,193**	**3,808,193**
D. Commitments to disburse funds and financial guarantees given	**-**	**-**	**-**	**-**	**-**	**-**	**133,453**	**133,453**
– Stage one	-	-	-	-	-	-	48,872	48,872
– Stage two	-	-	-	-	-	-	1,660	1,660
– Stage three	-	-	-	-	-	-	82,921	82,921
– Purchased or originated impaired	-	-	-	-	-	-	-	-
Total (D)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**133,453**
Total (A+B + C)	**-**	**-**	**-**	**-**	**-**	**-**	**133,453**	**(3,674,740)**

A.3 Breakdown of guaranteed credit exposures by guarantee type

A.3.1 Guaranteed on- and off-balance sheet credit exposures to banks

	Gross exposure	Net exposure	Collaterals (1)			
			Real estate - mortgages	Real estate - Loans for leasing	Securities	Other real guarantees
1. Guaranteed on-balance sheet credit exposures:	**191,399**	**191,387**	**-**	**-**	**189,186**	**-**
1.1. fully guaranteed	191,300	191,292	-	-	189,186	-
- of which non-performing	-	-	-	-	-	-
1.2. partially guaranteed	99	95	-	-	-	-
- of which non-performing	-	-	-	-	-	-
2. Guaranteed off-balance sheet credit exposures:	**-**	**-**	**-**	**-**	**-**	**-**
2.1. fully guaranteed	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-
2.2. partially guaranteed	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-

A.3.2 Guaranteed on- and off-balance sheet credit exposures to customers

	Gross exposure	Net exposure	Collaterals (1)			
			Real estate - mortgages	Real estate - Loans for leasing	Securities	Other real guarantees
1. Guaranteed on-balance sheet credit exposures:	**1,491,405**	**1,479,780**	**242,486**	**-**	**27,659**	**38,901**
1.1. fully guaranteed	498,128	492,052	238,903	-	27,182	7,853
- of which non-performing	288,278	283,455	180,739	-	3,486	8
1.2. partially guaranteed	993,277	987,728	3,583	-	477	31,048
- of which non-performing	40,516	38,766	-	-	200	493
2. Guaranteed “Off-Balance Sheet” credit exposures:	**27,030**	**26,989**	**4,706**	**-**	**-**	**1,680**
2.1. fully guaranteed	14,451	14,446	4,706	-	-	644
- of which non-performing	10,740	10,740	4,515	-	-	14
2.2. partially guaranteed	12,579	12,543	-	-	-	1,036
- of which non-performing	4,757	4,757	-	-	-	7

	Personal guarantees (2) – Credit derivatives – CLN	Personal guarantees (2) – Credit derivatives – Other derivatives – Central Counterparties	Personal guarantees (2) – Credit derivatives – Other derivatives – Banks	Personal guarantees (2) – Credit derivatives – Other derivatives – Other financial companies	Personal guarantees (2) – Credit derivatives – Other derivatives – Other entities	Personal guarantees (2) – Endorsement credits – Public administrations	Personal guarantees (2) – Endorsement credits – Banks	Personal guarantees (2) – Endorsement credits – Other financial companies	Personal guarantees (2) – Endorsement credits – Other entities	Total (1)+(2)
1. Guaranteed on-balance sheet credit exposures:	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**70**	**189,256**
1.1. fully guaranteed	-	-	-	-	-	-	-	-	-	189,186
– of which non-performing	-	-	-	-	-	-	-	-	-	-
1.2. partially guaranteed	-	-	-	-	-	-	-	-	70	70
– of which non-performing	-	-	-	-	-	-	-	-	-	-
2. Guaranteed off-balance sheet credit exposures:	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1. fully guaranteed	-	-	-	-	-	-	-	-	-	-
– of which non-performing	-	-	-	-	-	-	-	-	-	-
2.2. partially guaranteed	-	-	-	-	-	-	-	-	-	-
– of which non-performing	-	-	-	-	-	-	-	-	-	-

	Personal guarantees (2) – Credit derivatives – CLN	Personal guarantees (2) – Credit derivatives – Other derivatives – Central Counterparties	Personal guarantees (2) – Credit derivatives – Other derivatives – Banks	Personal guarantees (2) – Credit derivatives – Other derivatives – Other financial companies	Personal guarantees (2) – Credit derivatives – Other derivatives – Other entities	Personal guarantees (2) – Endorsement credits – Public administrations	Personal guarantees (2) – Endorsement credits – Banks	Personal guarantees (2) – Endorsement credits – Other financial companies	Personal guarantees (2) – Endorsement credits – Other entities	Total (1)+(2)
1. Guaranteed on-balance sheet credit exposures:	**-**	**-**	**-**	**-**	**-**	**140,189**	**5,729**	**171,994**	**630,088**	**1,257,046**
1.1. fully guaranteed	-	-	-	-	-	24,865	5,248	19,122	159,944	483,117
– of which non-performing	-	-	-	-	-	189	2,262	1,346	86,880	274,910
1.2. partially guaranteed	-	-	-	-	-	115,324	481	152,872	470,144	773,929
– of which non-performing	-	-	-	-	-	3,567	21	29	12,883	17,193
2. Guaranteed "Off-Balance Sheet" credit exposures:	**-**	**-**	**-**	**-**	**-**	**-**	**1,053**	**1,036**	**10,064**	**18,539**
2.1. fully guaranteed	-	-	-	-	-	-	534	47	8,105	14,036
– of which non-performing	-	-	-	-	-	-	-	31	5,770	10,330
2.2. partially guaranteed	-	-	-	-	-	-	519	989	1,959	4,503
– of which non-performing	-	-	-	-	-	-	-	-	1,959	1,966

A.4 Financial and non-financial assets obtained through the enforcement of guarantees received

There are no financial and non-financial assets obtained through the enforcement of guarantees received.

B. DISTRIBUTION AND CONCENTRATION OF CREDIT EXPOSURES

B.1 Sector breakdown of on- and off-balance sheet credit exposures to customers

p.1

Exposures/Counterparties	Public administrations		Financial companies		Financial companies (of which: insurance companies)	
	Net exposure	Total write-downs/ write-backs	Net exposure	Total write-downs/ write-backs	Net exposure	Total write-downs/ write-backs
A. On-balance sheet exposures						
A.1 Bad loans	-	-	812,032	2,133	-	-
– of which forborne exposures	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	26,713	188	-	-
– of which forborne exposures	-	-	-	-	-	-
A.3 Non-performing past-due exposures	35	9	1	-	-	-
– of which forborne exposures	-	-	-	-	-	-
A.4 Performing exposures	212,263	272	733,427	2,744	239	2
– of which forborne exposures	-	-	-	-	-	-
Total (A)	**212,298**	**281**	**1,572,173**	**5,065**	**239**	**2**
B. Off-balance sheet credit exposures						
B.1 Non-performing exposures	-	-	12	-	-	-
B.2 Performing exposures	-	-	32,342	21	-	-
Total (B)	**-**	**-**	**32,354**	**21**	**-**	**-**
Total (A+B) 31/12/2021	**212,298**	**281**	**1,604,527**	**5,086**	**239**	**2**
Total (A+B) 31/12/2020	**11,409**	**362**	**1,395,681**	**4,560**	**454**	**2**

B.1 Sector breakdown of on- and off-balance sheet credit exposures to customers

p.2

Exposures/Counterparties	Non-financial companies		Households	
	Net exposure	Total write-downs/write-backs	Net exposure	Total write-downs/write-backs
A. On-balance sheet exposures				
A.1 Bad loans	61,357	12,192	35,145	1,810
– of which forborne exposures	-	-	-	-
A.2 Unlikely to pay	326,029	3,671	6,358	609
– of which forborne exposures	20,179	1,158	817	111
A.3 Non-performing past due exposures	28	4	71	21
– of which forborne exposures	-	-	-	-
A.4 Performing exposures	1,257,367	8,432	37,452	114
– of which forborne exposures	17,487	96	1,174	20
Total (A)	**1,644,781**	**24,299**	**79,026**	**2,554**
B. Off-balance sheet exposures				
B.1 Non-performing exposures	65,133	4,135	278	1
B.2 Performing exposures	105,259	252	2,199	-
Total (B)	**170,392**	**4,387**	**2,477**	**1**
Total (A+B) 31/12/2021	**1,815,173**	**28,686**	**81,503**	**2,555**
Total (A+B) 31/12/2020	**1,120,854**	**27,915**	**77,403**	**2,545**

B.2 Territorial distribution of on- and off-balance sheet credit exposures to customers

p.1

Exposures/Geographic Areas	Italy		Other European countries		America
	Net exposures	Total write-downs/ write-backs	Net exposures	Total write-downs/ write-backs	Net exposures
A. On-balance sheet exposures					
A.1 Bad loans	908,149	16,135	383	-	-
A.2 Unlikely to pay	359,100	4,468	-	-	-
A.3 Non-performing past due exposures	136	34	-	-	-
A.4 Performing exposures	2,048,209	10,046	179,225	1,479	5,556
Total (A)	**3,315,594**	**30,683**	**179,608**	**1,479**	**5,556**
B. Off-balance sheet exposures					
B.1 Non-performing exposures	65,423	4,136	-	-	-
B.2 Performing exposures	139,554	272	236	-	10
Total (B)	**204,977**	**4,408**	**236**	**-**	**10**
Total (A+B) 31/12/2021	**3,520,571**	**35,091**	**179,844**	**1,479**	**5,566**
Total (A+B) 31/12/2020	**2,488,055**	**34,308**	**112,594**	**1,051**	**2,174**

B.2 Territorial distribution of on- and off-balance sheet credit exposures to customers

p.2

Exposures/Geographic Areas	America	Asia		Rest of the World	
	Total write-downs/ write-backs	Net exposures	Total write-downs/ write-backs	Net exposures	Total write-downs/ write-backs
A. On-balance sheet exposures					
A.1 Bad loans	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-	-
A.4 Performing exposures	18	5,118	13	2,400	6
Total (A)	**18**	**5,118**	**13**	**2,400**	**6**
B. Off-balance sheet exposures					
B.1 Non-performing exposures	-	-	-	-	-
B.2 Performing exposures	-	-	-	-	1
Total (B)	**-**	**-**	**-**	**-**	**1**
Total (A+B) 31/12/2021	**18**	**5,118**	**13**	**2,400**	**8**
Total (A+B) 31/12/2020	**10**	**1,945**	**9**	**579**	**4**

B.2 Territorial distribution of on- and off-balance sheet credit exposures to customers

p.3

Exposures/Geographic Areas	North west Italy		North east Italy		Central Italy		Southern Italy and islands	
	Net exposure	Total write-downs/ write-backs	Net exposure	Total write-downs/ write-backs	Net exposure	Total write-downs/ write-backs	Net exposure	Total write-downs/ write-backs
A. On-balance sheet credit exposures								
A.1 Bad loans	841,379	2,896	9,793	12,702	38,568	253	18,410	284
A.2 Unlikely to pay	200,654	1,310	48,856	2,918	71,520	233	38,069	7
A.3 Non-performing past-due exposures	-	1	99	23	1	1	36	9
A.4 Performing exposures	1,198,420	4,969	400,837	3,689	363,059	1,148	85,893	240
Total (A)	**2,240,453**	**9,176**	**459,585**	**19,332**	**473,148**	**1,635**	**142,408**	**540**
B. Off-balance sheet credit exposures								
B.1 Non-performing exposures	20,267	1,166	22,685	2,136	21,476	700	995	134
B.2 Performing exposures	77,178	161	35,217	82	15,327	26	11,832	3
Total (B)	**97,445**	**1,327**	**57,902**	**2,218**	**36,803**	**726**	**12,827**	**137**
Total (A+B) 31/12/2021	**2,337,898**	**10,503**	**517,487**	**21,550**	**509,951**	**2,361**	**155,235**	**677**
Total (A+B) 31/12/2020	**1,766,004**	**10,177**	**453,207**	**21,779**	**166,048**	**1,867**	**102,796**	**485**

B.3 Territorial distribution of on- and "off-balance sheet" credit exposures to banks

p.1

Exposures/Geographic Areas	Italy		Other European countries		America
	Net exposures	Total write-downs/ write-backs	Net exposures	Total write-downs/ write-backs	Net exposures
A. On-balance sheet exposures					
A.1 Bad loans	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-	-
A.4 Performing exposures	135,656	323	193,719	8	-
Total (A)	**135,656**	**323**	**193,719**	**8**	**-**
B. Off-balance sheet exposures					
B.1 Non-performing exposures	-	-	-	-	-
B.2 Performing exposures	1,962	-	86	-	-
Total (B)	**1,962**	**-**	**86**	**-**	**-**
Total (A+B) 31/12/2021	**137,618**	**323**	**193,805**	**8**	**-**
Total (A+B) 31/12/2020	**295,366**	**253**	**312,607**	**26**	**-**

B.3 Territorial distribution of on- and "off-balance sheet" credit exposures to banks

p.2

Exposures/Geographic Areas	America	Asia		Rest of the World	
	Total write-downs/ write-backs	Net exposures	Total write-downs/ write-backs	Net exposures	Total write-downs/ write-backs
A. On-balance sheet exposures					
A.1 Bad loans	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-	-
A.4 Performing exposures	-	-	-	-	-
Total (A)	**-**	**-**	**-**	**-**	**-**
B. Off-balance sheet exposures					
B.1 Non-performing exposures	-	-	-	-	-
B.2 Performing exposures	-	-	-	-	-
Total (B)	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2021	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2020	**-**	**-**	**-**	**-**	**-**

B.3 Territorial distribution of on- and "off-balance sheet" credit exposures to banks

p.3

Exposures/Geographic Areas	North west Italy		North east Italy		Central Italy		Southern Italy and islands	
	Net exposures	Total write-downs/ write-backs	Net exposures	Total write-downs/ write-backs	Net exposures	Total write-downs/ write-backs	Net exposures	Total write-downs/ write-backs
A. On-balance sheet credit exposures								
A.1 Bad loans	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-
A.3 Non-performing past-due exposures	-	-	-	-	-	-	-	-
A.4 Performing exposures	92,654	263	5,050	15	37,952	45	-	-
Total (A)	**92,654**	**263**	**5,050**	**15**	**37,952**	**45**	**-**	**-**
B. Off-balance sheet credit exposures								
B.1 Non-performing exposures	-	-	-	-	-	-	-	-
B.2 Performing exposures	114	-	-	-	1,848	-	-	-
Total (B)	**114**	**-**	**-**	**-**	**1,848**	**-**	**-**	**-**
Total (A+B) 31/12/2021	**92,768**	**263**	**5,050**	**15**	**39,800**	**45**	**-**	**-**
Total (A+B) 31/12/2020	**156,968**	**150**	**19,602**	**28**	**118,796**	**75**	**-**	**-**

B.4 Large exposures

	31 December 2021
Book value	1,965,613
Weighted value	340,199
Number	10

According to the regulations in force, the number of large exposures shown in the table is determined by referring to unweighted "exposures" exceeding 10% of the Eligible Capital, as defined by EU Regulation no. 575/2013 (so-called CRR), where "exposures" means the sum of on-balance sheet risk assets and off-balance sheet transactions (excluding those deducted from Eligible Capital) towards a customer, or a group of connected customers, without the application of weighting factors. These exposure criteria lead to including subjects in the financial statements table relating to large exposures who – although weighted at 0% – have an unweighted exposure exceeding 10% of the Eligible Capital for the purposes of large risks.

