Financial Statements and Annual Report 2022

illimity
BANCA OLTRE LA FORMA

illimity for SMEs

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

We were created 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.

We have an entrepreneurial spirit and go beyond financial support to forge pathways for development and growth.

Supporting companies is the engine that drives us, day by day, to do more and better.

Watch our corporate video and find out why we are a new-paradigm bank

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

2022 Financial Statements and Annual Report with multimedia insights available on Apple and Android systems using the ARIA App

Highlights

All data as of 31.12.2022

6.4
billion euros

of assets thanks to the growth of net loans to customers and investments

3.8
billion euros

including customer loans and investments

3.2
billion euros

direct total funding from retail and corporate customers

853
illimiters

from 300 companies, 20 sectors and 22 countries

15.8%
CET1 ratio*

confirming the bank's solidity

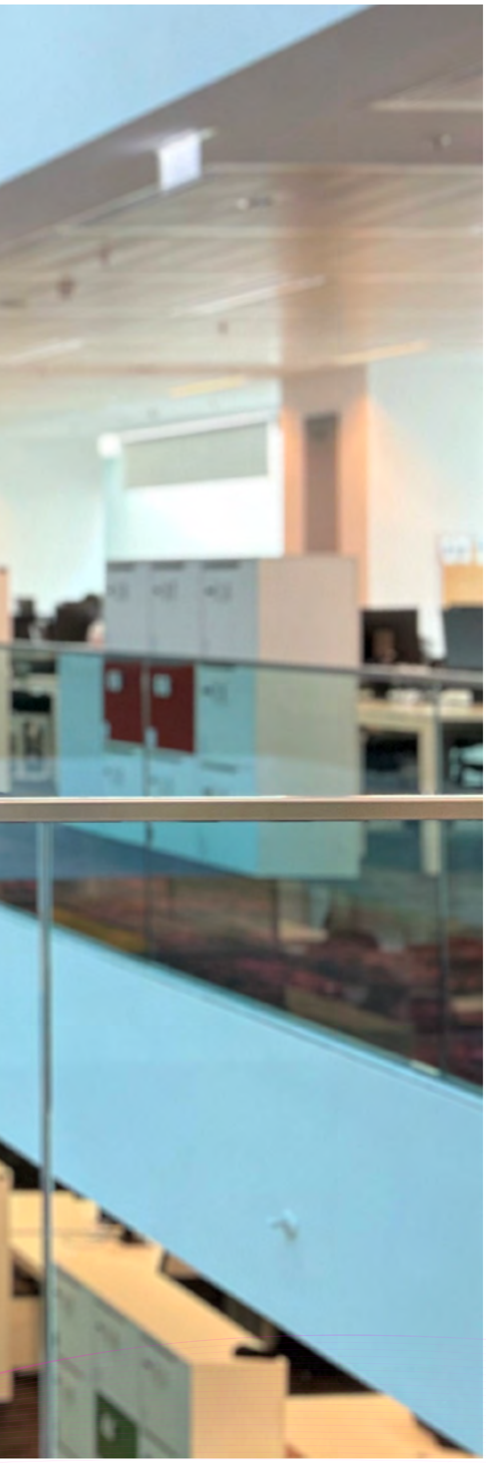
75.3
million euros

net profit up by 15% compared with 2021

*Phased-in

2022 Financial Statements and Report

Contents



Message from the Chair and Chief Executive Officer

GRI 2-22

Dear illimity friends,

we are delighted to present to you our results for the year 2022.

We concluded our first four years of activity by creating a banking group of almost 900 professionals, over 6 billion euros of assets and a profit before tax of more than 100 million euros (net profit of 75 million euros). All this was achieved while maintaining a low risk profile and a very solid capitalisation, always paying close attention to the ambitious ESG goals we set ourselves.

We have confirmed our commitment to the most crucial segments of the great world of SMEs, aiming to support small and medium-sized enterprises on often very ambitious projects through financing for growth, acquisitions or restructuring. We are also proud to say we have kept our promise to continue standing alongside entrepreneurs every day and to go above and beyond, seeing their potential even in a complex year for the economy, like the one just gone.

Our commitment to the worlds of non-performing corporate credit and asset-based credit is just as strong. This last year we also significantly reinforced our position in the UTP corporate servicing sector with the creation of ARECneprix, the asset solution & structuring company, which makes us the third-largest operator in Italy in the UTP corporate credit management sector. As we know, this sector involves companies that are in difficulty but which very often, with the right support, get themselves back on track.

This past year also saw us continue to invest for the future, particularly with regard to our tech initiatives launched between 2021 and 2022: b-ilty, the first lendtech offering for SMEs, Quimmo, the digital proptech for real estate brokerage, and HYPE, Italy's leading fintech for retail customers.

This medium-term vision enabled us to achieve significant results in 2022:

- significant business growth, with net loans to customers and investments of 3.8 million euros (+37% y/y) and assets of of 6.4 billion euros (+36% y/y);
- operating profits of 131 million euros (+18% y/y);
- a net profit of 75.3 million euros (+15% y/y);
- a ROE of approximately 9%, among the highest in the sector;
- robust capital levels, with indicators at the highest levels (CET1 Ratio of 15.8%);
- an excellent portfolio quality;
- high liquidity (approximately 0.6 billion euros), despite significant usage for new loans and investments made.

Over the past year we pursued our deeply held belief in innovation as a strategic lever throughout the entire organisation, as part of our DNA. With our unique, next-generation, no-legacy IT architecture, we are beginning to reap the benefits of our investments in terms of operating efficiency and decision-making processes, thanks to machine learning and AI.

We also believe in our people: we have some 900 illimiters, who represent a balanced gender mix, cover three generations, and come from 300 organisations and more than 20 different sectors. These characteristics enabled us to obtain UNI PdR certification for gender equality and, for the fourth year in a row, recognition as a "Great Place to Work".

Sustainability has also always been at the heart of all our strategies, processes and governance structures, as described in detail in the Sustainability Report, “Being an illimiter also means being accountable in concrete choices made each day.”

which was published alongside the Consolidated Financial Statements. Our commitment was proven by the improvement in all our ratings, our achievement of Carbon Neutrality (Scopes 1 and 2) and the activities of fondazione illimity, which supports a number of urban and social regeneration projects.

Our mission remains the same as on day one: “making profits and being useful”. Obviously making profits is important to us as we are a business and, thanks to our strategic and operational choices, we seek to become one of the most successful banks on the market. However, we are committed to making profits responsibly, so that we can be useful to all those who belong to our ecosystem: customers, illimiters, our commercial and technological partners, and the entire community.

Rosalba Casiraghi
Chair 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 Shareholders' Meeting on 28 April 2022 resolved upon the new composition of the Group's strategic supervisory body following the adoption of the "monistic" governance model, which was approved by the Shareholders' Meeting on 21 February 2022.

The Board of Directors is therefore made up of 13 (thirteen) members, as listed below, including the members of the Management Control Committee.

Rosalba Casiraghi
Chair

Corrado Passera
Chief Executive Officer

Directors

Filippo Annunziata

Patrizia Canziani

Marco Bozzola

Elena Cialliè

Paola Elisabetta Galbiati

Massimo Brambilla

Francesca Lanza

Stefano Caringi

Nadia Fontana

Giovanni Majnoni d'Intignano

Marcello Valenti

MANAGEMENT CONTROL COMMITTEE

Following the transition from the traditional form of governance to the "monistic" model, the role of control body is now carried out by the Audit and Internal Control Committee, whose members (who are also Directors) were appointed by the Shareholders' Meeting on 28 April 2022.

The Audit and Internal Control Committee performs the control functions provided for by the applicable supervisory and regulatory framework, and reports to the Supervisory Authority. It also carries out inspection and monitoring activities and requests updates from the other Directors on the progress of corporate operations or specific matters, including with regard to subsidiaries. Lastly, the Committee may exchange information with the corresponding bodies of subsidiaries with regard to administration and control systems and the general performance of corporate activities.

Chair	**Members**
Marco Bozzola	Stefano Caringi
	Nadia Fontana

COMMITTEES

illimity's governance structure includes six committees, including the Audit and Internal Control Committee (as described above) and the following five committees, which are appointed by the Board and whose function is to offer guidance, advice and suggestions:

Risks Committee
This Committee supports the Board of Directors with regard to risks and internal control systems so that the Board can correctly and effectively determine the RAF (Risk Appetite Framework) and the risk governance policies.
The Risks Committee and the Management Control Committee promptly exchange information of mutual interest and coordinate on the performance of their respective duties.

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 (including in coordination with the Nominations Committee).

Remuneration Committee
This Committee is 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 nomination of Directors and the composition of the Board, the appointment of members of the corporate bodies of the main subsidiaries, and the appointment of the Bank's Top Management and identification of the Top Management of the main subsidiaries. The Committee also supports the Board with regard to the relevant Corporate Governance matters.

Related Party Transactions Committee
This Committee performs functions concerning related party transactions, in line with the provisions of Circular no. 285/2013 of the Bank of Italy, with regard to risks and conflicts of interests involving related parties, and in accordance with the applicable statutory, regulatory and Articles of Association provisions in force. The Committee also acts in accordance with provisions of the "Policy on Transactions with entities covered by the Single Perimeter of the illimity Banking Group".

FINANCIAL REPORTING OFFICER

Sergio Fagioli

INDEPENDENT AUDITORS

KPMG S.p.A.

The main stages in illimity's story

2018

January

Establishment of **SPAXS**, Italy's first Special Purpose Acquisition Company, with the aim of creating a new banking operator

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. comes into being on 5 March with its simultaneous listing on the MTA of Borsa Italiana (the Italian stock exchange)

April

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

June

Contract signed for the **acquisition of IT Auction** which, together with neprix, creates the first end-to-end servicer specialising in distressed corporate credit

September

illimitybank.com is established, offering direct digital banking services to retail customers

2020

February

illimity SGR is authorised to establish and manage Alternative Investment Funds

May

Acquisition of 100% of IT Auction

June

Publication of the first **Sustainability Profile** to report on the Bank's commitment to ESG issues

September

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

November

illimity and neprix receive a **Fitch rating**

December

illimity's first bond issue is successfully concluded

2021

March

Qualification as a **Euronext Growth Advisor** on the Euronext Growth Milan market, expanding its offering to SMEs

April

- Publication of the **first Non-Financial Statement** on a voluntary basis
- **Launch of iCCT**, the first fund of illimity SGR

May

Carbon Neutrality (Scope 1 and Scope 2) achieved

June

- **fondazione illimity** comes into being, to promote innovative projects for the social regeneration of real estate assets and impact finance
- Approval of the **2021-25 Strategic Plan**
- Placement of **illimity's first *tier 2* subordinated bond concluded**

November

"Basket Bond - Sustainable Energy" is created in collaboration with ENI, ELITE and illimity, as Arranger

December

Endorsement of the **United Nations Global Compact**

2022

February

b-ilty, the first digital business store for financial and credit services for SMEs, is created

April

Launch of **Quimmo**, the Italian **prop-tech platform** created to meet the needs of both property buyers and sellers

May

An agreement is reached for the **acquisition of AREC**, which, once integrated into neprix, gives birth to a leading operator in the **servicing** of **Unlikely to Pay** ("UTP") loans

July

Upgrading **of ESG ratings from MSCI and Standard Ethics**, placing the bank at the top of the banking sector

September

iREC, the second fund of illimity SGR, is launched, dedicated to **investments in non-performing real estate loans**

October

- **fondazione illimity** presents its first projects: **Albergo Etico Cesenatico** and **(RE)GENERATION CAMP**
- **Sustainalytics upgrades** illimity, bringing its ESG Rating to **Low Risk level**
- The Bank is ranked in 58th place globally, and number five in Italy, in the **ranking of the World's Most Socially Responsible Banks** of Newsweek and Statista, which identifies the 175 most socially responsible banks in the world

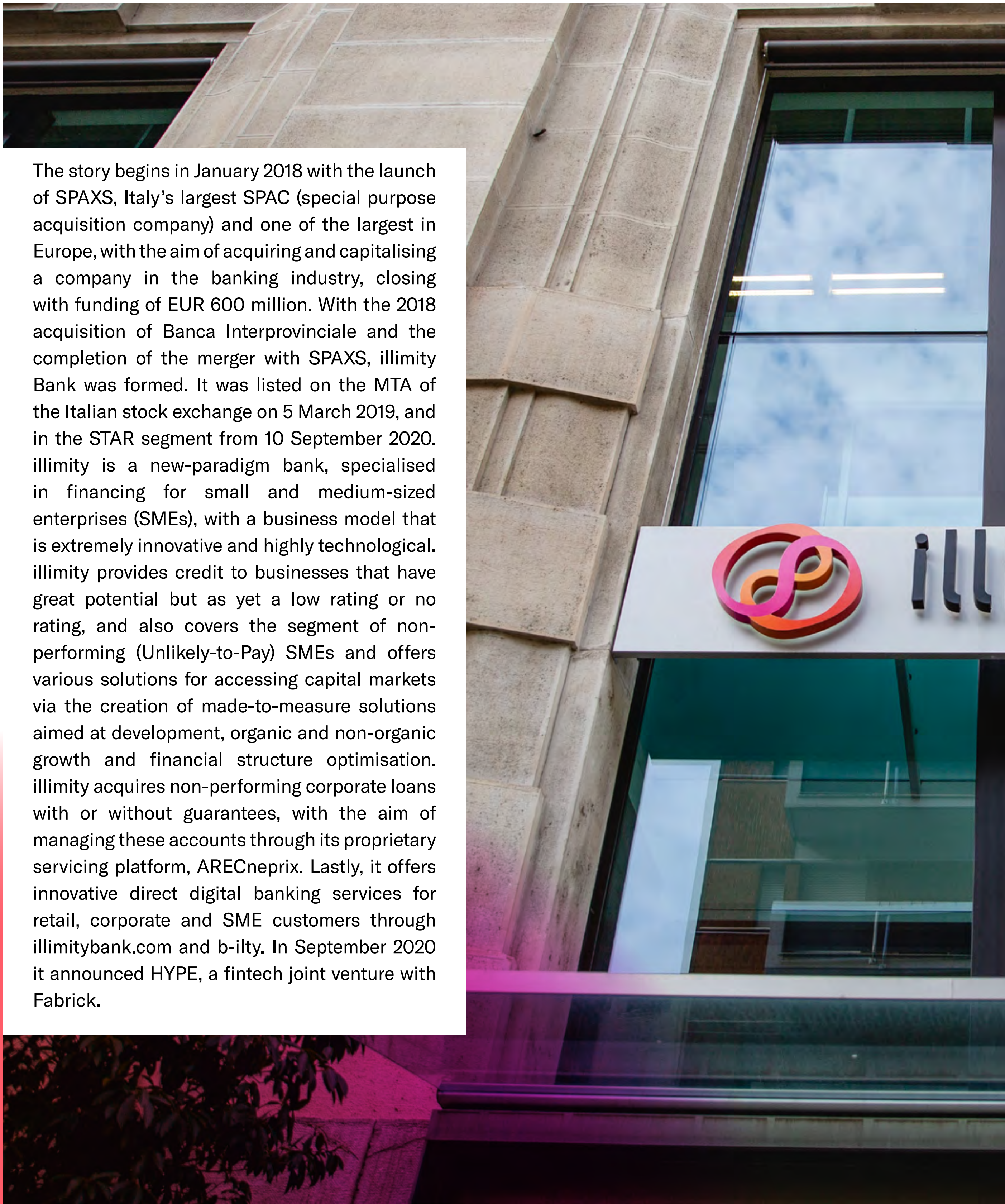
November

- **Gender equality certification** obtained
- Launch of a **liability management operation**

December

- **Second senior bond issue** successfully concluded
- CDP **upgrades** illimity's ESG rating to a score of **B**

The illimity Group



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. It was listed on the MTA of the Italian stock exchange on 5 March 2019, and in the STAR segment from 10 September 2020. illimity is a new-paradigm bank, specialised in financing for small and medium-sized enterprises (SMEs), with a business model that is extremely innovative and highly technological. 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 non-performing corporate loans with or without guarantees, with the aim of managing these accounts through its proprietary servicing platform, ARECneprix. Lastly, it offers innovative direct digital banking services for retail, corporate and SME customers through illimitybank.com and b-ilty. In September 2020 it announced HYPE, a fintech joint venture with Fabrick.