C. SECURITISATION TRANSACTIONS

Qualitative information

With regard to third-party securitisations, below is a brief description, by Division:

DC Division

For its NPL operations, the Bank uses some securitisation vehicles in accordance with Law 130/99, comprising 130 Servicing, a financial intermediary and securitisation *master servicer*.

In detail, the Bank acquires loan portfolios from independent third parties through securitisation vehicles, which funds itself by issuing *single-tranche* notes fully subscribed by the Bank, replicating the entire return of the underlying portfolio.

Also within the DC Division, the Bank also structures senior financing transactions, represented by financing services to investors of *distressed* credits through the subscription of Senior or Junior notes.

Quantitative information

C.1 Exposures resulting from the main originated securitisation transactions broken down by type of securitisations and by type of exposures

The Bank has no exposures in proprietary securitisations.

C.2 Exposures resulting from the main "third party" securitisation transactions broken down by type of securitised asset and by type of exposure

Type of underlying asset/Exposures	On-balance sheet exposures							
	Single tranche		Senior		Mezzanine		Junior	
	Book value	(Write-downs)/ write-backs	Book value	(Write-downs)/ write-backs	Book value	(Write-downs)/ write-backs	Book value	(Write-downs)/ write-backs
1 Distressed Credit Division	878,237	(2,108)	256,434	(760)	4,798	(26)	2,202	-

C.3 Securitisation vehicles

As described above, in order to carry out its NPL activities, the Bank utilises securitisation vehicles pursuant to Law 130/99. For further information, please refer to the contents of the relevant section in the Explanatory Notes to the consolidated financial statements.

C.4 Non-consolidated securitisation vehicles

The Bank does not use non-consolidated securitisation vehicles.

C.5 Servicer activities - originated securitisations: proceeds of securitised credits and reimbursements of securities issued by the securitisation vehicle

The bank does not act as servicer of its own securitisations.

D. INFORMATION ABOUT STRUCTURED ENTITIES NOT CONSOLIDATED IN THE ACCOUNTS (OTHER THAN SECURITISATION VEHICLES)

The Bank does not use structured entities not consolidated in the accounts, other than special purpose vehicles for securitisation transactions (securitisation vehicles).

E. DISPOSAL TRANSACTIONS

A. Financial assets sold and not fully derecognised

Qualitative information

The sales connected to financial assets sold and not derecognised relate to repurchase agreements - payable, where the buyer has to resell on expiration of the assets (for example securities).

Quantitative information

E.1 Financial assets sold and fully recognised and associated financial liabilities: book values

	Financial assets sold and fully recognised				Associated financial liabilities		
	Book value	of which: subject to securitisation transactions	of which: subject to sale agreements with repurchase clause	of which non-performing	Book value	of which: subject to securitisation transactions	of which: subject to sale agreements with repurchase clause
A. Financial assets held for trading	**-**	**-**	**-**	**X**	**-**	**-**	**-**
1. Debt securities	-	-	-	X	-	-	-
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. Other financial assets mandatorily measured at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
C. Financial assets carried at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	**78,246**	**-**	**78,246**	**-**	**72,639**	**-**	**72,639**
1. Debt securities	78,246	-	78,246	-	72,639	-	72,639
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
E. Financial assets measured at amortised cost	**122,792**	**-**	**122,792**	**-**	**118,011**	**-**	**118,011**
1. Debt securities	122,792	-	122,792	-	118,011	-	118,011
2. Loans	-	-	-	-	-	-	-
Total 31/12/2021	**201,038**	**-**	**201,038**	**-**	**190,650**	**-**	**190,650**
Total 31/12/2020	**218,925**	**-**	**218,925**	**-**	**280,980**	**-**	**280,980**

E.2 Financial assets sold and partially recognised and associated financial liabilities: book values

As of the reporting date of 31 December 2021, the Bank did not hold partially recognised financial assets sold and associated financial liabilities.

E.3 Disposal transactions with liabilities with repayment exclusively based on assets sold and not fully derecognised: fair value

In table E.1, the book value of the financial assets indicated may be considered a proxy of the fair value.

F. CREDIT RISK MEASUREMENT MODELS

The Bank has no internal credit risk measurement models for prudential purposes.

Section 2 - Market Risks

2.1 Interest rate risk and price risk – regulatory trading portfolio

Qualitative information

Qualitative information on the measurement of the financial risks generated by the regulatory trading portfolio is illustrated in Part E of the Explanatory Notes to the consolidated financial statements.

Quantitative information

1. Regulatory trading portfolio: distribution by maturity (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

(Euros)

Type/Unexpired term	On demand	Up to 3 months	3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	Between 5 and 10 years	More than 10 years	Indefinite duration
1. Cash assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
– with early repayment option	-	-	-	-	-	-	-	-
– other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Repos	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
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	-	-	987	-	-	-	-	-
+ Short positions	-	-	-	400	586	-	-	-
- Other derivatives								
+ Long positions	-	38,855	20,326	1,402	47,325	8,968	-	-
+ Short positions	-	37,575	21,700	-	53,100	4,500	-	-

2. Regulatory trading book: distribution of exposures in equity instruments and share indices for the main stock market countries

The Bank did not hold equity instruments and share indices in the trading portfolio, as of the reporting date.

3. Regulatory trading portfolio: internal models and other methods of sensitivity analysis

Refer to Part E of the Explanatory Notes to the consolidated financial statements.

2.2 Interest rate risk and price risk – banking book

Qualitative information

Qualitative information on the measurement of financial risks generated by the banking portfolio is illustrated in Part E of the Explanatory Notes to the consolidated financial statements.

Quantitative information

1. Banking book: distribution by maturity (repricing date) of on-balance sheet financial assets and liabilities

Type/Unexpired term	On demand	Up to 3 months	3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	Between 5 and 10 years	More than 10 years	Indefinite duration
1. Cash assets	**354,040**	**1,467,920**	**626,168**	**204,190**	**709,346**	**456,832**	**19,160**	**-**
1.1 Debt securities	3	412,376	92,335	129,451	428,907	412,649	212	-
– with early repayment option	-	-	-	-	-	-	-	-
– other	3	412,376	92,335	129,451	428,907	412,649	212	-
1.2 Loans to banks	2,613	72,447	192,393	517	-	-	-	-
1.3 Loans to customers	351,424	983,097	341,440	74,222	280,439	44,183	18,948	-
– current account	19,878	25,468	3,236	2,786	14,003	1,062	-	-
– other loans	331,546	957,629	338,204	71,436	266,436	43,121	18,948	-
– with early repayment option	15,161	601,810	238,422	735	20,094	8,350	793	-
– other	316,385	355,819	99,782	70,701	246,342	34,771	18,155	-
2. On-balance sheet liabilities	**1,089,308**	**383,168**	**244,771**	**747,364**	**1,428,692**	**13,207**	**2,609**	**-**
2.1 Amounts due to customers	1,088,868	99,697	117,395	747,364	928,904	13,207	2,609	-
– current account	932,907	-	-	-	-	-	-	-
– other payables	155,961	99,697	117,395	747,364	928,904	13,207	2,609	-
– with early repayment option	-	-	-	-	-	-	-	-
– other	155,961	99,697	117,395	747,364	928,904	13,207	2,609	-
2.2 Amounts due to banks	440	283,471	127,376	-	-	-	-	-
– current account	-	-	-	-	-	-	-	-
– other payables	440	283,471	127,376	-	-	-	-	-
2.3 Debt securities	-	-	-	-	499,788	-	-	-
– with early repayment option	-	-	-	-	-	-	-	-
– other	-	-	-	-	499,788	-	-	-
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-balance sheet transactions	**70,522**	**-**	**1**	**7,739**	**39,592**	**10,436**	**4**	**-**
+ Long positions	6,375	-	1	7,739	39,592	10,436	4	-
+ Short positions	64,147	-	-	-	-	-	-	-

2. Bank portfolio: internal models and other methods of sensitivity analysis

The Bank does not have internal models.

2.3 Exchange risk

Qualitative information

For qualitative information, including exchange rate risk hedging assets, please refer to Part E of the Explanatory Notes to the consolidated financial statements.

Quantitative information

1. Distribution by currency of denomination of assets and liabilities and derivatives

Items	Currencies					
	USD	MXN	GBP	ZAR	CHF	OTHER CURRENCIES
A. Financial assets	**5,374**		**102**			
A.1 Debt instruments						
A.2 Equity instruments	7					
A.3 Loans to banks	1,764					
A.4 Loans to customers	3,603		102			
A.5 Other financial assets						
B. Other assets	**5,955**	**245**	**84**	**121**	**49**	**99**
C. Financial liabilities	**13,416**					
C.1 Amounts due to banks	8,843					
C.2 Amounts due to customers	4,573					
C.3 Debt instruments						
C.4 Other financial assets						
D. Other liabilities	**42**					
E. Financial derivatives						
- Options						
+ Long positions						
+ Short positions						
- Other derivatives						
+ Long positions	-					
+ Short positions	177					
Total assets	**11,329**	**245**	**186**	**121**	**49**	**99**
Total liabilities	**13,635**		**-**	**-**	**-**	**-**
Difference (+/-)	**(2,306)**	**245**	**186**	**121**	**49**	**99**

2. Internal models and other methods of sensitivity analysis

Refer to Part E of the consolidated Explanatory Notes.

Section 3 – Derivative instruments and hedging policies

3.1 Trading derivatives

Trading in derivatives was authorised with effect from 2021: the main type of derivatives used is interest rate swaps (IRS), either plain or structured (with the presence of caps and floors).

Derivatives are mainly traded in the context of over-the-counter (OTC) agreements with customers in relation to financing operations. Derivatives operations are carried out within the trading portfolio and involve the active management of market risks, through the hedging of the derivatives with institutional counterparties.

Derivatives operations are not used for the purposes of hedging the interest rate risk of the banking book.

The Bank does not apply any hedge accounting rules for the recognition of derivatives.

A. Financial derivatives

A.1 Financial derivatives held for trading: end-of-period notional values

Underlying assets/ Types of derivatives	Total 31/12/2021				Total 31/12/2020			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central Counterparties	Without central counterparties			Central Counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Debt securities and interest rates	**-**	**57,600**	**62,302**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	4,000	-	-	-	-	-
b) Swaps	-	57,600	58,302	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and share indices	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	**-**	**177**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	177	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Goods	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**57,777**	**62,302**	**-**	**-**	**-**	**-**	**-**

A.2 Financial derivatives held for trading: positive and negative gross fair value - distribution by products

Underlying assets/ Types of derivatives	Total 31/12/2021				Total 31/12/2020			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central Counterparties	Without central counterparties			Central Counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Positive fair value								
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	280	614	-	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	2	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-
Total	**-**	**282**	**614**	**-**	**-**	**-**	**-**	**-**
2. Negative fair value								
a) Options	-	-	52	-	-	-	-	-
b) Interest rate swaps	-	1	6	-	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-
Total	**-**	**1**	**58**	**-**	**-**	**-**	**-**	**-**

A.3 OTC financial derivatives held for trading - notional values, positive and negative gross fair value by counterparties

Underlying assets	Central Counterparties	Banks	Other financial companies	Other entities
Contracts not covered by netting agreements				
1) Debt securities and interest rates				
– notional value	X	-	-	62,302
– positive fair value	X	-	-	614
– negative fair value	X	-	-	58
2) Equity securities and share indices				
– notional value	X	-	-	-
– positive fair value	X	-	-	-
– negative fair value	X	-	-	-
3) Currencies and gold				
– notional value	X	-	-	-
– positive fair value	X	-	-	-
– negative fair value	X	-	-	-
4) Goods				
– notional value	X	-	-	-
– positive fair value	X	-	-	-
– negative fair value	X	-	-	-
5) Others				
– notional value	X	-	-	-
– positive fair value	X	-	-	-
– negative fair value	X	-	-	-
Contracts covered by netting agreements				
1) Debt securities and interest rates				
– notional value	-	57,600	-	-
– positive fair value	-	280	-	-
– negative fair value	-	1	-	-
2) Equity securities and share indices				
– notional value	-	-	-	-
– positive fair value	-	-	-	-
– negative fair value	-	-	-	-
3) Currencies and gold				
– notional value	-	177	-	-
– positive fair value	-	2	-	-
– negative fair value	-	-	-	-
4) Goods				
– notional value	-	-	-	-
– positive fair value	-	-	-	-
– negative fair value	-	-	-	-
5) Others				
– notional value	-	-	-	-
– positive fair value	-	-	-	-
– negative fair value	-	-	-	-

A.4 Residual life of OTC financial derivatives: notional values

Underlying assets/Residual life	Up to 1 year	More than 1 year and up to 5 years	More than 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	2,009	104,425	13,468	119,902
A.2 Financial derivatives on equity securities and share indices	-	-	-	-
A.3 Financial derivatives on currencies and gold	177	-	-	177
A.4 Financial derivatives on goods	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2021	**2,186**	**104,425**	**13,468**	**120,079**
Total 31/12/2020	**-**	**-**	**-**	**-**

Section 4 – Liquidity risk

Qualitative information

For qualitative information, refer to Part E of the Explanatory Notes to the consolidated financial statements.

Quantitative information

1. Breakdown of financial assets and liabilities by residual contractual maturity

EUROS

Items/Time bands	On demand	More than 1 day to 7 days	More than 7 days to 15 days	More than 15 days to 1 month	More than 1 months to 3 months	3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 years	Indefinite duration
A. Cash assets	**237,484**	**65,654**	**11,037**	**60,124**	**404,442**	**438,232**	**314,911**	**1,965,619**	**686,548**	**18,089**
A.1 Government bonds	-	-	-	-	1,015	1,124	12,174	2,000	170,000	-
A.2 Other debt instruments	3	59	2,269	10,678	93,694	100,754	134,617	839,350	287,045	-
A.3 Units in UCIs	3,785	-	-	-	-	-	-	-	-	-
A.4 Loans	233,696	65,595	8,768	49,446	309,733	336,354	168,120	1,124,269	229,503	18,089
- Banks	2,615	51,766	-	298	2,487	192,443	524	-	-	18,089
- Customers	231,081	13,829	8,768	49,148	307,246	143,911	167,596	1,124,269	229,503	-
B. On-balance sheet liabilities	**1,082,938**	**99,091**	**36,452**	**30,371**	**36,585**	**246,631**	**784,653**	**1,403,291**	**220,812**	**-**
B.1 Deposits and current accounts	1,078,021	35,795	36,452	30,037	36,235	118,206	764,031	911,560	3,127	-
- Banks	-	29,000	-	8,829	-	-	-	-	-	-
- Customers	1,078,021	6,795	36,452	21,208	36,235	118,206	764,031	911,560	3,127	-
B.2 Debt instruments	-	-	-	-	-	-	18,875	298,801	198,394	-
B.3 Other liabilities	4,917	63,296	-	334	350	128,425	1,747	192,930	19,291	-
C. "Off-balance sheet" operations										
C.1 Financial derivatives with exchange of principal										
- Long positions	-	799	-	177	-	-	-	-	-	-
- Short positions	-	797	-	177	-	-	-	-	-	-
C.2 Financial derivatives without exchange of principal										
- Long positions	894	-	-	-	-	-	-	-	-	-
- Short positions	59	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be collected										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Commitments to disburse funds										
- Long positions	228	-	1,814	-	-	714	7,770	44,425	11,012	-
- Short positions	65,913	48	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

Section 5 - Operational Risks

Qualitative information

For qualitative information, including legal risks and tax litigation, see Part E of the Explanatory Notes to the consolidated financial statements.

PART F - INFORMATION ON SHAREHOLDERS' EQUITY

Section 1 - Bank's shareholders' equity

A. Qualitative information

Shareholders' equity is defined by the International accounting standards as "what remains of the company's assets after deducting all the liabilities". From a financial viewpoint, equity is the monetary amount of the funds contributed by the proprietors, or generated by the business.

B. Quantitative information

B.1 Equity: breakdown

Items/values	Amount 31 December 2021	Amount 31 December 2020
1. Share capital	**52,620**	**44,007**
2. Share premium reserve	**597,589**	**487,373**
3. Reserves	**65,483**	**21,876**
– earnings	30,577	(4,929)
a) legal	1,590	804
b) Articles of Association	-	-
c) treasury shares	-	-
d) others	28,987	(5,733)
– other	34,906	26,804
4. Equity instruments	-	-
5. (Treasury shares)	**(832)**	**(832)**
6. Valuation reserves:	**(6,036)**	**(278)**
– Equities measured at fair value through comprehensive income	5	4
– Hedging of equity instruments measured at fair value through other comprehensive income	-	-
– Financial assets (other than equity instruments) at fair value through other comprehensive income	(5,804)	(119)
– Property, plant and equipment	-	-
– Intangible assets	-	-
– Hedging of foreign investments	-	-
– Cash flow hedges	-	-
– Hedging instruments [undesignated elements]	-	-
– Foreign exchange differences	-	-
– Non-current assets and asset groups held for sale	-	-
– Financial liabilities carried at fair value through profit or loss (changes in creditworthiness)	-	-
– Actuarial gains (losses) relating to defined benefit plans	(237)	(163)
– Share of valuation reserves for equity investments measured at equity	-	-
– Special revaluation laws	-	-
7. Profit (loss) for the year	**69,123**	**32,561**
Total	**777,947**	**584,706**

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

Assets/Values	Total 31 December 2021		Total 31 December 2020	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	757	(6,560)	469	(588)
2. Equity securities	5	-	6	(2)
3. Loans	-	-	-	-
Total	**762**	**(6,560)**	**475**	**(590)**

B.3 Valuation reserves of the financial assets measured at fair value through comprehensive income: annual changes

	Debt securities	Equity securities	Loans
1. Opening balance	**(119)**	**4**	**-**
2. Positive changes	**5,334**	**1**	**-**
2.1 Increases in fair value	845	1	-
2.2 Write-downs/write-backs for credit risk	996	X	-
2.3 Transfer to income statement of negative reserves following disposal	194	X	-
2.4 Transfers to other items of shareholders' equity (equity instruments)	-	-	-
2.5 Other changes	3,299	-	-
3. Negative changes	**(11,019)**	**-**	**-**
3.1 Decreases in fair value	(10,081)	-	-
3.2 Adjustments in value for credit risk	(89)	-	-
3.3 Reclassification through profit or loss of positive reserves: following disposal	(357)	X	-
3.4 Transfers to other items of shareholders' equity (equity instruments)	-	-	-
3.5 Other changes	(492)	-	-
4. Closing balance	**(5,804)**	**5**	**-**

B.4 Revaluation reserves on defined benefit plans: annual changes

	31 December 2021	31 December 2020
1. Opening balance	**(163)**	**(112)**
2. Positive changes	**28**	**19**
2.1 Increases in fair value Actuarial (Gains)/Losses		
2.2 Reclassification through profit or loss of negative reserves		
2.3 Other changes	28	19
3. Negative changes	**(102)**	**(70)**
3.1 Decreases in fair value Actuarial (Gains)/Losses	(102)	(70)
3.2 Reclassification through profit or loss of positive reserves		
3.3 Other changes		
4. Closing balance	**(237)**	**(163)**

Section 2 - Own funds and capital ratios

For information on own funds and capital adequacy, reference is made to the separate document Basel Pillar 3 - Public disclosure, 31 December 2021.

PART G – BUSINESS COMBINATIONS

Section 1 - Transactions completed during the year

1.1 Business combinations

During 2021, illimity finalised the acquisition of 100% of the share capital of Doria SPV S.r.l., Friuli SPV S.r.l., Pitti SPV S.r.l. and River SPV S.r.l., as well as 66.7% of the share capital of Aporti S.r.l.

1.2 Transactions between subjects under common control

On 13 January 2021, the deed was signed by which Core, IT Auction and Mado were merged into neprix. The merger became effective on 1 February 2021. The accounting and fiscal effects of the Merger started from 1 January 2021. On 7 January 2021, the subsidiary ITA Gestione thus changed its company name to "NEPRIX AGENCY S.r.l" ("neprix Agency"). In addition, following the merger, neprix holds 100% of the shares in the company neprix Agency (formerly ITA Gestione), previously held by IT Auction.

This merger, classified as a business combination between entities under common control and therefore outside the scope of IFRS 3, has no effects on the Bank's financial statements as of 31 December 2021, since these companies were already controlled by illimity in the previous financial years.

Section 2 - Business combinations carried out after the balance sheet date

2.1 Business combinations

There were no business combinations governed by IFRS 3 after the end of 2021.

Section 3 - Retrospective adjustments

No retrospective adjustment was made during 2021 to business combinations taking place in previous years.

PART H – TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties are mainly governed by Article 2391-bis of the Italian civil code, according to which the executive bodies of companies resorting to the risk capital markets have to adopt rules, according to criteria indicated by CONSOB, which ensure "the transparency and material and procedural fairness of operations with related parties" carried out directly or through subsidiaries. The supervisory body is required to oversee compliance with the rules and reports on this, in its report to the meeting of shareholders.

In its decision of 12 March 2010, no. 17221, and in implementation of the authority contained in Article 2391-bis of the Italian civil code, CONSOB approved the "Regulation on related party transactions", which was then amended by Resolution no.17389 of 23 June 2010. This sets out the general principles that companies making recourse to the risk capital markets have to observe when setting rules designed to ensure transparency, and the material fairness and procedural fairness of related party transactions. In relation to this specific activity, companies are also subject to the provisions of Article 136 of the Banking Consolidation Act on the obligations of corporate officers.

Related party transactions as identified according to IAS 24 and the Consob Regulation issued in Decision no. 17221 as amended, for within the normal operations of the Bank and are settled at market conditions or on the basis of the costs incurred, if there are no suitable criteria.

In 2021 there were no minor or material related party transactions, which significantly affected the bank's capital or profit and loss.

In relation to CONSOB communication no. DEM/6064293 of 28 July 2006, operations or positions with related parties as classified in IAS 24 and the CONSOB Regulation have a limited impact on the financial situation and capital, profit and loss and cash flows of the Bank.

According to IAS 24, related parties are parties:

a) that directly or indirectly, through one or more intermediaries;
   (i) control the entity, are controlled by it, or are under joint control (including controlling entities, subsidiaries and associates);
   (ii) hold an investment in the entity of an extent that they may have considerable influence on the latter; or
   (iii) jointly control the entity;
b) represent an associate of the entity;
c) represent a joint venture in which the entity participates;
d) are one of the key senior managers of the entity or its parent;
e) are a close family member of one of the parties in points (a) or (d);
f) are an entity controlled by, controlled jointly or subject to significant influence by one of the subjects in points (d) or (e), or those parties have directly or indirectly, a significant portion of voting rights; or
g) are a pension fund for employees of the entity or of any related entity.

On 12 December 2011 the Bank of Italy issued the IX update to Circular no. 263 of 27 December 2006 which introduced prudential supervisory requirements for banks. One of the requirements is a specific provision relating to risk and conflicts of interests regarding Connected Parties, a definition that includes related parties as defined by CONSOB but also parties connected to the same related parties as identified in the provisions; these requirements were modified by the Bank of Italy on 23 June 2020, merging said piece of regulation into Circular no. 285 (see 33rd update of 23 June 2020 Part Three, issued by the Bank of Italy on 23 June 2020, which added a new Chapter 11 "Risk assets and conflicts of interest with connected parties" to the said Circular no. 285). This update therefore supplements the Consob Regulation, in turn revised and updated by Consob with ruling no. 21624 of 10 December 2020, in order to implement Directive (EU) 2017/828 on shareholder rights (SHRD II).

The Bank's Board of Directors has approved the "Regulation for the management of transactions with entities covered by the Bank's Single Perimeter and of transactions" which defines the Group's internal policies on the control of risk activities and conflicts of interest with connected parties. That document is published on the bank's website in the section "*Governance*", in accordance with current regulations.

With regard to operations performed by the Bank with all its related parties, there have been no atypical or unusual operations.

Atypical and/or unusual operations are any operation that due to its materiality or significance, the nature of the counterparties, the object of the transaction, the method used to determine the transfer price and the timing (for example proximity to year-end) could give rise to doubts about the fairness or completeness of the information about the financial statements, a conflict of interest, about the safeguarding of company assets or the protection of minority shareholders.

1. Information on remuneration of key senior managers

The total remuneration and other benefits paid pertaining to the financial year to directors, statutory auditors and other key senior managers is EUR 8,576 thousand. As required by the new IAS 24, paragraph 17, further information has been provided about the following categories of remuneration for senior managers with strategic responsibilities and employees:

(amounts in thousands of euros)

Category	Amount
a) short-term employee benefits	6,283
b) post-employment benefits	225
d) share-based payments for employees	502
e) compensation of members of the Board of Directors and the Board of Statutory Auditors	1,566

2. Information on related party transactions

With regard to the financial relations, and remembering that key senior managers also include the directors and statutory auditors of the Bank, the situation on the reporting date is that shown in the following table, expressed in thousands of euros.

In the reference year, no particularly important transactions with related parties took place. All such operations are carried out at market conditions in accordance with the relevant policy.

Under the terms of CONSOB Communication no. 6064293 of 28 July 2006, the effects on the consolidated financial statements of transactions with related parties as referred to in the table below, are highlighted in the relevant column.

STATEMENT OF FINANCIAL POSITION

(Thousands of euros)

Assets		31 December 2021	of which with related parties	Impact of related parties
10.	Cash and cash equivalents	506,898	1,632	0.3%
	– *Other related parties*	-	1,632	
20.	Financial assets measured at fair value through profit or loss	76,547	95	0.1%
	a) financial assets held for trading	928	-	
	b) financial assets at fair value		-	
	c) other financial assets mandatorily measured at fair value	75,619	95	0.1%
	– *Subsidiaries*	-	95	
30.	Financial assets measured at fair value through other comprehensive income	299,508	-	
40.	Financial assets measured at amortised cost	3,433,056	843,800	25%
	a) due from banks	267,969	-	
	b) loans to customers	3,165,086	843,800	27%
	– *Senior managers*	-	1,339	
	– *Subsidiaries*	-	837,290	
	– *Companies subject to significant influence*	-	4,689	
	– *Other related parties*	-	482	
50.	Hedging derivatives		-	
60.	Fair value change of financial assets in hedged portfolios (+/-)		-	
70.	Equity investments	113,895	113,895	100%
	– *Companies subject to significant influence*	-	10	
	– *Companies subject to joint control*	-	87,696	
	– *Subsidiaries*	-	26,189	
80.	Property and equipment	19,806	-	
90.	Intangible assets	65,231	-	
	of which:	-	-	
	– goodwill	21,643	-	
100.	Tax assets	41,885	-	
	a) current	4,988	-	
	b) deferred	36,896	-	
110.	Non-current assets held for sale and discontinued operations	43,117	43,117	100%
	– *Subsidiaries*	-	43,117	
120.	Other assets	184,305	11,525	6%
	– *Subsidiaries*	-	2,275	
	– *Other related parties*	-	9,250	
	Total assets	**4,784,247**	**-**	