The illimity Group is formed of the following companies:

Arec neprix S.p.A. was born out of the merger of neprix, a servicer that is wholly owned by illimity and specialises in the management of (primarily secured) distressed corporate loans, and AREC, which specialises in the management of UTP loans with a focus on the corporate real estate segment. The merger of these two players created an asset management company with a highly innovative and distinctive business model that covers the entire value chain of the credit management process.

illimity SGR S.p.A., the asset management arm of the illimity Group, was formed in order to set up and manage alternative investment funds, with a primary focus on corporate credit investments. It was licensed by the Bank of Italy in February 2020. The Group also includes a series of securitisation vehicles, which are used for the acquisition of portfolios of distressed loans.

Abilio S.p.A., wholly owned by the Bank, whose purpose is to execute real estate operations and develop and organise sales through online and offline public auctions.

Abilio Agency S.r.l., wholly owned by Abilio, a real-estate broker that handles sales and leases and certifies the value of properties and companies for third parties.

The Group also includes a number 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: women and men motivated, determined and open to change. Each day, they work to multiply the potential of customers, by going beyond the established models and practices.

Corrado Passera
CEO

Silvia Benzi
Chief Financial Officer (*)

Andrea Clamer
Head of Distressed Credit Division

Enrico Fagioli
Head of Growth Credit Division

Marco Russomando
Chief HR & Organization Officer

Claudio Nordio
Chief Risk Officer

Francesco Martiniello
Head of Compliance & AFC Officer

NB: (*) Nomination received by the Board of Directors on 9 September 2022

Sergio Fagioli
Head of Administration,
Accounting & Control

Vittoria La Porta
Chief Communication
& Marketing Officer

Giovanni Lombardi
General Counsel

Fabio Marchesi
Head of Internal Audit
(Permanent Guest)

Fabio Bianchini
Chief Lending Officer

Carlo Panella
Head of b-ilty Division

Renato Ciccarelli
CEO of Abilio

Andrea Battisti
CEO of ARECneprix

Filipe Teixeira
Chief Information Officer

Fabiano Lionetti
Head of Investment Banking Division

The illimiters

We are more than

850

illimiters

from more than

300

organisations

20

sectors

and

22

different countries

We cover a wide range of professional skills and experiences, and we are united by strong values that guide us every day in the construction of our bank: entrepreneurship, independence, innovation, responsibility and sustainability.

Valuable projects

illimity academy

This cutting-edge programme aims to consolidate crossover competencies typical of future professions, with high-level training courses combining learning and on-the-job training.

The aim is to help participants to learn about the credit sector and develop key skills for the asset managers of the future.

Find out more about the second edition of the Master's in Credit Management:

Frame the image using the Aria App
to watch the "Master's in Credit Management 2nd Edition" video

illimity w.o.w.

illimity offers an innovative, free and responsible way of working. The illimity way of working programme makes it possible to work remotely for 10 days a month, depending on employees' preferences and in agreement with their manager. What matters is the "how", not the "where" or the "when". Moreover, office use is managed using an app through which employees can book their workstation.

A Great Place To Work

illimity appeared in the Best Workplaces Italy ranking for the fourth year running, and in the Best Workplaces Europe list for 2022, for the second year in a row. These two important milestones are proof of the bank's commitment and attention to fostering and guaranteeing an inclusive and dynamic working environment in which the illimiters are listened to and valued.

Gender equality certification

illimity has obtained a "Gender equality certification", which confirms and highlights the bank's commitment and attention to issues and policies relating to inclusivity, diversity and gender equality. Specifically, illimity stands out due to its culture and strategy, excellent HR processes and deep commitment to maintaining gender pay equity.

Growth Credit Division

Enrico Fagioli
Head of Growth Credit Division

2,037 net customer loans
million euros

+42% YoY

"2022 has been a year of great results. The revenues of the Division currently account for 23% of the Group total, and grew by 49% compared with 2021. This result was driven by the significant increase in business volumes during the period, proof of illimity's capacity to position itself as a leading operator in its market segments. We are very proud and can look ahead to a significant pipeline of operations throughout 2023."

The portfolio consists of:

As of 31 December 2022

891 million euros
Crossover and Acquisition Finance

665 million euros
Turnaround

481 million euros
Factoring

We work alongside Italian businesses with a single objective: working together to enhance their potential. Companies that find themselves in complex situations or are experiencing times of discontinuity, and have limited access to credit, can find support in illimity thanks to the innovative services it offers: Special Situations & Turnaround, Factoring, and Crossover & Acquisition Finance.

Valuable projects

For illimity, supporting SMEs means creating a relationship that goes beyond financing. Together with some of the companies we work with, we have told the stories of their development and growth.

The acceleration of Trend's development plans

illimity supports the relaunch and growth plan of the Trend Group, a leading player both in Italy and at international level in the design and production of high-quality mosaics - whether for large-scale artistic works or for retail customers - and in the mature market of surfaces and upholstery for the construction industry. illimity's intervention consisted of the acquisition of pre-existing loans and the provision of new financing.

Press Release

Pernigotti's relaunch plan

illimity provided financing to Pernigotti, a historic Piedmont-based manufacturer of chocolate-based products, founded in Novi Ligure in 1868. Our intervention supports the company's liquidity needs, thereby ensuring it can be fully operational in a strategic phase for its relaunch.

Press Release

Animalia targets growth with new acquisitions

illimity provided a loan to Brisa, the Parent Company of the Animalia Group, which is active in the veterinary domain with a complete offering of pet care services.
The transaction is intended to support the organic growth strategy and external lines of Animalia.

Press Release

Synergas Group streamlining and consolidation project

illimity structured a loan for Synergas, a historic Italian gas carrier company.
Thanks to illimity's support, Synergas has completed the repurchase of two ships, both registered under the Italian flag, bring its fleet to nine.

Press Release

SP's international and sustainable development

illimity provided financing to SP, which is active in the processing, packaging and marketing of rice at the national and international levels. The operation, which also includes a factoring agreement, is aimed at supporting the company's new business plan.
The investments have enabled SP to acquire cutting-edge equipment and to automate almost all of its production process, making its plant, in the Province of Vercelli, one of Europe's most innovative in the sector.

Press Release

Investment Banking Division

"Despite the complex macroeconomic scenario, 2022 has been a year of excellent profitability. We recorded a profit before taxes of 7.8 million euros, with a Cost/Income Ratio of 38%. We have an exciting pipeline of operations ahead of us for 2023, which will continue to grow our Division."

Fabiano Lionetti
Head of Investment Banking Division

Capital Markets

5 IPOs and numerous advisory mandates

Corporate Solutions

28 Corporate customers

41 derivatives with corporate customers

notional value of approximately **239** million euros on the total hedging derivatives

Structuring

3 securitisation operations

1 mandate in the context of a Basket Loan multi-originator operation, role of arranger in the "Basket Bond – Sustainable Energy" programme

1 bond issue*

From the beginning of operations to 31 December 2022

* Issue of a senior preferred bond in the context of illimity's first liability management operation

The new Investment Banking Division was established in January 2022 with the aim of supporting companies, financial companies and public institutions with innovative products. illimity supports its customers in structuring market and private operations to meet their needs for capital, debt and strategic growth, not only through IPOs, bond issues and securitisations, but also through consultancy on operations such as mergers, demergers, incorporations, acquisitions and corporate restructures. The Division incorporates the areas of Capital Markets, Corporate Solutions, Structuring and Alternative Finance.

Valuable projects

The division consists of professionals who have managed and concluded various operations, finding efficient and effective solutions for growth and development.

illimity NOVAS

This was the Bank's first Equity Conference, at which companies and investors had the opportunity to meet, discuss and share information. The event gave the Capital Markets Team the opportunity to demonstrate the incredible progress made in the segment in little over a year. During illimity NOVAS, eight corporate customers were able to meet, in person, the most important Italian and foreign fund managers specialising in MicroCaps.

"Basket Bond – Sustainable Energy" programme

The first minibond issues were completed as part of the "Basket Bond - Sustainable Energy" programme, which was conceived by ENI and developed and promoted, within their respective domains, by ELITE and illimity. The programme aims to facilitate the energy transition and improve issuers' sustainability profiles. All the issuers were supported by illimity, which acted as underwriter and arranger, coordinating and structuring the operations.

Press Release

illimity's first multi-originator securitisation of corporate loans

illimity concluded its first multi-originator securitisation operation, which concerned a portfolio of corporate loans originated by Cassa di Risparmio di Asti and Banco di Credito P. Azzoaglio. The structured finance operation - aimed at the issue of a single-tranche ABS note for an amount of 40 million euros - was carried out by illimity, which acted as Arranger and Investor, in order to support the commercial strategies of the originators.

Press Release

Structuring and placement of illimity's second senior bond issue

illimity successfully structured and placed a senior preferred bond with a value of 300 million euros. The operation was part of the 3 billion euros Euro Medium Term Note Programme. The bond has a duration of 3 years, with a maturity date of 9 December 2025. The bond received a warm welcome from over 120 institutional investors.

Press Release

b-ilty Division

Carlo Panella
Head of b-ilty Division

"b-ilty is the first bank to offer a complete range of digital banking services to SMEs. 2022 was the first year for this initiative, and b-ilty's contribution is expected to grow considerably in 2023 in relation to its actual commercial launch, with an acceleration forecast for 2024."

more than **375** **million euros** of loans analysed

52 **million euros** disbursed

As of 31 December 2022

2022 saw the construction and launch of b-ilty, the first offering dedicated exclusively to SMEs. It offers a complete range of digital financial products and services that are easy to use with transparent terms and conditions. Through partnerships, b-ilty has laid the foundations for the construction of an ecosystem that can offer customers a complete range that extends to banking and other company support services.
b-ilty offers a contact person, named professionals who are familiar with the company's business and are always at the customer's service, and the possibility to interact on a daily basis within a cutting-edge digital platform, available 24/7.

During the course of the last quarter, the value proposition was further integrated with new services that enable b-ilty to stand out from its market competitors, focusing on initiatives that aim to support companies in the crucial process of digitisation or the green transition.

Valuable projects

b-ilty has strengthened its presence in both physical and virtual territory by promoting and participating in several important initiatives.

Emozioni d'Impresa (Business Emotions)

Webinar sessions promoted by b-ilty, where illimity's managers offer points for reflection that are useful for the growth of SMEs, so that they can achieve their potential. The emotions and needs of businesses are the key players in the dialogue, at a historic time characterised by extreme socio-economic changes. Each session covers different issues, including the relationship between the digital sphere and human relationships, or how to build a successful work experience.

For more information:
Our events

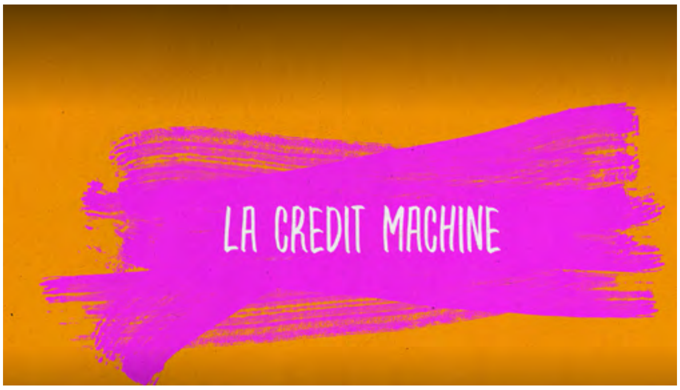
b-ilty talks

Listening to companies and entrepreneurs was the starting point for the creation of b-ilty. To that end, the company initiated a cycle of meetings in local areas between experts in various sectors, focused on the various areas of interest (e.g. company strategy and ethics, digital innovation) with the goal of continuing the ongoing dialogue established with entrepreneurs by investigating issues of common interest.

Accelera con Amazon

Accelera con Amazon is the free training programme for Italian SMEs, promoted by Amazon and by a close-knit group of companies supporting the digital transition, with the aim of giving entrepreneurs the tools and skills necessary to launch or further develop their activities online at national and international level.

illimity is the project's first partner Bank, and contributes to enhancing the programme with training focused on banking and loan aspects, thus continuing to support the growth of Italian business.



Frame the image using the Aria App to watch the "Credit Machine" video

Open-es

Open-es is the digital platform launched by ENI, in partnership with Boston Consulting Group (BCG) and Google Cloud, and open to all companies to support the sustainable development of production chains. illimity is the first bank to join Open-es and wants to create a network 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 own ESG performance, analyse and share data and experience, obtain customised development plans and identify improvement solutions to adopt.

For more information:
illimity, Open-es

Distressed Credit Division

"The Distressed Credit Division has confirmed its position as a key contributor to the Group's consolidated results. Revenues, which amounted to 210 million euros in 2022, grew by 6% YoY and represented 65% of the Group's consolidated revenues. Our operations showed a high level of efficiency, with a profit before taxes of approximately 119 million euros, up by 4% compared with 2021. We are optimistic and see an exciting future ahead of us."

Andrea Clamer
Head of Distressed Credit Division

1,490
million euros
of net customer loans

418
million euros
in investments in 2022

145
million euros
of new senior financing disbursed in 2022

10
billion euros
of assets under management by ARECneprix

As of 31 December 2022

Valuable projects

illimity was set up and has developed to promote the development of SMEs and their potential, and also supports them with restructuring and relaunch plans.

BELIEVE – Giving Credit to the Future

This is a new annual format promoted by illimity to encourage dialogue between finance and business. The credit sector's role in supporting companies is more crucial now than ever before: businesses are facing new challenges caused by the international economic and geopolitical context and by the continuation of trends that mean business models need to change. With BELIEVE, illimity wants to develop a space for discussion with the aim of constructing a virtuous ecosystem that facilitates SMEs' access to credit and to the tools that the financial sector can offer.

For more information:
illimity, The Best of Believe

A real estate financing operation with the Borgo Santo Pietro hotel

illimity has concluded a complex financing operation in the real estate domain in support of the Borgo Santo Pietro hotel, aimed at strengthening the company's fundamentals whilst also optimising and resolving certain issues with its financial structure, using the significant value of the underlying real estate asset securing it.

Press Release

Acquisition of the MPS Group's UTP portfolio

illimity has signed an agreement to purchase a portfolio of distressed loans classified as Unlikely-To-Pay (UTP) from Banca Monte dei Paschi di Siena and MPS Capital Services Banca per le Imprese. This operation confirms the illimity Group's strong focus on the Corporate UTP segment, in which it is the second-largest private operator in terms of assets under management.

Press Release

Securitisation of a portfolio of non-performing loans

illimity has concluded the securitisation of a portfolio of non-performing loans. The portfolio consists of loans originated by a number of Italian financial institutions, which were purchased by illimity between 2018 and 2021, with secured loans accounting for 48% of its GBV. The secured loans have both residential and non-residential underlying assets.

Press Release

Acquisition of a portfolio of claims relating to technical reserves from procurement

illimity has signed an agreement for the acquisition of a portfolio of disputes relating to technical reserves from procurement, held by funds managed by companies affiliated with Apollo Global Management. The structure of the operation consists of two sub-portfolios. The first will be acquired by illimity, while the second will be purchased by a new securitisation vehicle whose noteholders will be illimity – as the senior noteholder - and the Apollo Funds.