	Liabilities and shareholders' equity	31 December 2021	*of which with related parties*	*Impact of related parties*
10.	Amounts due to customers	3,909,121	-	
	a) due to banks	411,287	-	
	b) due to customers	2,998,046	*226,879*	*8%*
	– *Senior managers*	-	*3,496*	
	– *Subsidiaries*	-	*161,444*	
	– *Companies subject to significant influence*	-	*6,103*	
	– *Companies subject to joint control*	-	*54,642*	
	– *Other related parties*	-	*1,195*	
	c) securities issued	499,788	-	
20.	Financial liabilities held for trading	59	-	
30.	Financial liabilities designated at fair value		-	
40.	Hedging derivatives		-	
50.	Fair value change of financial liabilities in hedged portfolio (+/-)		-	
60.	Tax liabilities	16,677	-	
	a) current	16,064	-	
	b) deferred	613	-	
70.	Liabilities associated with non-current assets held for sale and discontinued operations		-	
80.	Other liabilities	72,467	*8,700*	*12%*
	– *Senior managers*	-	*2,309*	
	– *Other related parties*	-	*2,452*	
	– *Subsidiaries*	-	*3,939*	
90.	Employee severance pay	2,335	*194*	*8%*
	– *Senior managers*	-	*194*	
100.	Allowances for risks and charges	5,641	*74*	*1%*
	a) commitments and guarantees given	4,482	*74*	*2%*
	– *Subsidiaries*	-	*74*	
	b) post-employment benefits		-	
	c) other allowances for risks and charges	1,159	-	
110.	Valuation reserves	(6,036)	-	
120.	Redeemable shares		-	
130.	Equity instruments		-	
140.	Reserves	65,483	*1,046*	*2%*
	– *Senior managers*	-	*1,046*	
150.	Share premium reserve	597,589	-	
160.	Share capital	52,620	-	
170.	Treasury shares (-)	(832)	-	
180.	Profit (loss) for the year (+/-)	69,123	-	
	Total liabilities and shareholders' equity	**4,784,247**	**-**	

INCOME STATEMENT

(Thousands of euros)

Items		31 December 2021	*of which with related parties*	*Impact of related parties*
10.	Interest income and similar income	193,653	*100,772*	*52%*
	of which: interest income calculated according to the effective interest method	187,598	-	
20.	Interest expenses and similar charges	(60,817)	*(40)*	*0.1%*
30.	**Net interest margin**	**132,836**	**-**	
40.	Fee and commission income	27,196	*30*	*0.1%*
50.	Fee and commission expense	(3,518)	-	*0.0%*
60.	**Net fee and commission income**	**23,678**	**-**	
70.	Dividends and similar income	-	-	
80.	Profits (losses) on trading	3,167	-	
90.	Fair value adjustments in hedge accounting	-	-	
100.	Profits (losses) on disposal or repurchase of:	5,393	-	
	a) financial assets measured at amortised cost	302	-	
	b) financial assets measured at fair value through other comprehensive income	5,091	-	
	c) financial liabilities	-	-	
110.	Profits (losses) on other financial assets and liabilities measured at fair value through profit or loss	9,944	-	
	a) financial liabilities designated at fair value	-	-	
	b) other financial assets mandatorily measured at fair value	9,944	-	
120.	**Total net operating income**	**175,017**	**-**	
130.	Net losses/recoveries for credit risks associated with:	19,551	-	
	a) financial assets measured at amortised cost	19,921	*440*	*2%*
	b) financial assets measured at fair value through other comprehensive income	(370)	-	
140.	Profits/losses on changes in contracts without derecognition	196	-	
150.	**Net result from banking activities**	**194,764**	**-**	
160.	Administrative expenses:	(117,812)	-	
	a) personnel expenses	(52,122)	*(8,576)*	*16%*
	b) other administrative expenses	(65,690)	*(19,990)*	*30%*
170.	Net allowances for risks and charges	(2,914)	-	
	a) commitments and guarantees given	(2,404)	*(74)*	*3%*
	b) other net provisions	(510)	-	
180.	Net adjustments/recoveries on property and equipment	(2,885)	-	
190.	Net adjustments/recoveries on intangible assets	(6,718)	-	
200.	Other operating income/expenses	15,723	*11,918*	*76%*
210.	**Operating expenses**	**(114,607)**	**-**	
220.	Profits (losses) on equity investments	-	-	
230.	Net gains/losses on the measurement at fair value of property and equipment and intangible assets	-	-	
240.	Write-downs/write-backs of goodwill	-	-	
250.	Profits (losses) on disposal of investments	2,278	*2,278*	*100%*
260.	**Profit (loss) before tax from continuing operations**	**82,435**	**-**	
270.	Income tax for the year on continuing operations	(13,565)	-	
280.	**Profit (loss) after tax from continuing operations**	**68,870**	**-**	
290.	Net income (Loss) (+/-) from discontinued operations after tax	253	*470*	*N/A*
300.	**Profit (loss) for the year**	**69,123**	**-**	

PART I – SHARE-BASED PAYMENTS

Qualitative information

1. Description of payment agreements based on own equity instruments

As to the variable component, the Bank's Remuneration Policy provides that this can be serviced by

- an "*Employee Stock Ownership Plan*" (ESOP), intended for all the employees of the Bank who have, with the Company, (i) a permanent contract of employment, or (ii) a fixed term contract in existence for at least 6 months with a residual term of at least 6 months compared to the award date of each annual cycle (the "Contract of Employment").
- a "*Long Term Incentive Plan*" (LTI), for the Managing Director and other top management of illimity ("Beneficiaries"), identified as senior managers with strategic responsibilities.

Quantitative information

2. Annual changes

Items/Number of options and exercise prices	31 December 2021			31 December 2020		
	Number of options	Average exercise prices	Average expiration date	Number of options	Average exercise prices	Average expiration date
A. Opening balance	**1,668,403**	**7.26**	**30 April 2024**	**1,503,711**	**7.10**	**30 April 2024**
B. Increases			**X**	**-**		
B.1 New issues	1,696,386	-	31 December 2024	260,166	8.03	30 April 2024
B.2 Other changes			X	-	-	X
C. Decreases			**X**	-		
C.1 Derecognised	(1,668,403)	7.26	30 April 2024	(95,474)	6.94	30 April 2024
C.2 Exercised	-	-	X	-	-	X
C.3 Past-due	-	-	X	-	-	X
C.4 Other changes	-	-	X	-	-	X
D. Closing balance	**1,696,386**	**-**	**31 December 2024**	**1,668,403**	**7.26**	**30 April 2024**
E. Options exercised as of the end of the financial year	**-**	**-**	**X**	**-**	**-**	**X**

3. Other information

"Employee Stock Option Plan" (hereinafter also "ESOP")

The ESOP provides for the free allocation of up to 700,000 Ordinary Shares, which will be issued in execution of the decision article 2443 of the Italian civil code for the free increase of share capital, Article 2349, paragraph 1, of the Italian civil code up to a maximum of EUR 498,890, authorised by the Meeting on 18 January 2019. The Ordinary Shares will be allocated in five annual cycles.

ESOP is intended for all the employees of the Bank and of the illimity Group who have, with the Company, (i) a permanent contract of employment, or (ii) a fixed term contract in existence for at least 6 months with a residual term of at least 6 months compared to the award date of each annual cycle (the "Contract of Employment").

As decided by the Meeting on 18 January 2019, the body currently responsible for implementing and managing the ESOP is the Bank's Board of Directors which on 18 January 2019 approved the "*Employee Stock Ownership Plan* Regulation", without affecting the characteristics of the Plan which is examined and approved by the Meeting (the "ESOP Regulation").

The beneficiaries' entitlement to the Ordinary Shares is subject to the following conditions being met:

- admission for trading on the MTA of the Ordinary Shares and Conditional Share Rights;
- the continuation of the employment relationship between the beneficiary and the Bank and/or its subsidiary on the allocation date of the Ordinary Shares;
- the maintenance of certain capital and liquidity requirements (so-called *gates*), in line with the applicable laws and regulations on the date of allocation of the Ordinary Shares.

The fulfilment of these conditions for the purposes of awarding the Ordinary Shares will be verified by the Board of Directors and/or the body or persons authorised for that purpose by the Board itself.

The ESOP Regulation requires that the Ordinary Shares be held in a restricted account for each employee, for at least three years. The Ordinary Shares will become available to the employee on conclusion of the three-year restriction period.

Each allocation is related to performance conditions relative to the financial statements of the previous year being attained at the allocation date. Therefore, each annual assignment will be independently recognised at the specific grant date. The SOP plan was classified, in accordance with IFRS 2, as *equity-settled*, because the benefits are not cash settled.

During 2021, as part of the ESOP, 70,600 illimity shares were assigned to Bank employees.

"Long Term Incentive Plan" (hereinafter also "LTIP")

On 15 December 2021, the illimity Bank S.p.A. Ordinary Shareholders' Meeting, on the premise that remuneration represents one of the most important factors for attracting and retaining individuals with the professional expertise and skills appropriate to the company's medium- and long-term needs, approved a *Long Term Incentive Plan* ("LTIP", "the Plan") for the 2021-2025 period, associated with the economic, financial and ESG targets set out in the new Strategic Plan.

This LTI Plan replaces:

- the "Stock Option Plan" ("SOP") whose adoption was resolved upon on 18 January 2019 by the Shareholders' Meeting, reserved for a select number of employees of illimity and of companies directly and/or indirectly controlled by illimity; and
- the 2020-2023 Long Term Incentive Plan reserved for the Chief Executive Officer and the rest of illimity's Top Management, whose adoption was resolved upon on 22 April 2020 by the Shareholders' Meeting.

The new LTI Plan aims to ensure that the time horizon of the long-term incentive plan for key resources of the Bank is aligned with that of the 2021-25 Strategic Plan presented on 22 June; to ensure strict alignment between the interests of the Bank, its shareholders and the beneficiaries of the LTI Plan, by incentivising commitment to achieving the Strategic Plan goals; and to support the achievement of ESG (Environmental, Social & Governance) targets in addition to economic and financial targets, in accordance with the overall framework of the aforementioned Strategic Plan. The Extraordinary Shareholders' Meeting approved, by a majority of 98%, the capital increase intended to finance the new LTI Plan for a nominal maximum amount of EUR 1,323,663.96, through the issue of a maximum of 2,031,094 new ordinary shares in illimity.

PART L – SEGMENT REPORTING

illimity S.p.A., the parent company of the illimity, banking group, opting for the possibility in IFRS 8, prepares segment reporting in Part L of the Explanatory Notes to the Consolidated Financial Statements, to which reference is made.

PART M - LEASE REPORTING

Section 1 - Lessee

Qualitative information

The Bank holds lease contracts that may be classified in the two following categories:

1. Rental of business and personal use properties;
2. Long-term rental of cars.

As of 31 December 2021, there were 84 leasing contracts, of which 21 related to real estate *leasing*, with a total value of rights of use of 17.8 million euros, and of which 63 related to cars, with a total value of rights of use of 1.0 million euros.

Real estate leasing contracts include rental fees for buildings intended for instrumental use, such as offices and for personal use.

Contracts, as a rule, have a duration of greater than 12 months, and typically have renewal and termination options that can be exercised by the lessor and the lessee according to the rules of law or specific contractual provisions.

Contracts relating to other *leases* relate to cars. These are long-term rental contracts available to employees. Generally, these contracts have a four-year duration, with monthly payments, without the option of renewal and do not include the option of purchasing the asset.

Sub lease transactions are of an amount attributable to properties intended for residential use.

As previously specified in the accounting policies, the scope of application of the Standard excludes contracts that have terms of less than 12 months or that refer to leased assets with low unit values when new.

Quantitative information

The following table provides a summary of the components of the Statement of Financial Position relating to *leasing* contracts; for further information, see Part B of the Explanatory Notes:

Type of contract	Right of use	Lease Liability
Property rental fees	17,783	21,542
Long Term Rental Cars	998	1,028
Total	**18,781**	**22,571**

The following table contains a summary of the components of the Income Statement relating to *leasing* contracts; for further information refer to the contents of Part C of the Explanatory Notes:

Type of contract	Interest expense	Net adjustments/ recoveries on property and equipment
Property rental fees	1,424	1,679
Long Term Rental Cars	36	505
Total	**1,460**	**2,184**

As of 31 December 2021 there were no material amounts relating to lease commitments not yet entered into.

Section 2 - Lessor

Qualitative information

At the reporting date, the Bank had no leases in the role of lessor to third parties.

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“Strategy, Sustainability & IR” video

Certification of Financial Statements

pursuant to Article 154-bis ofLegislative Decree 58/1998

illimity

Certification of the Financial Statements pursuant to Article 154-bis of Legislative Decree 58/1998

1. The undersigned Corrado Passera, as CEO, and Sergio Fagioli, as Financial Reporting Officer of illimity Bank certify, also considering Article 154-bis, paragraphs 3 and 4, of Italian Legislative Decree no. 58 of 24 February 1998:
   - the adequacy in relation to the characteristics of the enterprise and
   - the effective application of the administrative and accounting procedures used to prepare the financial statements during financial year 2021.
2. The adequacy of the administrative and accounting procedures used in the formation of the accounts as of 31 December 2021 is checked according to the "*Internal Control – Integrated Framework*" (CoSO) and the "*Control Objective for IT and related Technologies*" (Cobit), which are the benchmarks for the internal control system applicable to financial reporting and generally accepted at international level.
3. We can also certify that:

   3.1. the financial statements:

   a) were drafted in conformity with the applicable international accounting standards endorsed by the European Community under the terms of Regulation (EC) 1606/2002 of the European Parliament and Council, of 19 July 2002;

   b) correspond to the accounting records;

   c) provide a true and fair view of the financial position, performance and cash flows of the issuer.

   3.2. The report on operations includes a reliable analysis of the progress and results of operations as well as the issuer's situation, together with a description of the key risks and uncertainties the issuer is exposed to.

Milan, 10 March 2022

Signature of the Chief Executive Officer
Corrado Passera
Signed

Signature of the Financial Reporting Officer
Sergio Fagioli
Signed

Frame the image using the Aria App to watch the
“Demand & PMO” video

Report of the Board of Statutory Auditors

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING ON ACTIVITIES PERFORMED IN 2021 (ARTICLE 153 OF LEGISLATIVE DECREE 58/1998)

Shareholders,

In this report, the Board of Statutory Auditors (hereafter also the "**Board**") hereby reports to the Meeting of Shareholders of illimity Bank S.p.A. (hereafter also "**illimity**" or "**illimity Bank**" or the "**Bank**) - pursuant to Article 153 of Legislative Decree no. 58/1998 (hereafter "**TUF**") - on its activities for the year ending 31 December 2021.

Also in 2021, the pandemic caused by the global spread of the COVID-19 virus impacted the performance of the global economy. Nonetheless, the sanitary measures for prevention and the economic measures of support adopted by national governments and the European Commission enabled European countries, and Italy in particular, to begin a process of recovery which led to significant economic growth and the recovery of most of the previous year's losses in terms of Gross Domestic Product, industrial production and profitability of businesses. The banking system, in turn, benefited from the positive performance of the global economy, with growth in lending business, financial services and economic results. Italian banks also recovered satisfactory levels of profitability.