Press Release

ARECneprix

Andrea Battisti
CEO of ARECneprix

"One of the key events of 2022 was the conclusion of the merger that gave rise to ARECneprix, currently the third-largest player on the corporate UTP market, with assets under management of approximately 10 billion euros, of which approximately 30% are non-captive. The combination of the expertise of two companies has resulted in the creation of a total asset management company that is capable of identifying solutions to complex situations that generate value for all parties involved. The unique and distinctive business model of ARECneprix will generate incremental business opportunities and significant Group synergies."

ARECneprix is the illimity Group asset management company that is a leader in complex operations, specialising in the management of assets and companies in difficulty. It focuses on Italian and international institutional players that invest in distressed loans, supporting them in the acquisition and management process, and on banks seeking a specialist partner in corporate management.

ARECneprix was created in January 2023 following illimity's acquisition of AREC, a company operating in UTP loan management with a focus on the corporate real estate segment, and its subsequent merger into neprix, the Group's servicer, established in April 2019. The combination of its professionals' real estate experience with a tailored approach to the valuation and management of each position, and the use of cutting-edge technologies, enables ARECneprix to work on predictive models and anticipate market trends, meaning it can identify the best strategies for the management of loans and their underlying assets.

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

ARECneprix's areas of specialisation are:

- **Distressed Credit**: it supports investors throughout the value chain: from origination to due diligence to the management of secured and unsecured corporate assets, through accurate assessment of loan status and in-depth legal analysis and valuation of the underlying real estate.
- **Real Estate**: it offers a complete range of services: from support for investors to analysis and verification of real estate values, to big data analytics, data enrichment and location intelligence, to property management and asset management.

Valuable projects

ARECneprix blog

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

In-house Master Servicer

In the fourth quarter of 2022, the illimity Group began Master Servicer operations on securitised loans, identifying ARECneprix as the entity that performs the role of Corporate Servicer and Calculation Agent.

Abilio

Renato Ciccarelli
CEO of Abilio

"Abilio is the illimity Group company that specialises in the digital brokerage of property and capital goods from the judicial domain, leasing companies and voluntary sales. In 2022 Abilio launched Quimmo, a platform created to cover the entire value chain of property sales. Whereas we had previously concentrated on the judicial and distressed property market, since the end of 2022 we have also been active in the free real estate market."

April 2022 saw the creation of Quimmo, the prop-tech platform that meets the needs of both private and institutional buyers and sellers. A cutting-edge platform created to simplify the purchase and sale of properties and cover the entire value chain. Quimmo puts property at the forefront and provides clear, complete assistance to support buyers and sellers throughout the entire process (regardless of the method of sale involved, from electronic auction to private negotiation) and at any stage (from the choice of property to the purchase).

quimmo.it

Valuable projects

Osservatorio Immobiliare

Abilio and ARECneprix have developed the "Osservatorio Immobiliare", a study that aims to examine the dynamics of judicial property sales in Italy, by analysing sales carried out as part of both foreclosure and insolvency proceedings, highlighting individual peculiarities, issues and current opportunities for growth.

Download the study

illimity SGR

illimity SGR is the illimity Group's asset management company, which was established to set up and manage alternative investment funds specialising in loans to businesses.

In spring 2021 it launched its first fund, “illimity Credit & Corporate Turnaround” (“iCCT”), dedicated to investments in loans classified as UTP to SMEs with prospects for restructuring and relaunch, operating in a diverse range of sectors. This fund offers unitholder banks the chance to benefit from professional credit management and value maximisation thanks to the business and financial turnaround programme that the fund offers and promotes.

The second half of 2022 saw the launch of the second fund, “illimity Real Estate Credit” (“iREC”), which is dedicated to investments in non-performing loans – mainly UTPs – secured by real estate assets, in the form of both mortgage loans and lease agreements. Its aim is to pool the skills developed by illimity SGR in fund structuring and management with those of the illimity Group in the management and enhancement of non-performing loans secured by real estate assets, using the expertise of ARECneprix.

Valuable projects

The Nespoli Group's path to growth

illimity SGR has supported the Nespoli Group, a leading international player in the production and marketing of brushes, rollers and other painting equipment. Nespoli’s growth plan involves a programme aimed at enhancing the Group's value in the medium-to-long term. Among other interventions, the “iCCT” Fund has acquired a minority interest in the company and illimity has granted new factoring lines of credit. The operation is part of a wider programme of shared relaunch with the Nespoli family, supported by a new CEO who will oversee the Group's growth plan together with the rest of the management team.

Press Release

The Schneider Group's sustainable relaunch plan

illimity SGR has supported the sustainable relaunch plan of the Schneider Group, a leading international operator in the trade and processing of high-quality wool and fibres. In particular, the operation has involved a redefinition of the Group's financial debt, the granting by illimity of new factoring lines of credit to support its working capital needs, and a programme aimed at enhancing the Group's value in the medium-to-long term. The entire operation has seen the active involvement of the Schneider family, with the support of a new CEO who will oversee the Group's growth plan, as well as the company's other creditors.

Press Release

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.

Chief Financial Officer
The CFO is responsible for coordinating administration activities and the entire planning and control process, including with regard to optimising operating costs for the Bank.

Chief Risk Officer
The CRO is responsible for guaranteeing the strategic oversight and definition of risk management policies, minimising the cost of risks in accordance with the risk/profitability goals assigned to the business areas and in line with the strategies, the Strategic Plan and the Bank's budget, and measuring risks and second-level controls.

Chief Human Resources & Organization Officer
The Chief HR & Organization Officer is responsible for the recruitment, management, remuneration and development of staff, as well as managing the organisational activities of supervision and transversal coordination and overseeing the expenditure process. The Chief HR & Organization Officer is assigned the role of Employer for the Bank, and is responsible for health and safety, as well as all facility management activities.

General Counsel
The General Counsel, together with their department, is responsible for legal and corporate support and managing the corporate secretariat, as well as general affairs and relations with authorities.

Chief Information Officer
The CIO is responsible for managing the Bank's ICT services and setting the development strategy for its IT systems, as well as continually identifying the most innovative technologies to propose technologically advanced solutions to the competent Business units. They also coordinate the Demand Management process with the relevant units and are in charge of managing and optimising the efficiency of the funding platform. The CIO is also responsible for Digital Customer Operations and holds the role of Business Continuity and Crisis Manager.

illimitybank.com
illimitybank.com is the illimity Group's direct bank for retail customers. Thanks to a latest-generation platform that combines specialist expertise with cutting-edge technology, it offers customers the products and services of an all-round bank, immediately and naturally, as only the most evolved user experience can guarantee. Designed with customers and for customers in order to promote well-informed money management, the platform combines integrated savings, payments, loans and insurance tools in a single ecosystem.

Chief Lending Officer
The CLO is responsible for managing and coordinating Credit Underwriting activities (credit analysis, resolution and preparation of the relevant documentation for practices to be submitted to the competent decision-making Bodies) relating to the portfolios and operations of the Bank's Business Divisions. The CLO's remit also includes operations relating to the disbursement, classification, valuation and write-off of loans, in accordance with the applicable processes and credit authorisations granted.

Chief Compliance & AFC Officer
The Chief Compliance & AFC Officer is responsible for compliance risk management, oversight of money laundering and terrorist financing risk, and oversight of the risk of breach of financial sanctions.

Chief Communication & Marketing Officer
The Chief Communication & Marketing Officer is responsible for promoting and supporting the development of a single, shared identity of the Group among the various stakeholders and formulating the Bank's communications plan, brand development strategy and marketing activities with a view to maximising acquisition and ensuring optimal customer management, in coordination with the Business Divisions.

Internal Audit Department
The Internal Audit Department is responsible for carrying out “third level” controls on the regular functioning of the Bank's operations and for assessing the completeness, adequacy, functionality and reliability of the internal control systems, bring any possible improvements to the attention of the corporate bodies, particularly with regard to the risk management process and risk measurement and oversight tools.

fondazione illimity

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

fondazione illimity was created in the first half of 2021 and acts as a hub to catalyse and 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**.

In October 2022 fondazione illimity presented its first project with its partner Albergo Etico. A regenerated hotel with just one key word: inclusivity. This gave rise to **Albergo Etico Cesenatico**, a project in which disability is a value. Youngsters have the opportunity to train and become autonomous by taking care of the building, the guests and the new meeting spaces open to the whole of the city: schools, artists and local associations.

Frame the image using the Aria App to watch the "Albergo Etico Cesenatico" video

The second project was developed in Rome.
The Dima Shopping Bufalotta shopping centre is home to **(RE)GENERATION CAMP**, a regenerated multifunctional space that promotes the integration and socialisation of the younger generations, including those belonging to the more fragile segments of society, through free laboratories of creativity.

For 2023 fondazione illimity is targeting new projects and initiatives with a social impact, whilst continuing to develop an ecosystem of partnerships.

Sustainability Highlights

Strategic ESG objectives

In publishing its 2022 Non-Financial Statement, to which the reader is referred, the Bank deemed it necessary to evolve the objectives set out in June 2021 with the 2021-2025 Strategic Plan by integrating new, more extensively detailed qualitative and quantitative targets in order to better align with the best practices of the Italian banking sector, meet the growing needs of the market and ESG rating agencies and implement the feedback received from investors during engagement activities.

The new **2023-2025 Sustainability Plan**, which can be consulted in the document, is the result of a detailed analysis within and outside the Bank and the Group's increased expertise in non-financial reporting. It enabled us to start from a solid baseline aimed at defining significant, ambitious targets that integrate with the various aspects of the Bank's business and meet the requests from the various stakeholders, on the one hand, and comply with regulatory expectations regarding sustainable finance and governance of climate and environmental risk, on the other.

The key data relating to environmental, social and governance aspects, as detailed in the 2022 Sustainability Report, represent a positive framework for the Group's sustainability.

ESG ratings and indices

The Bank is constantly interacting with institutional investors and ESG ratings agencies to ensure that environmental, social and governance issues are dealt with appropriately, in line with its commitment to providing the market with the utmost transparency.

		2022	2021
MSCI	**MSCI** Scale from CCC (laggard) to AAA (leader)	A	B
ISS ESG	**ISS ESG** Scale from 5 (Worst) to 1 (Best)	E: 3 S:1 G: 1	E: 4 S: 3 G: 5
SUSTAINALYTICS	**SUSTAINALYTICS** Scale from 40+ (Worst – High Risk) to 0 (Best – Negl Risk)	15.6	35.4
S&P Global Ratings	**S&P Global** Scale from 0 (Worst) to 100 (Best)	49	12
CDP	**CDP** Scale from F (Worst) to A (Best)	B	C
standard ethics	**Standard Ethics** Scale from F (Worst) to EEE (Best)	EE-	E
INTEGRATED GOVERNANCE INDEX	**Integrated Governance Index (IGI)** Scale from 0 (Worst) to 100 (Best)	60.55	49.5
REFINITIV	**Refinitiv** Scale from D- (Worst) to A+ (Best)	B	D+
D-Rating	**D-Rating** Scale from B+ (Worst) to A (Best)	BBB+	N/A
Open-es	**OPEN-ES** Scale from 0 (Worst) to 100 (Best)	85	N/A

Memberships of international schemes

UN Global Compact

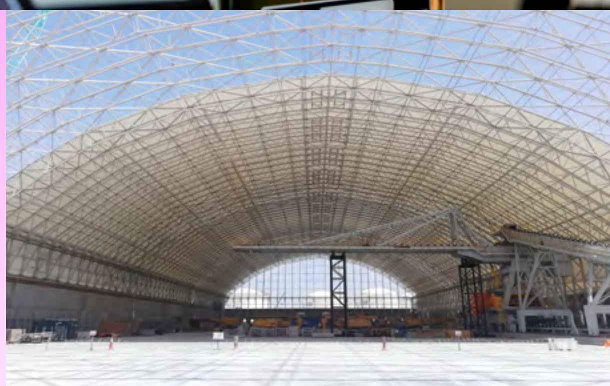
In 2021 illimity joined the United Nations Global Compact (UNGC), the world's biggest corporate sustainability initiative, in order to pursue its path of sustainable development. The programme requires endorsing companies and businesses to comply with 10 universally accepted principles in the areas of human rights, employment, the environment and the fight against corruption, and also act to upport the UN's Sustainable Development Goals (SDGs).

WE SUPPORT
UN GLOBAL COMPACT

Principles for Responsible Investment

The PRI - Principles for Responsible Investment were developed through the partnership between UNEP-FI and the Global Compact, with the intention of disseminating sustainable and responsible investments among institutional investors. The principles aim to provide a framework for integrating ESG issues into investment decision-making. The illimity Group endorsed the PRI as a sign in January 2023, through illimity SGR.

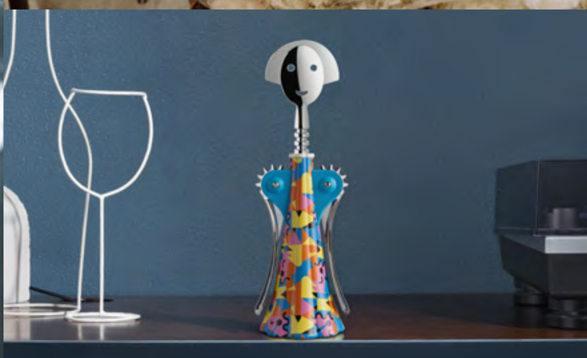
PRI
Principles for Responsible Investment

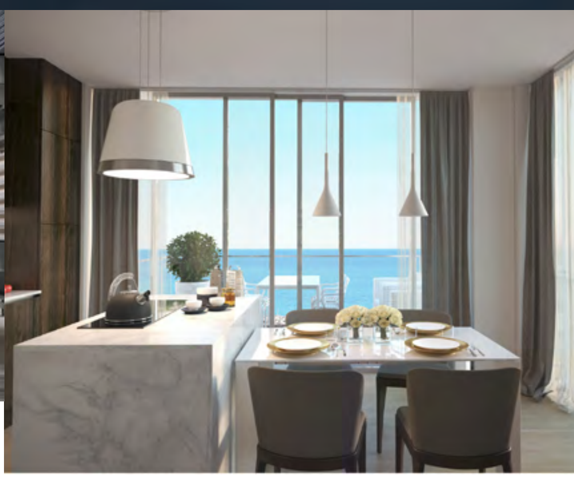


This year's Financial Statement focuses on the work and values of illimity through the testimonials and faces of the companies we have supported.

Through the "illimity for SMEs" project we wanted to tell stories of companies, entrepreneurs, skills and passions in a shooting aimed at disseminating the concepts of relaunch, recovery and restart. Because illimity's business model is designed not just to make profits, but also to be useful to the community, of which we genuinely feel part.