In this favourable context, illimity effectively leveraged its characteristics as an online bank that uses innovative instruments in sectors featuring "intense" use of technology, as well as its ability to conclude partnership agreements that enable it to expand into promising new businesses.

Acting also in its capacity as a Supervisory Body under Legislative Decree no. 231/2001, the Board of Statutory Auditors at all times oversaw the measures adopted by the Board of Directors and the management in order to ensure the proper application of the vast body of regulations issued by legislators to support businesses and households.

1. Activities carried out by the Board of Statutory Auditors

As in the previous year, in 2021 the Board of Statutory Auditors, along with all of the Bank's other governance bodies, carried out its activities and held its meetings by video/audio conference, operating exclusively in remote working mode. This was permitted under Article 30 of the Articles of Association, as well as being provided for under law and the protocols adopted by the illimity Bank Group in order to protect the health of staff. Using these tools, the Board was able to effectively carry out its institutional activities of supervision during the entire year.

During the 2021 financial year, the Board of Statutory Auditors carried out its statutory duties in compliance with the Civil Code, Legislative Decree no. 385/1993 (hereafter the "**TUB**"), the TUF, Bank of Italy Circular no. 285/2013, the guidance provided by CONSOB in communication no. 1025564 of 6 April 2001 as amended, Legislative Decree no. 39/2010 (Decree implementing Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts) as amended, statutory provisions and provisions issued by the regulatory and supervisory authorities, and also taking into account the rules of conduct laid down by the National Council of Chartered Accountants and Accounting Experts.

The Board of Statutory Auditors also complied with the regulations applicable to public interest bodies, as the "Internal Control and Audit Committee", performing additional specific control and monitoring duties with regard to financial reporting and statutory auditing, as provided for in Article 19 of the abovementioned Legislative Decree no. 39/2010, as amended by Legislative Decree no. 135/2016.

Lastly, the Board of Statutory Auditors performed the functions of the Supervisory Body, established pursuant to Legislative Decree no. 231/2001 on corporate liability, assigned by resolution of the Board of Directors on 18 January 2019.

In accordance with the Bank of Italy Circular no. 285 (Supervisory Provisions for Banks) on 2 February 2022, the Board of Statutory Auditors carried out a self-assessment of its composition and of the integrity, professionalism and independence of its members, once again with a positive result.

On 4 March 2021, the Board arranged for a review to be carried out of the suitability for appointment of its own members in accordance with the requirements laid down by Decree of the Ministry of Economy and Finance no. 169 of 23 November 2020, again with a positive result.

In this Report, the Board of Statutory Auditors discusses the activities carried out in the 2021 financial year. The relevant information is provided in accordance with applicable provisions.

2. Monitoring of compliance with laws, regulations and statutory provisions

Overall, in 2021 the Board held 20 meetings lasting for around three hours each, and held 1 joint meeting with the Risks Committee; it attended all Shareholders' Meetings and all meetings of the Board of Directors.

The Board also participated in 67 meetings of the Board of Directors' Committees, primarily with all members of the Board attending.

In its capacity as a Supervisory Body pursuant to Legislative Decree 231/2001, the Board met 8 times, 6 of which were meetings of the Board of Statutory Auditors concerning issues of common interest.

During the financial year, the Board of Statutory Auditors also issued 49 opinions (1 of which acting as the Supervisory Board) on compliance or the sharing of decisions taken by the Executive Body, required by the law or regulations.

As part of its control activities, the Board of Statutory Auditors, among other things:

- monitored compliance with the laws, Articles of Association and industry regulations, including with reference to the obligations regarding regulated or insider information or information requested by the Supervisory Authorities;
- monitored compliance with the principles of sound management as well as the efficiency and adequacy of the Bank's organisational structure, administrative-accounting and internal control systems through direct examination, data and information collection from the Heads of the main business Functions concerned, the Financial Reporting Officer pursuant to Article 154-*bis* of the TUF (hereafter the "**Financial Reporting Officer**") and the company responsible for the independent auditing of the accounts, KPMG S.p.A. (hereafter "**KPMG**" or the "**Independent Auditors**");
- monitored the adequacy of the company control functions and their independence;
- monitored, pursuant to Article 149, paragraph 1, letter c-*bis* of the TUF, the implementation of the Corporate Governance Code (2020 version), which the company endorses;
- examined the measures taken by the Bank to comply with the Bank of Italy's requirements regarding internal organisation and control systems;
- checked that the criteria and verification procedures adopted by the Board to assess the various requirements for Directors and Statutory Auditors have been properly applied;
- carried out its checks on the internal control system, systematically supported by the Head of Internal Audit Department's attendance of the meetings of the Board of Statutory Auditors, which were also attended - usually - by the Head of the Compliance & AML Department and the Head of the CRO (Chief Risk Officer) Function and their staff;
- monitored the compliance of the Internal Policy on Transactions with Related Parties and Connected Parties with the principles set out in CONSOB resolution no. 17221 of 12 March 2010 as amended, and with the provisions of Circular no. 285/2013 of the Bank of Italy, and on compliance with the Policy itself;
- met with the Boards of Statutory Auditors of the subsidiaries neprix S.r.l. (hereafter "**neprix**") and illimity SGR S.p.A. (hereafter "**illimity SGR**") to discuss matters of common interest;
- monitored the adoption and proper application of remuneration policies submitted to the Shareholders' Meeting for approval;
- examined the significant corporate transactions concluded during the year, referred to below;
- carried out the activities related to the functions of the Supervisory Body, monitoring the application of illimity's Organisational Model pursuant to Legislative Decree 231/2001 (OMM).

With regard to the provisions of Article 2408 of the Civil Code, the Board of Statutory Auditors informs the Shareholders' Meeting that in 2021 no complaints of reportable matters were received from Shareholders. Similarly, during the year the Board of Statutory Auditors did not receive reports of actions or matters that may constitute a breach of the rules governing banking activities pursuant to Article 52 *bis* of the TUB, or pursuant to Article 6, paragraph 2 *bis* of Legislative Decree no. 231/2001. Neither did it receive reports from customers or other parties of irregularities or reportable conduct by Bank personnel.

There were no alleged cases of breach of duties by the Directors in 2021 as set out by Articles 2406 and 2409 of the Civil Code.

3. Compliance with the principles of sound management - related party transactions

In the 2021 financial year, the Board of Statutory Auditors obtained the necessary information about the activities performed and the major financial and equity transactions carried out in exercising the Bank's activities from the Directors.

On the basis of the information obtained by the Board of Directors and the Management, as well as the documents made available to the Board of Statutory Auditors, it can reasonably be considered that these transactions were carried out in accordance with the law and the Company's Articles of Association, and that they were not demonstrably imprudent, reckless, in conflict with the resolutions passed by the Shareholders' Meeting nor would they compromise the integrity of the company's assets.

The Board also examined the company's management planning and reporting documents, and did not identify any atypical or unusual transactions carried out with subsidiaries, with securitisation vehicles pursuant to Law 130/1999 (SPVs) included in the consolidation, with related parties or with third parties.

3.1 Development operations of the Bank and the Group

On 1 January 2021 the entry of illimity into HYPE S.p.A. (hereinafter, "**HYPE**") became operational. The operation was concluded with the Sella Group during 2020. On its conclusion, illimity acquired 50% of the share capital of HYPE (which, therefore, became 50-50 joint venture). Note that HYPE is a company providing "light banking" services and the objective of illimity's entry is to establish a leading operator on the Italian market in the segment of innovative financial services provided by non-banking operators. The partnership between illimity and the Banca Sella Group will enable both partners to realise important technological and commercial synergies.

In the summer, an agreement of strategic importance was reached with ION Investment Corporation SARL, a holding company of a group operating at global level in the sector of technology applied to finance, regarding the licensing of IT and technology assets and the know-how of illimity and the creation of additional forms of collaboration and synergies in the development of software and systems in the sectors in which illimity operates. To consolidate the partnership with a view to the long-term, at the end of July, the Shareholders' Meeting approved a capital increase, released in cash, reserved to ION, and the issue of warrants that may be exercised in 2022, allowing ION to subscribe additional shares, up to a maximum of 9.99% of the share capital. Referring to the Directors' Report on Operations for a more detailed illustration of the content of the agreement, the effects on the company and the economic aspects, in this venue the Board deems it important to point out the important strategic implications of the partnership with ION for a bank such as illimity, for which technological development is an important driver for growth.

Lastly, for the purpose of completeness, we must note two operations on own capital resolved in 2021. The first, mentioned above, aimed at realising the partnership with ION, was approved, excluding option rights, by the Shareholders' Meeting of 29 July 2021, entailed a share capital increase of EUR 57,535,660 (including share premium) with the issue of 5,753,566 ordinary shares subscribed by companies of the ION Group, while an increase of EUR 30,114,900 (including share premium) served the issue of 2,409,192 ordinary shares to be released in cash following the exercise of the warrants in the period March – 22 July 2022.

The second operation on capital was resolved by the Extraordinary Shareholders' Meeting of 15 December 2021 and envisages a share capital increase for a maximum nominal amount of EUR 1,323,663.96 through the issue of a maximum of 2,031,094 ordinary shares in service of the Long-Term Incentive Plan (LTI Plan) 2021 – 2025 in favour of selected key resources of the illimity Bank Group. Concurrently, that Shareholders' Meeting repealed the Stock Option Plan ("**SOP**") - whose adoption had been resolved on 18 January 2019 by the Shareholders' Meeting, reserved for a select number of employees of illimity and of companies directly and/or indirectly controlled by illimity – with the resulting revocation of the capital increase, for payment and in several tranches, also resolved by that Shareholders' Meeting, for a maximum nominal amount of EUR 1,496,671.34 in service of the SOP.

3.2 Compliance with the principles of sound management

As part of its activities, the Board of Statutory Auditors has systematically and effectively liaised with the Bank's Board of Directors, its Chairman, Chief Executive Officer and other Members, both in the context of board meetings and, extensively, in the context of the internal Board of Directors' Committees, in whose important examination activities the Auditors systematically participated.

Also as part of its statutory duties, the Board of Statutory Auditors had the full cooperation of all the Bank's departments, in particular the Internal Control Functions: the Internal Audit Department, the Chief Risk Officer - CRO and the Compliance & AML Department.

In order to monitor compliance with the principles of sound management, the Board of Statutory Auditors regularly met with the Head of Administration & Accounting and Financial Reporting Officer, discussing the various issues within their areas of responsibility, with particular reference to the implementation of ICT instruments, its impact on operations of the administrative structure and data quality. The Financial Reporting Officer did not highlight any significant shortcomings in the operational and control processes that could impair its opinion of adequacy and effective application of the administrative and accounting procedures for the purposes of giving an accurate representation of the Bank and Group's asset and financial situation, as required under Article 154-bis of the TUF. Moreover, a specific report presented to the Board of Directors and the Board of Statutory Auditors identified some areas with potential scope for improvement, with particular reference to the increase in various core banking applications in order to eliminate some of the manual aspects still present within administrative management.

The Board exercised constant control over the process of continuous upgrading of the overall ICT system, which will be covered in greater detail below, which should also be considered within the context of the expansion of the business also seen in 2021.

3.3 Transactions with related parties and intergroup transactions. Atypical and/or non-ordinary transactions

The Bank has set up a "Policy on Transactions with entities covered by the Single Perimeter of the illimity Banking Group" (originally named the "Regulation for the management of transactions with entities covered by the Bank's Single Perimeter and of transactions and transactions of personal interest""), adopted in compliance with the provisions of CONSOB Regulation 17221/2010 as amended, Article 2391-Bis of the Civil Code and Bank of Italy Circular no. 285/2013 on "Risk activities and conflicts of interest of banks and banking groups with regard to Related Parties". The Policy was most recently updated on 10 March 2022. In that regard, it is specified that the Board was involved, for preparatory activities, in updating the Policy for the purpose, *inter alia*, (i) of fully aligning it with the regulatory changes resulting from the aforementioned update to Bank of Italy Circular 285, as well as (ii) of defining a simplified decision-making process for the operations realised by the Group's subsidiaries, (iii) of illustrating in greater detail the specific criteria, changed by the regulation, to guide Compliance & AML and the Chief Risk Officer in assessing the Ordinary Transactions concluded at market or standard conditions and (iv) of better outlining the significant interests that are considered relevant for the purposes of assessing the conditions for exemption for Transactions concluded with companies wholly controlled by the Parent Company.

Subject to the clarifications stated above concerning adaptation to the new rules, the Board of Statutory Auditors takes the view that the procedures mentioned above are compliant with the requirements of CONSOB Regulation 17221/2010, as amended, and Circular 285 of 2013: during the course of the year the Board monitored compliance with them by the Company.

In the Directors' Report on Operations and Explanatory Notes, the Board of Directors provided an illustration of the transactions with Related Parties, according to internal regulations and under the control of the Board of Statutory Auditors, indicating the related income statement, equity and financial effects. Also described are the methods used to determine the amount of the related considerations, illustrating that these transactions were carried out in the interests of the Company and were conducted according to the principles of sound management.

As stated above, as far as the Board is aware, no atypical and/or non-ordinary transactions were concluded in 2021.

4. Monitoring of the adequacy of the organisational and IT structure

The organisational structure of the Bank and of the Group and its development are described in detail in the Corporate Governance and Ownership Report.

The organisational structure set up by illimity regulates the duties and responsibilities of company departments, the hierarchical and functional relations between them and the related coordination mechanisms, both with regard to the Parent Company and to the subsidiaries.

The Board of Statutory Auditors has monitored the adequacy of the overall organisational structure of illimity and the Group as well as the instructions issued to subsidiaries pursuant to Article 114, paragraph 2 of the TUF.

The far-reaching process of organisational restructuring, involving the adoption of new management and operational procedures, which were put in place during 2019 with the approval of the new bodies of rules comprised of the Regulations, Policies and Guidelines regulating in detail all of the Bank's operations, was implemented in a number of respects during 2021 also in order to take account of the further expansion in the business, the change in the Group's structure, as well as the adoption of new regulations.

The Board of Statutory Auditors continuously followed this process for producing and implementing internal regulations, which overall, can be considered as adequately regulating the governance, expertise and responsibilities of the corporate bodies and corporate structures as well as operational processes, in the context of an organisational system that is consistent overall with the nature and characteristics of the Bank's activities.