ROCKBANK





Macha

The story of an innovative idea that saw healthy food as the food of the future

Frame the cover photo to watch the
"The story of Macha" video using the Aria App

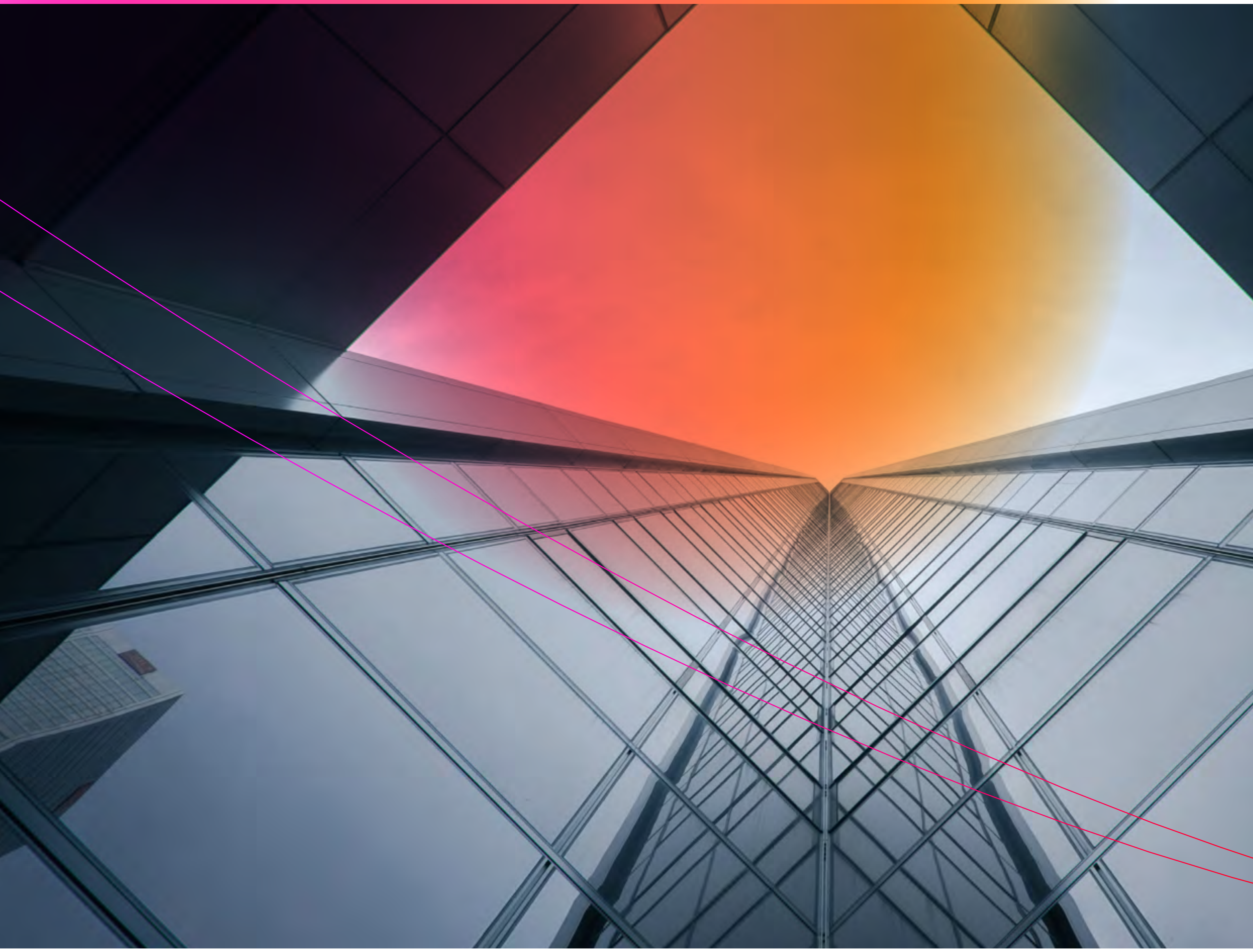
For more information:
illimity, The story of Macha

Report and Consolidated Financial Statements of the illimity Group

illimity

TRE Holding

When real estate assets hide unexplored potential



Frame the cover photo to watch the
"The story of TRE Holding" video using the Aria App

For more information:
illimity, TRE Holding

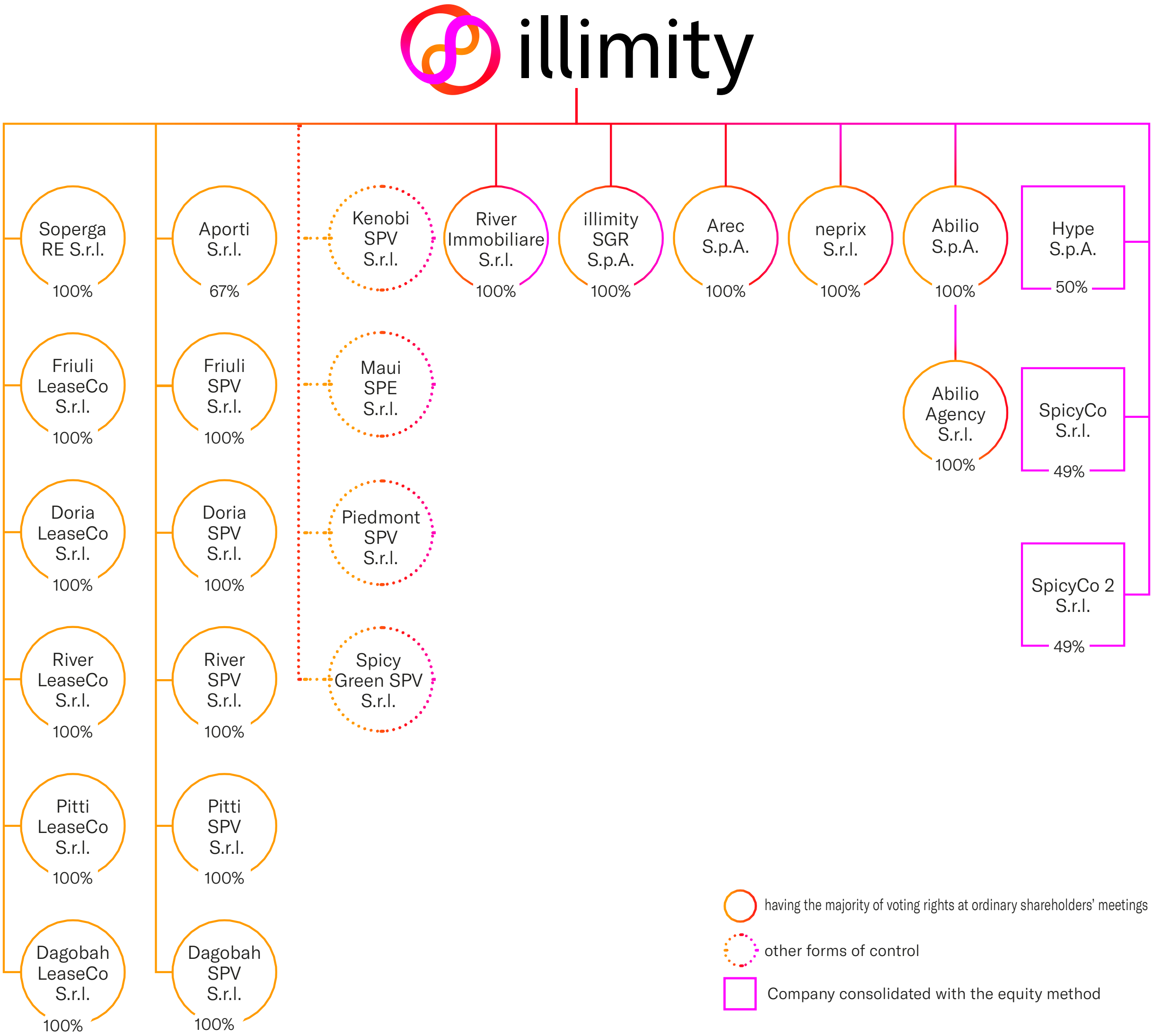
Report on Consolidated Operations

as of 31 December 2022

illimity

The illimity Group

This Report on Consolidated Operations illustrates the performance and the related data and results for the 2022 financial year of illimity Bank S.p.A. ("illimity" or the "Bank") and of the entities included in the scope of consolidation. illimity exercises the management and coordination of 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, b-ilty and Investment 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.
Starting on 30 June 2022, AREC entered the Group (through a merger by incorporation into neprix S.r.l., which took effect for legal, accounting and tax purposes on 1 January 2023), a company through which illimity aims to strengthen its positioning and innovative approach to servicing distressed corporate loans.
illimity Bank's business also makes use of the operations of the 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 F. Lamborghini 88/90.