The Board of Statutory Auditors has the necessary knowledge of the Bank's organisational structure and ICT system and monitored, within its scope of its responsibility, the implementation of the adjustment and/or improvement measures requested by Operational and Control Functions, by acquiring information from the Heads of all the internal Functions concerned, which reported on the specific control activities carried out by them. Also the engagement with the auditors at KPMG concerning the efficiency of the organisational structure and ICT systems has been and is continuous.

As previously stressed in our Report on previous years' Financial Statements, the new business model required the adoption of innovative ICT solutions: a new ICT servicer was chosen, migrating the central information system from the platform of the previous service provider to that of the new one, and outsourcing some IT activities closely connected to business expansion. In addition, and most significantly, the Digital Bank was launched in 2020. The Board of Statutory Auditors monitored these activities on an ongoing basis.

The management of core banking ICT has been entrusted to Centrico S.p.A., a company from the group Banca Sella Holding, whilst the management of the cloud computing infrastructure component, required for the direct development of the new modular IT system by illimity, has been entrusted to Microsoft Ireland Operations Limited.

The ICT Department (Information and Communication Technologies) is regarded by the Bank of Italy as an "Essential or Important Department", Italian acronym: FEI) and, where it has been outsourced, must be subject to specific annual controls by the Internal Audit Department, a report concerning its operations, which must be approved by the Board of Directors, duly accompanied by comments by the Board of Statutory Auditors, and submitted to the Bank of Italy by 30 April during the year after the year it refers to.

Having noted the above, during 2021 the Board of Statutory Auditors was able to establish the overall efficacy of core banking ICT services. As mentioned above, however, further strengthening measures would be appropriate in order to ensure the optimum management of the overall ICT system; the Board will continue to encourage their adoption within a reasonable timescale. As far as Microsoft is concerned, the functionality of the "Microsoft Azure" system has been assessed as adequate.

The Board of Statutory Auditors also monitors, within the scope of its responsibility, the instructions given by the Parent Company to subsidiaries pursuant to Article 114, paragraph 2 of the TUF (fulfilment of reporting obligations established by law). Special attention is paid to the close relationship with neprix, a company which is closely integrated from an operational point of view, whose business is rapidly growing.

The Board, which as mentioned above also performs the functions of a Supervisory Body pursuant to Legislative Decree no. 231/2001, has also consulted and obtained information concerning organisational and procedural arrangements adopted previously (which are currently being updated), which are relevant for the purposes of that Decree, as amended and supplemented, in relation to the administrative responsibility of entities for the offences provided for under that legislation.

In particular, when carrying out its ordinary activities, the Supervisory Body has monitored (i) the efficiency, efficacy and adequacy of the Organisational and Management Model (OMM, hereafter the "**Model**") in preventing and combating the commission of the offences to which the Decree applies. In this context, it examined the information sent to the Supervisory Body as well as the periodic reports of the Compliance & AML Function, the Internal Audit Function and the related dashboards, and monitored the email account and the implementation of other whistleblowing procedures. The Board of Statutory Auditors, in carrying out the tasks and functions of the Supervisory Body, also monitored compliance with the principles and values contained in the Group's Code of Ethics.

For the best performance of its tasks, the Body made use of the Bank's departments, in particular the Internal Audit Department, the Compliance & AML Department and the CRO, as well as the Human Resources & Organization and General Counsel Departments.

Compliance with the Corporate Governance Code, composition of the Board of Directors and Remuneration

As stated in the Corporate Governance and Ownership Report, until the end of 2020 illimity applied the Code of Self-Governance for listed companies, which was most recently approved in July 2018 by the Corporate Governance Committee. The Bank then decided to endorse the Corporate Governance Code approved by that Committee, published on 31 January 2020, and applicable from 1 January 2021.

The Board of Statutory Auditors has assessed the application by illimity of that Code as illustrated in the "Corporate Governance and Ownership Report", but has not made any observations in relation to it.

The Board of Statutory Auditors acknowledges that the Board of Directors has carried out an assessment of its operations, size and composition, as well as similar assessments of Board committees. The process and results of self-assessment activity were most recently examined by the Board of Directors at the meeting held on 10 February 2022, which was attended by the Board of Statutory Auditors.

The Board of Statutory Auditors also verified the correct application of the criteria and process put in place by the Board of Directors in order to assess the prerequisites of directors' independence.

Lastly, the Board of Statutory Auditors has verified the corporate processes that resulted in the adoption of the remuneration policies, with particular reference to those of the heads of the control functions and the Financial Reporting Officer, who is responsible for the preparation of the company's accounting documentation.

4.2 Change in the governance system: Adoption of the "single-tier" system

The Extraordinary Shareholders' Meeting of 21 February approved the adoption of the governance system pursuant to Auricle 2409 *sexiesdecies et seq.* of the Civil Code. In the Board of Directors' Report to the Shareholders' Meeting, made available to the public on 21 January 2022, the Board of Directors illustrated the reasons that led the Directors to propose to the Shareholders the move from the "traditional" governance system to the single-tier system. The Board of Statutory Auditors, whose opinion is required by the current Supervisory Instructions of the Bank of Italy, agreed on that proposal of the Directors.

5. Adequacy of the internal control and risk management system, and of the administration and accounting system

The Corporate Governance and Ownership Report also describes the principal characteristics of the internal control and risk management system.

As the Board of Statutory Auditors reported in the previous Reports to the Shareholders' Meetings, the internal control and risk management system (hereafter "**SCIGR**") is comprised of the rules, procedures and corporate structures that enable the Bank and the Group to operate effectively and the main risks to which they are exposed to be identified, managed and monitored. The SCIGR is an integrated system that covers the entire organisational structure; both corporate bodies and corporate structures, including the control functions, are required to contribute to its operation in a coordinated and interdependent manner.

According to current regulations and best practices, within illimity, the types of control are organised into three levels:

- line controls (level I) carried out by the company Functions responsible for business/operational activities;
- risk and compliance controls (level II) falling under the competence of the Risk Management and Compliance & AML Functions;
- internal auditing (level III) carried out by the Internal Audit Department.

The Board of Statutory Auditors has monitored the adequacy of the SCIGR operated by illimity and the Group, and has verified its specific operation. In particular, the Board of Statutory Auditors has:

i) acknowledging the assessment expressed though opinions of the Risks Committee (hereinafter, the "**CR**"), the Board of Directors ("as regards the adequacy and efficacy of the internal control and risk management system, the Board confirms that there are effective safeguards against risks"). In that regard, refer to the Report on Corporate Governance and Ownership;

ii) having examined the half-yearly Report issued by the Risks Committee to support the Board of Directors;

iii) having examined the reports (dashboard) of the control functions – Internal Audit, Risks Management and Compliance & AML – submitted quarterly to the attention of the Risks Committee and, thus, the Board of Directors and the Board of Statutory Auditors;

iv) having examined the summary documents concerning the assessment of the adequacy and efficacy of the internal control and risk management system, also attending the meetings of the Risks Committee and acquiring adequate information also regarding the measures that the Committee decided to promote or require on specific matters;

v) having taken note of the development of the structure of the Bank and the Group;

vi) having verified the autonomy, independence and manner of operation of the Internal Audit Department, and maintained appropriate and constant links with it;

vii) having examined the Audit Plan drawn up by the Internal Audit Department and approved by the Board of Directors, after verifying compliance with it and receiving information concerning the results of the audit and the implementation of the related remediation measures for any problems;

viii) having acknowledged the assessment and adequacy of the Internal Audit Function's SCIGR issued at six-monthly intervals, after obtaining information from the Director Responsible for the Control System on 22 February 2022 and 10 March 2022 and the Heads of the company functions involved in the SCIGR;

ix) taken note of the development of the Group's regulatory system.

With regard to the adequacy of the professional resources of the control functions, the Statutory Auditors acknowledged that at the end of 2021, the Chief Risk Officer Department was comprised of 26 staff, who were appropriate both professionally and in terms of their number, 5 of whom have the status of company officer. As of the same date, the Compliance & AML Function comprised 15 staff, 1 of whom with the status of company officer, whilst the Internal Audit function comprised 9 staff, 1 of whom with the status of company officer. The Board of Statutory Auditors will ensure that the Control Functions continue - also in future, in line with the growth plans - to have staff in the appropriate number and with the appropriate professional profile within the context of the ongoing expansion of the Group and the launch of new business and initiatives.

During the financial year, the Board of Statutory Auditors carried out the required continuous exchange of relevant information with the Control Functions. These functions fulfilled their reporting obligations towards the executive and supervisory bodies and the Risks Committee by providing them with the necessary periodic reports on their work and also with reports detailing the outcomes of the most significant checks.

In 2021 the Internal Audit Function completed the action plan approved by the Board of Directors at the start of the year. Of these, the checks for the control of the Bank's operations were of particular importance, which specifically concerned: (i) Analysis of the Recovery Plan; (ii) Check of the efficacy of the Business Continuity Plan; (iii) Management of IT security; (iv) Report on Outsourced Essential or Important Departments (FEI); (v) Analysis of the Plan for alignment with the new definition of default; (vi) Analysis of the measures to combat and reduce the spread of the COVID-19 virus; and (vii) Validation of the ICAAP and ILAAP Reports. These activities were all completed. Internal Audit prepares a dashboard *(Tableau de Bord)* for the Governance Functions, in which it illustrates the activities carried out in the previous quarter, as well as the status of the improvement measures requested.

In conclusion, the activity carried out by the Audit Function established substantial control of the risks underlying the corporate processes analysed, with scope for improvement (already addressed by the Board), which will not significantly interfere with the Bank's operations and the efficacy of its controls.

The CRO Function carried out activity of primary importance during 2021, being required to monitor banking risks in accordance with the requirements set forth in Bank of Italy Circular no. 285, also taking account also of a new risk, associated with the pandemic crisis. The activity concerned the control and monitoring of risks and a verification of the consistency of indicators with the Risk Appetite Framework – RAF as well as specific controls required by the supervisory authorities. This activity was focused on: (i) Regulatory requirements, with particular reference to the adequacy of Tier 1 capital; (ii) Credit profile, with reference to credit quality and concentration; (iii) Financial profile; (iv) Income profile in relation to Return on Investment – ROI, Return on Equity – ROE and Cost/ Income ratio; and (v) Other management indicators capable of monitoring the Bank's performance (operational risk, ICT risk, reputational risk, etc.). The CRO reports to the governance bodies on the performance of risks in the quarterly dashboards. Lastly, it is important to note the support provided to the Risk Management Function in implementation of the requests from the Supervisory Authorities and on analysing the risks connected with the new Business Plan, approved on 21 June 2021. The Board of Statutory Auditors systematically interfaced with the CRO function, with specific focus on the ICAAP and ILAAP reports, further refining the new model for calculating the collective adjustment of performing loans, and improving level II controls in the credit area.

There was also ongoing dialogue and cooperation with the Compliance & AML Department, regarding both investigations carried out on products and services offered to customers and "ex post" controls on compliance with the internal regulations and, above all, the control activities specific to the Supervisory Body, which receives the necessary operating support from the Compliance Department as well as the Internal Audit Department.

With reference to the preparation of the Financial Statements, financial reporting and the management of related risks, the Board held regular meetings and ongoing dialogue with the Financial Reporting Officer to acquire elements regarding the accounting rules applied, the efficiency of ICT systems, as well as data quality, with specific reference to the classification of loans to customers according to the degree of impairment.

Based on the information obtained, the Board of Statutory Auditors verified that the internal control system in operation during the financial year permitted, overall, an informed and prudent management of business risks, within a complex framework of policies, planning and systematic monitoring by the Control Functions.

In conclusion, the Board of Statutory Auditors considers that - as mentioned above - the control system, which relies on an adequate number of personnel with the right qualifications, is capable of supporting the business growth that illimity is implementing.

6. Independent auditing, monitoring of the financial and non-financial reporting process, and independence of the Independent Auditors

By the resolution of the Shareholders' Meeting of 17 December 2018, independent auditing was assigned to the independent auditors KPMG S.p.A. for the financial years 2018 to 2026.

In accordance with Article 19 of Legislative Decree no. 39/2010, which designates the Board of Statutory Auditors as the "Internal Control and Audit Committee", also in 2021 the Board verified the process of drawing up regular financial reports (Consolidated Financial Report as at 30 June 2021 and Consolidated Interim Reports as at 31 March and 30 September 2021), the Consolidated Financial Statements and the Separate (Company) Financial Statements of illimity Bank for 2021, their compliance with the laws and regulations in force and consistency with the resolutions adopted by the Board of Directors. The same control activities were performed on non-financial reporting, to express the opinion pursuant to Article 5, paragraph 3 of Legislative Decree 254/2016.

6.1 Monitoring of the financial reporting process

In that capacity, during the course of 2021 the Board of Statutory Auditors, *inter alia*:

- informed the Board of Directors of illimity Bank concerning the outcome - without any findings or information requests - of the reports relating to the 2021 Financial Statements of illimity Bank, and sent to it the Additional Report referred to in Article 11 of European Regulation No. 537/2014 to the Board, accompanied by observations;
- monitored the limited audit of interim financial reporting;
- verified and monitored the independence of KPMG, with particular reference to the provision of non-audit services provided to the Bank.

In that regard, on 23 March 2021 and, most recently, 25 March 2022, KPMG issued a statement confirming its independence pursuant to Article 6, paragraph 2 of Regulation (EU) No. 537/2014.

With the Partner of the Independent Auditors KPMG, the Board of Statutory Auditors held numerous meetings during 2021 (10) with the Audit Manager of the illimity Group and with his/her staff, exchanging the necessary information and assessments, in accordance with Article 2409-*septies* of the Civil Code. The main topic of the meetings was the work carried out by KPMG, based on an auditing plan shared by the Board of Statutory Auditors, also benefiting from the collaboration of experts from its network to verify, in particular:

- the impairment tests on the stake in HYPE;
- the recoverability of the intangible assets with a definite life identified in application of IFRS 3 following the acquisition of IT Auction;
- the accounting effects of the derecognition of a portfolio of non-performing loans sold;
- the transaction with the ION Group;
- the implementation of the "collective" adjustment calculation model;
- the valuation of several significant credit exposures.

The Board of Statutory Auditors – always in its above-mentioned role of "Committee" – also discussed and shared with KPMG and the Financial Reporting Officer the accounting standards used, the assessments of the adequacy of the asset and liability items, the methodology for implementation and the results of the goodwill impairment testing and the deferred tax asset probability testing (DTA) and the other choices made in the preparation of the 2021 Financial Statements of illimity Bank, neprix and subsidiaries, and of illimity SGR, as well as the reporting packages of the Securitisation Vehicles pursuant to Law 130/1999 (SPVs), companies which illimity relies on for the securitisation of purchased NPLs. It should be noted that neprix and its subsidiaries, illimity SGR and the SPVs are all subject to independent auditing by KPMG.

In early 2022, meetings between the Board of Statutory Auditors and the Independent Auditors were intensified (3 meetings) in order to ensure an adequate flow of information in compliance with their respective control duties, including with regard to the timing of the preparation of the relevant Reports.

As already highlighted, also in 2021, the Board of Statutory Auditors systematically liaised with the Financial Reporting Officer in order to ensure the exchange of information required, among other things, for the fulfilment of the supervision carried out by it as well as for the purpose of acquiring information and clarifications concerning the adequacy of the administrative-accounting system, functionality of the central ICT system and the progress in the recalibration, improvement and implementation actions necessary in order to adapt the system to new businesses, with results that the Board considered satisfactory.

In light of the provisions in force, on 25 March 2022 the Independent Auditors:

- issued the Reports referring to the Separate and Consolidated Financial Statements as at 31 December 2021, pursuant to Article 14 of Legislative Decree 39/2010 and Article 10 of Regulation (EU) 537/2014. With regard to opinions and statements, KPMG issued the Reports on the Separate and Consolidated Financial Statements without findings or information requests, which show that these financial statements provide a true and fair view of the Group and Bank's financial position and performance and cash flows;
- issued an opinion, stating that the Directors' Report on Operations and the Corporate Governance and Ownership Report, limited to the information indicated in Article 123-*bis*, paragraph 4 of Legislative Decree 58/1998, reflect the separate and consolidated financial statements and have been prepared in accordance with legal requirements;
- stated, also with reference to the separate and consolidated financial statements, that it had nothing to report, with reference to Article 14, paragraph 2, letter e) of Legislative Decree 39/2010, regarding the identification of any material errors in the Directors' Report on Operations, based on its knowledge and understanding of the company and its context acquired during its activities;
- confirmed that the separate and consolidated financial statements have been prepared in XHTML format and have been marked, in all significant aspects, in compliance with the provisions of Delegated regulation (EU) 2019/815;
- issued to the Board of Statutory Auditors pursuant to Article 11 of Regulation (EU) No. 537/2014, the Additional Report for the Internal Control and Audit Committee, which did not reveal any significant shortcomings in the internal control system in relation to the financial reporting process which merit being brought to the attention of the Heads of the governance activities, nor were auditing differences found. KPMG also confirmed its independence;
- the Auditors specify that the Consolidated Non-Financial Statement pursuant to Legislative Decree no. 254/2016, was approved by the executive body and that it was subject to a specific assignment of limited assurance, which they conducted in compliance with ISAE 3000 (Revised).

These aspects were discussed with the Board of Statutory Auditors, also in relation to the preparation of its comments to be provided to the Board of Directors - in accordance with the provisions of Article 19, paragraph 1, letter a) of Legislative Decree no. 39/2010 - accompanying the Additional Report to be submitted to it.

6.2 Monitoring of the non-financial reporting process

According to Legislative Decree no. 254/2016, as amended, along with the related implementing regulations issued by CONSOB by resolution no. 20267 of 18 January 2018, the Company has prepared and published a Consolidated Non-Financial Statement (hereafter "**NFS**" or the "**Declaration**") for the year 2021. According to Article 4 of the Decree, the NFS provides non-financial information concerning the Company and its subsidiaries "insofar as necessary in order to ensure an understanding of the Group's operations, its performance, its results and the impact of the product".

As provided for under Article 3(7) of the Decree, when carrying out its functions the Board of Statutory Auditors has monitored compliance with the provisions applicable to the preparation and publication of the Declaration.

On 10 March 2022 the Board of Directors approved the NFS, which was drawn up in accordance with the Decree, taking account also of the international reporting standards of the GRI-Global Reporting Initiative.

The Board has also acknowledged that, on 25 March 2022, the firm issued the report provided for under Article 3, paragraph 10, of the Decree. Within that report, KPMG certified that, based on the work carried out, it has not become aware of any circumstances to suggest that the NFS has not been drawn up, in all significant respects, in accordance with the requirements of Articles 3 and 4 of the Decree and the reporting standard referred to above.

The Board of Statutory Auditors notes in turn that, following the activities carried out, it has not become aware of any instances of non-compliance by the Declaration with the legislative provisions applicable to its preparation and publication.

6.3 Activities of the Board of Statutory Auditors in relation to non-audit services

During the course of 2021, in accordance with the provisions of Article 19, paragraph 1, letter e), of Legislative Decree 39/2010 and Article 5, paragraph 4 of Regulation EU 537/2014, acting in its capacity as the Internal Control and Audit Committee, the Board of Statutory Auditors has previously examined proposals relating to the award of non-audit services to auditing firms or entities from the relevant network submitted to it for consideration.

As part of its assessments, the Board of Statutory Auditors has verified both the compatibility of those services with the prohibitions laid down by Article 5 of Regulation EU 537/2014, as well as the absence of any potential risks for the auditor's independence resulting from the performance of those services in the light of the provisions contained in Legislative Decree 39/2010 (Article 10 *et seq.*), the Issuers' Regulation (Article 149-bis *et seq.*) and Auditing Principle no. 100. As the statutory prerequisites were met, the Board approved the appointment of KPMG or other entities from the network to perform the service.

The 2021 Financial Statements include an annex containing a statement of the fees on a consolidated basis for the year paid to KPMG:

- for the provision of auditing services: EUR 305,000;
- for the provision of certification services: EUR 276,000;
- for other services: EUR 45,000;
- for auditing services provided to Group companies: EUR 270,100;
- for the provision of certification services to Group companies: EUR 10,000.

7. 2021 Consolidated and Separate Financial Statements

The Consolidated Financial Statements of the illimity Bank S.p.A. Group include the illimity Parent Company, the subsidiaries neprix, neprix agency S.r.l., illimity SGR, Aporti S.r.l., Soperga RE S.r.l., Friuli SPV S.r.l., Friuli LeaseCo S.r.l., Doria SPV S.r.l., Doria LeaseCo S.r.l., River SPV S.r.l., River LeaseCo S.r.l., River Immobiliare S.r.l., Pitti SPV S.r.l. and Pitti LeaseCo S.r.l., as well as the Special Purpose Vehicle Beagle SPE S.r.l. Consolidated in accordance with the IAS/IFRSs. Those companies are consolidated using the line-by-line method.

The formation of the Consolidated Financial Statements of the illimity Bank S.p.A. Group also includes HYPE, as a joint venture, as well as the companies subject to significant influence, i.e. SpicyCo S.r.l. and SpicyCo 2 S.r.l. Those companies are consolidated with the equity method.

The financial statements and packages of the consolidated entities have been prepared in accordance with the coordination guidelines provided to them by illimity Bank. As mentioned above, all companies consolidated using the line-byline method were independently audited by KPMG.

In the Consolidated Directors' Report on Operations, the Directors provide comprehensive information concerning the events that characterised 2021: in particular concerning the recovery of our economy despite the ongoing pandemic. This recovery had positive benefits for the banking system, which achieved strong growth in revenues and profits, just as illimity, which increased its total net operating income by 48% and more than doubled its profit for the year. The operations of illimity and Group companies effectively saw only a slight slowdown due to the pandemic. Having been established as a digital bank that uses advanced technological solutions, the Company's operations were fully ensured throughout 2021, as in the previous year, with significant use of the remote working model. These considerations, in a context of a favourable income performance, though in the presence of the recent, well-known international geopolitical tensions, also lead the Board to agree with the consideration of illimity Bank and the Group as going concerns.

The Report, which has been drawn up by the directors according to statutory and regulatory requirements, clearly illustrates the strategies adopted and the results achieved by the Bank and the Group, and provides appropriate comparisons with those relating to the previous year as well as adequate indications concerning the anticipated development of management. As required, the Explanatory Notes contain full information about the possible risks (credit, market, operational, liquidity and others), on the mentioned geopolitical risk, the uncertainties faced by the Bank at this particular time and the related methods of control. The quali-quantitative information has been accompanied by the required administrative accounting schedules.

This Board of Statutory Auditors has exercised an overall summary control of the consolidated and separate financial statements for 2021, as well as the interim reports for the period, verifying their correct preparation and adequate level of disclosure. This control related in particular to the application of the Accounting Standards and criteria used for the measurement of financial statement items. In this context, explicit consent is given to the recognition in the financial statements of intangible assets. No exemptions from the provisions of the Civil Code (Article 2423, paragraph 4) were sought.

As indicated above, the Board and the Auditors specifically focused on the recoverability of the goodwill recognised in the previous years' consolidated financial statements in relation to the acquisitions of Banca Interprovinciale (by Spax) and of IT Auction, as well as the recoverability of the value of the stake in the joint venture in HYPE, in relation to the significance of the investment and the complexity of the estimates involved in the process of determining its value. The Statutory Auditors have also examined and endorsed the methodology used to carry out the impairment tests on both goodwill and deferred tax assets (DTA).

With regard to the transaction with the ION Group, which opens up specific prospects of strategic importance for illimity, the Board of Statutory Auditors considered the various aspects of the agreement, formulating observations and suggestions, and then agreeing on the terms of the agreement approved by the Board of Directors.

8. Conclusions

The supervisory activities carried out by the Board of Statutory Auditors did not reveal any reportable matters or conduct, omissions or irregularities to be outlined in this Report. As stressed above, from the information obtained through its supervisory activities, the Board of Statutory Auditors is not aware of any transactions carried out during the year that were not carried out in accordance with the principles of sound management nor any that were authorised and carried out in conflict with the law or Company Articles of Association, nor any not in the interests of the Bank and Group, in contradiction to the resolutions adopted by the Shareholders' Meetings, nor any that were demonstrably imprudent or reckless, or that lacked the necessary information in the case of interests of company representatives, or such that would compromise the integrity of the company's assets.

Having considered the content of the Independent Auditor KPMG's reports, and acknowledging the statements issued jointly by the CEO and the Financial Reporting Officer, the Board of Statutory Auditors, acting within its scope of responsibility has not identified any obstacles to the approval by the Shareholders' Meeting of the draft separate financial statements for the year ended 31 December 2021.

In the opinion of the Board of Statutory Auditors, there is no obstacle to the proposal formulated by the Board of Directors concerning the allocation of the profit for the year of EUR 69,123,030.49: (i) to allocate EUR 3,456,151.52 to the legal reserve and to retain profits of EUR 65,666,878.97.

Milan, 25 March 2022

Ernesto Riva

Stefano Caringi

Nadia Fontana

Frame the image using the Aria App to watch the "Internal Audit" video

Independent Auditors' Report

KPMG S.p.A.
Revisione e organizzazione contabile
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20124 MILANO MI
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(The accompanying translated separate financial statements of illimity Bank 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 auditors' report has been translated into English solely for the convenience of international readers. Accordingly, only the original Italian version is authoritative.)

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014

To the shareholders of
illimity Bank S.p.A.

Report on the audit of the financial statements

Opinion

We have audited the separate financial statements of illimity Bank S.p.A. (the "bank"), which comprise the statement of financial position as at 31 December 2021, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the separate financial statements give a true and fair view of the financial position of illimity Bank S.p.A. as at 31 December 2021 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 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 "*Auditors' responsibilities for the audit of the separate financial statements*" section of our report. We are independent of the bank in accordance with the ethics and independence rules and standards applicable in Italy to audits 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 judgement, were of most significance in the audit of the separate financial statements of the current year. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Classification and measurement of loans and receivables with customers recognised under financial assets at amortised cost

Notes to the separate financial statements "Part A - Accounting policies": paragraph A.2.3 "Financial assets measured at amortised cost" and paragraph A.2.15 "Other information - Purchased or originated credit-impaired financial assets (POCI)"

Notes to the separate financial statements "Part B - Information on the statement of financial position": section 4 "Financial assets measured at amortised cost - Item 40"

Notes to the separate financial statements "Part C - Information on the income statement": section 8 "Net losses/recoveries for credit risk – Item 130"

Notes to the separate financial statements "Part E - Information on risks and related hedging policies": section 1 "Credit risk"

Key audit matter	Audit procedures addressing the key audit matter
Loans and receivables with customers recognised under financial assets at amortised cost totalled €3,165.1 million at 31 December 2021, accounting for 66.2% of total assets. These loans and receivables include purchased or originated credit-impaired financial assets of €1,246.8 million. Net impairment gains on loans and receivables with customers recognised during the year totalled €20.0 million. For classification purposes, the directors make analyses that are sometimes complex in order to identify those positions that show evidence of impairment after disbursement or purchase. To this end, they consider both internal information about the performance of exposures and external information about the reference sector and borrowers' overall exposure to banks. Measuring loans and receivables with customers is a complex activity, with a high degree of uncertainty and subjectivity, with respect to which the directors apply internal valuation models that consider many quantitative and qualitative factors, including historical collection flows, expected cash flows and related estimated collection dates, the business plans and related regular updates, the existence of any indicators of impairment, an assessment of any	Our audit procedures included: — gaining an understanding of the bank's processes and IT environment in relation to the disbursement, monitoring, classification and measurement of loans and receivables with customers; — assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls, especially in relation to the identification of exposures with indicators of impairment and the calculation of impairment losses; — analysing the classification criteria used for allocating loans and receivables with customers to the IFRS 9 categories (staging); — analysing the individual and collective impairment assessment policies and models used and checking the reasonableness of the main assumptions and variables included therein, as well as the adjustments made as a result of the effects of the Covid-19 pandemic. We carried out these procedures with the assistance of experts of the KPMG network; — selecting a sample of exposures tested collectively, checking the application of

Key audit matter	Audit procedures addressing the key audit matter
guarantees and the impact of macroeconomic variables and risks of the sectors in which the bank's customers operate. The complexity of the directors' estimation process has increased in 2021 due to the Covid-19 emergency which has severely affected current economic conditions and potential future macroeconomic scenarios, requiring an adjustment to the valuation processes and methods. For the above reasons, we believe that the classification and measurement of loans and receivables with customers recognised under financial assets at amortised cost are a key audit matter.	the measurement models applied and checking that the impairment rates applied complied with those provided for in such models; — selecting a sample of exposures tested individually and checking the reasonableness of the indicators of impairment identified and of the assumptions about their recoverability, including considering the guarantees received; — assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls in relation to the regular updating of the business plans on which basis the POCI exposures are measured; — for a meaningful sample of POCI exposures, checking the underlying business plans and the cash flow backtesting by tracing the business plan figures to the actual collections; — analysing the significant changes in the categories of loans and receivables with customers and in the related impairment rates compared to the previous years' figures and discussing the results with the relevant internal departments; — assessing the appropriateness of the disclosures about loans and receivables with customers recognised under financial assets at amortised cost, also in the light of the increased disclosure requirements currently applicable as a result of the Covid-19 pandemic.

Measurement of goodwill

Notes to the separate financial statements "Part A - Accounting policies": paragraph A.2.7 "Intangible assets"

Notes to the separate financial statements "Part B - Information on the statement of financial position": section 9 "Intangible assets - Item 90"

Key audit matter	**Audit procedures addressing the key audit matter**
The bank recognised goodwill of €21.6 million. As disclosed in the notes, in accordance with IFRS 3, the directors allocated goodwill to the cash-generating units ("CGUs") they identified. The directors tested the reporting-date carrying amount of goodwill for impairment by comparing the carrying amount of the CGUs to which goodwill is allocated to their recoverable amount. They estimated the recoverable amount based on value in use calculated using the discounted cash flow model. Testing goodwill for impairment requires complex valuations and a high level of judgement, especially in relation to: — the CGUs' expected cash flows, calculated by taking into account historical cash flows, the general economic performance and that of bank's sector and the directors' forecasts about its future performance; — the financial parameters to be used to discount the cash flows. The complexity of the directors' estimation process has increased in 2021 due to the Covid-19 emergency which has severely affected current economic conditions and potential future macroeconomic scenarios. For the above reasons, we believe that the measurement of goodwill is a key audit matter.	Our audit procedures included: — understanding the process adopted to prepare the impairment tests approved by the bank's directors; — gaining an understanding of the process used to draft the bank's long-term plan approved by the directors; — analysing the criteria used to identify the CGUs and tracing the carrying amounts of the assets and liabilities allocated thereto to the separate financial statements; — assessing the key assumptions used by the directors to determine the CGUs' value in use. Our assessment included checking the consistency of the method adopted with that used in the previous year and comparing the key assumptions used to external information, where available, also in the light of the financial effects of the Covid-19 pandemic. We carried out these procedures with the assistance of experts of the KPMG network; — checking the sensitivity analysis presented in the notes in relation to the key assumptions used for impairment testing; — assessing the appropriateness of the disclosures about goodwill and the related impairment test, also in the light of the increased disclosure requirements currently applicable as a result of the Covid-19 pandemic.

Recoverability of the investment a joint venture

Notes to the separate financial statements "Part A – Accounting policies": paragraph A.2.5 "Equity investments"

Notes to the separate financial statements "Part B - Information on the statement of financial position": section 7 "Equity investments - Item 70"

Key audit matter	Audit procedures addressing the key audit matter
The separate financial statements at 31 December 2021 include an investment in a joint venture of €87.7 million. The bank acquired this investment in Hype S.p.A. during 2021. The bank's directors measured such equity investment at cost and, if there are indicators of impairment, it is tested for impairment, by discounting the cash flows that are expected to be generated by the joint venture using the dividend discount model to calculate its recoverable amount. Testing the equity investment for impairment requires complex valuations and a high level of judgement, especially in relation to: — the investee's expected cash flows, calculated by taking into account historical cash flows, the general economic performance and that of investee's sector and the directors' forecasts about its future performance; — the financial parameters to be used to discount the cash flows. The complexity of the directors' estimation process has increased in 2021 due to the Covid-19 emergency which has severely affected current economic conditions and potential future macroeconomic scenarios. Considering the materiality of the financial statements caption and the high level of estimate required to measure the equity investment's recoverable amount, we believe that the recoverability of the carrying amount of investment in the joint venture is a key audit matter.	Our audit procedures included: — understanding the process adopted to prepare the impairment tests approved by the bank's directors; — analysing the reasonableness of the key assumptions used by the bank's directors to determine the recoverable amount of the investment in the joint venture and the related forecast cash flows, as well as the assumptions used by the expert engaged by the bank to prepare the impairment test. We carried out these procedures with the assistance of experts of the KPMG network; — assessing the appropriateness of the disclosures provided in the notes about the measurement of the investments in the joint venture.

Responsibilities of the bank's directors and board of statutory auditors ("Collegio Sindacale") for the separate financial statements

The directors are responsible for the preparation of separate financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and article 43 of Legislative decree no. 136/15 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the bank's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the separate financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the bank or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the bank's financial reporting process.

Auditors' responsibilities for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 separate financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit.

We also:

— identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain 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;

— obtain 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 bank's internal control;

— evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;

— conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate 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 auditors' report. However, future events or conditions may cause the bank to cease to continue as a going concern;

— evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, 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 also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 17 December 2018, the bank's shareholders appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2018 to 31 December 2026.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the bank in conducting the statutory audit.

We confirm that the opinion on the separate financial statements expressed herein is consistent with the additional report to the *Collegio Sindacale*, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion on the compliance with the provisions of Commission Delegated Regulation (EU) 2019/815

The bank's directors are responsible for the application of the provisions of Commission Delegated Regulation (EU) 2019/815 with regard to regulatory technical standards on the specification of a single electronic reporting format (ESEF) to the separate financial statements to be included in the annual financial report.

We have performed the procedures required by Standard on Auditing (SA Italia) 700B in order to express an opinion on the compliance of the separate financial statements with Commission Delegated Regulation (EU) 2019/815.

In our opinion, the separate financial statements have been prepared in XHTML format in compliance with the provisions of Commission Delegated Regulation (EU) 2019/815.

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98

The bank's directors are responsible for the preparation of a directors' report and a report on corporate governance and ownership structure at 31 December 2021 and for the consistency of such reports with the related separate financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report and the specific information presented in the report on corporate governance and ownership structure indicated by article 123-bis.4 of Legislative decree no. 58/98 with the bank's separate financial statements at 31 December 2021 and their compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report and the specific information presented in the report on corporate governance and ownership structure referred to above are consistent with the bank's separate financial statements at 31 December 2021 and have been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Milan, 25 March 2022

KPMG S.p.A.

(signed on the original)

Alberto Andreini
Director of Audit

Annex 1 – Reconciliation between the reclassified statement of financial position and income statement and financial statements

Below are the reconciliation schemes used for the preparation of the reclassified statement of financial position and income statement. Any discrepancies between the figures presented are due solely to rounding.

Reclassified Statement of Financial Position

Assets	Values as of 31/12/2021
Property portfolio - Securities at FV	**300,436**
Item 20. a) Financial assets held for trading	928
Item 30. Financial assets measured at fair value through other comprehensive income	299,508
Financial instruments mandatorily measured at fair value	**75,619**
Item 20. c) Other financial assets mandatorily measured at fair value	75,619
To be deducted:	
Due from banks	**267,969**
Item 40. a) Due from banks	267,969
Loans to financial entities	**199,857**
Loans to financial entities	199,857
Loans to customers - HTC	**1,893,892**
Item 40. b) Loans to customers	3,165,086
To be deducted:	
Loans to financial entities	(199,857)
Loans to customers - Securities	(1,071,336)
Securities at amortised cost - Growth Credit	**34,266**
Item 40. b) Loans to customers	3,165,086
To be deducted:	
Loans to customers	(1,893,892)
Loans to financial entities	(199,857)
Distressed Credit Business securities	(1,037,071)
Securities at amortised cost - Distressed Credit	**1,037,071**
Item 40. b) Loans to customers	3,165,086
To be deducted:	
Loans to customers	(1,893,892)
Loans to financial entities	(199,857)
Business Growth Credit securities	(34,266)
Investments in equity	**113,895**
Item 70. Equity investments	113,895
Property and equipment and intangible assets	**85,038**
Item 80. Property and equipment	19,806
Item 90. Intangible assets	65,231

Assets	Values as of 31/12/2021
Tax assets	**41,885**
Item 100. Tax assets	41,885
Other assets	**734,319**
Item 10. Cash and cash equivalents	506,898
Item 110. Non-current assets held for sale and discontinued operations	43,117
Item 120. Other assets	184,305
Total assets	**4,784,247**

Liabilities and shareholders' equity	Values as of 31/12/2021
Due to banks	**411,287**
Item 10. a) Due to banks	411,287
Amounts due to customers	**2,975,475**
Item 10. b) Due to customers	2,998,046
To be deducted:	
Lease Liability (IFRS 16)	(22,571)
Securities issued	**499,788**
Item 10. c) Securities issued	499,788
Financial liabilities in own portfolio - instruments at FV	**59**
Item 20. Financial liabilities held for trading	59
Tax liabilities	**16,677**
Item 60. Tax liabilities	16,677
Other liabilities	**103,014**
Item 80. Other Liabilities	72,467
Increase:	
Lease Liability (IFRS 16)	22,571
Item 90. Employee severance pay	2,335
Item 100. Allowances for risks and charges	5,641
Shareholders' equity	**777,947**
Capital and reserves	
Item 110. Valuation reserves	(6,036)
Item 140. Reserves	65,483
Item 150. Share premium reserves	597,589
Item 160. Share capital	52,620
Item 170. Treasury shares (-)	(832)
Item 180. Profit (loss) for the year	69,123
Total liabilities and shareholders' equity	**4,784,247**

Reclassified income statement

Income Statement items	Values as of 31/12/2021
Net interest margin	**132,874**
Item 10. Interest income and similar income	193,653
Reclassification from Profit (Loss) from discontinued operations	*470*
Item 140. Profits/losses on changes in contracts without derecognition	*196*
Item 20. Interest expenses and similar charges	(60,817)
Reclassification of Raisin operating components	*(2,088)*
To be deducted:	
IFRS 16 interest expenses	*1,460*
Net fee and commission income	**24,659**
Item 40. Fee and commission income	27,196
Item 50. Fee and commission expense	(3,518)
Reclassification of fee and commission expense HFS	(121)
To be deducted:	
Raisin operating components	*1,102*
Gains/losses on financial assets and liabilities	**18,503**
Item 80. Profits (losses) on trading	3,167
Item 100. Profits (losses) from disposal or repurchase	5,393
Item 110. Profits (losses) on other financial assets and liabilities measured at fair value through profit or loss	9,944
Net write-downs/write-backs on closed positions	**14,972**
of which: Net write-downs/write-backs on closed positions - Clients - POCI	14,972
Reclassification from item 280. Profits (losses) on disposal of investments	-
Other profits (losses) from the disposal of investments	**2,278**
Item 250. Profits (losses) on disposal of investments	2,278
Other operating expenses and income	**10,073**
Item 200. Other operating income/expenses	15,723
To be deducted:	
Reclassification of outsourcing services	*(666)*
Reclassification of recovery of other operating expenses/income to Other administrative expenses	*(4,983)*
Total net operating income	**203,359**
Personnel expenses	**(51,578)**
Item 160. Administrative expenses: a) Personnel expenses	(52,122)
To be deducted:	
Reclassification of outsourcing services	*666*
Reclassification of HR expenses from other administrative expenses	*(122)*
Other administrative expenses	**(55,991)**
Item 160. Administrative expenses: b) Other administrative expenses	(65,690)
Reclassification of IFRS 16 interest expenses	(1,460)
Reclassification of HR expenses to personnel expenses	*122*
Reclassification of recovery of other operating expenses/income to Other administrative expenses	*4,983*
Raisin operating components	*986*
Reclassification of contributions and other non-recurring expenses	*5,068*
Net adjustments/recoveries on property and equipment and intangible assets	**(9,603)**
Item 180. Net adjustments/recoveries on property and equipment	(2,885)
Item 190. Net adjustments/recoveries on intangible assets	(6,718)

Income Statement items	Values as of 31/12/2021
Operating expenses	**(117,172)**
Operating profit (loss)	**86,187**
Net losses/recoveries for credit risk - HTC Banks	**(92)**
Net losses/recoveries for credit risk - HTC Financial entities	**(159)**
Net losses/recoveries for credit risk - HTC Clients	**6,061**
Item 130. Losses/recoveries for credit risk associated with: a) financial assets measured at amortised cost	19,921
Reclassification of Net write-downs/write-backs on closed positions - HTC&S Clients - POCI to item 130b	536
Reclassification of Net write-downs/write-backs on closed positions - HTC Clients - POCI off-balance to item 170	325
To be deducted:	
Net losses/recoveries for credit risk - HTC Banks	92
Net losses/recoveries for credit risk - HTC Financial entities	159
Net write-downs/write-backs on closed positions - Clients - POCI	(14,972)
Net losses/recoveries for credit risk - HTCS	**(906)**
Item 130. Losses/recoveries for credit risk associated with: b) financial assets measured at fair value through other comprehensive income	(370)
To be deducted:	
Net write-downs/write-backs on closed positions - HTC&S Clients - POCI	(536)
Net losses/recoveries for commitments and guarantees	**(2,729)**
Item 170. Net allowances for risks and charges: a) commitments and guarantees given	(2,404)
To be deducted:	
Net write-downs/write-backs on closed positions - HTC Clients - POCI off-balance	(325)
Total net losses/recoveries	**2,175**
Other net provisions	**(510)**
Item 170. Net allowances for risks and charges: b) other net provisions	(510)
Other income (expenses) on investments	**-**
Item 220. Profits (losses) on equity investments	-
Contributions and other non-recurring expenses	***(5,068)***
of which: Contributions and other non-recurring expenses	*(5,068)*
Other profits (losses) from the disposal of investments	**-**
Item 250. Profits (losses) on disposal of investments	*2,278*
To be deducted:	
Reclassification to Net write-downs/write-backs on closed positions	(2,278)
Profit (loss) from operations before taxes	**82,784**
Income tax for the period on continuing operations	**(13,661)**
Item 270. Income tax for the period on continuing operations	(13,565)
Reclassification from Profit (Loss) from discontinued operations	(96)
Item 290. Profit (Loss) from discontinued operations after tax	**-**
Item 290. Profit (Loss) from discontinued operations after tax	253
To be deducted:	
Interest income and similar income	*(470)*
Fee and commission expense HFS	*121*
Income tax for the year on continuing operations	*96*
Profit (loss) for the year	**69,123**

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Gruppo illimity Bank S.p.A.
illimity.com

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This PDF document represents an additional version compared to the official version compliant with the Delegated Regulation (EU) 2019/815 of the European Commission (ESEF Regulation - European Single Electronic Format), for which a dedicated file in XHTML format has been prepared.

illimity Bank S.p.A.

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