Alternative performance measures as of 31 December 2022

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 2022	31 December 2021	Chg.	Chg. (%)
Total net operating income	324,614	271,184	53,430	20%
Operating expenses	(193,588)	(160,609)	(32,979)	21%
Operating profit (loss)	131,026	110,575	20,451	18%
Total net adjustments/recoveries	(15,790)	(16,662)	872	(5%)
Profit (loss) from operations before taxes	100,862	80,848	20,014	25%
Profit (loss) for the year	75,326	65,591	9,735	15%

(amounts in thousands of euros)

BALANCE SHEET MEASURES	31 December 2022	31 December 2021	Chg.	Chg. (%)
Net non-performing loans - organic[2]	**41,943**	**21,025**	**20,918**	**99%**
of which: Bad loans	*6,152*	*4,987*	*1,165*	*23%*
of which: Unlikely-to-pay	*35,511*	*15,902*	*19,609*	*>100%*
of which: Past-due positions	*280*	*136*	*144*	*>100%*
Net non-performing securities - organic[2]	**2,693**	**-**	**2,693**	**N/A**
of which: Unlikely-to-pay	*2,693*	*-*	*2,693*	*N/A*
Net non-performing loans – inorganic (POCI)[3]	**1,129,131**	**1,048,358**	**80,773**	**8%**
of which: Bad loans	*618,740*	*699,429*	*(80,689)*	*(12%)*
of which: Unlikely-to-pay	*509,661*	*348,929*	*160,732*	*46%*
of which: Past-due positions	*730*	*-*	*730*	*N/A*
Performing loans – inorganic (Public Procurement Claims)	**85,386**	**-**	**85,386**	**N/A**
Net non-performing securities - inorganic (POCI)	**102,108**	**10,037**	**92,071**	**>100%**
of which: Unlikely-to-pay	*102,108*	*10,037*	*92,071*	*>100%*
Net performing HTC securities - Government Bonds	**428,309**	**-**	**428,309**	**N/A**
Net performing HTC securities - Business	**447,309**	**242,019**	**205,290**	**85%**
of which: Growth Credit securities	*81,840*	*24,229*	*57,611*	*>100%*
of which: Distressed Credit securities	*271,479*	*217,790*	*53,689*	*25%*
of which: Investment Banking Securities	*93,990*	*-*	*93,990*	*N/A*
Loans to financial entities	**125,588**	**199,857**	**(74,269)**	**(37%)**
Net performing loans to customers	**1,967,050**	**1,440,501**	**526,549**	**37%**
Financial instruments (HTCS + FV)	**496,753**	**376,187**	**120,566**	**32%**
Direct customer funding	**4,062,304**	**3,317,934**	**744,370**	**22%**
Total Assets	**6,355,125**	**4,660,590**	**1,694,535**	**36%**
Shareholders' equity	**841,322**	**772,820**	**68,502**	**9%**

2 The definition of organic receivables and securities (performing and non-performing) includes organic loans to customers on the factoring, cross-over, acquisition finance and turnaround segments and receivables acquired in investing in portfolios of distressed loans, which underwent a change in accounting status following the purchase or disbursement (excluding receivables acquired as bad loans), the loan portfolio of the former Banca Interprovinciale and senior financing to non-financial investors in distressed loans.

3 POCI = Purchased or Originated Credit Impaired

RISK RATIOS	31 December 2022	31 December 2021
Gross Organic NPE Ratio[4]	2.6%	2.3%
Net Organic NPE Ratio[5]	1.8%	1.2%
Coverage ratio for organic non-performing loans and securities[6]	31.2%	46.8%
Coverage ratio for organic bad-debt positions[7]	70.0%	73.8%
Coverage ratio for performing loans[8]	0.57%	0.62%
Cost of risk for organic loans (bps)[9]	30	4

STRUCTURAL RATIOS	31 December 2022	31 December 2021
Shareholders' equity/Total Liability	13.2%	16.6%
Interbank Funding/Total Funding	22.9%	11.0%
Liquidity coverage ratio	~317%	~180%
Net Stable Funding Ratio	>100%	>100%
Net loans with customers/Total assets[10]	66.2%	59.3%
Direct customer funding/Total Liability	63.9%	71.2%

PROFITABILITY INDICATORS	31 December 2022	31 December 2021
Cost/Income ratio (Operating expenses/Net operating income)	60%	59%
ROAE[11] [Profit (Loss) for the period/Average Shareholders' equity]	9.3%	9.7%

CAPITAL RATIOS	31 December 2022	31 December 2021
Tier I capital ratio (Tier I capital/Total weighted assets)	15.77%	18.83%
Total capital ratio [(Tier I + Tier II)/Total weighted assets]	20.41%	24.71%
Own Funds	883,659	842,899
of which: Tier I capital	682,872	642,467
Risk-weighted assets	4,329,921	3,411,468

4 Ratio of gross organic non-performing loans to the gross value of organic loans to customers on the factoring, cross-over, acquisition finance and turnaround segments and receivables acquired in investing in portfolios of distressed loans, which underwent a change in accounting status following the purchase or disbursement (excluding receivables acquired as bad loans), the loan portfolio of the former Banca Interprovinciale and senior financing to non-financial investors in distressed loans.

5 Ratio of net organic non-performing loans to the net value of organic loans to customers on the factoring, cross-over, acquisition finance and turnaround segments and receivables acquired in investing in portfolios of distressed loans, which underwent a change in accounting status following the purchase or disbursement (excluding receivables acquired as bad loans), the loan portfolio of the former Banca Interprovinciale and senior financing to non-financial investors in distressed loans.

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

7 Ratio of write-downs/write-backs on organic bad loans to gross exposure of organic bad loans.

8 Ratio of write-downs/write-backs on performing client loans to gross exposure of performing client loans.

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

10 Ratio of customer loan, government bonds and Distressed Credit, Growth Credit and Investment Banking securities at amortised cost to total assets.

11 The average shareholders' equity is calculated as the arithmetic average of the opening balance and the closing balance.

Composition and organisational structure

illimity operates in the banking sector and is authorised to provide banking, investment and trading services. illimity currently has four Business Divisions, in addition to the Chief Information Officer for the retail customer management component:

- Distressed Credit
- Growth Credit
- Investment Banking
- b-ilty
- Chief Information Officer.

There is also the Asset Management Company (illimity "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 2022.

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 and Unit Claims Solutions Areas, responsible for the origination of the investment opportunities in distressed loans, in the area of litigation (Public Procurement Claims) and in Senior Financing operations, as well as the coordination of the entire negotiation and bidding process, until the final closing phase;
2. The Portfolio & Asset Optimisation Area, which is responsible for optimising portfolio, single name and repossessed property management by identifying market opportunities for their sale (or redevelopment in the case of properties), in accordance with the thresholds set by the Bank, while coordinating the entire process, from the initial analysis phase to post-sales;
3. 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;
4. Monitoring & Analytics Area, responsible for governing and managing the cost monitoring process, the income statement and the portfolios/single names or the trend in performance of the Division;
5. The Operating Model & Servicing Coordination Area, tasked with coordinating and monitoring the Division's activities, overseeing and coordinating the Servicing companies, relations with other Bank units and decision-making bodies and providing legal advice related to individual investment opportunities and initiatives;
6. The Project Area, responsible for identifying and developing strategies to start up the alternative investment business on the Distressed Credit market.

In more detail, the "Investments" perimeter, which includes the organisational units Portfolios, Special Situations – Real Estate, Special Situations – Energy and Claims Solutions, 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"), in addition to Public Procurement Claims). Credits are acquired both in the "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 four organisational units, described below:

1. 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);
2. Special Situations – Real Estate, aimed at investment opportunities in "single name" real estate receivables, meaning exposures to a single borrower or, at most, a cluster of corporate counterparties, both secured and unsecured;
3. Special Situations – Energy, aimed at investment opportunities in single name loans involving corporate counterparties operating in the renewable energy sector;
4. Claims Solutions, aimed at seeking out, assessing, investing in and managing investment opportunities in the area of litigation (Public Procurement Claims) and at intervening in all the phases of the process of investment and management of disputes.

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 structures report to the Head of the Distressed Credit Division and interact with the other areas of the Division (Pricing, Operating Model & Servicing Coordination and Portfolio Monitoring & Analytics) and the Bank's structures (General Counsel, Administration, Accounting & Control, CRO, Chief Compliance & AFC Officer), 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 Arec neprix S.p.A., created through the merger by incorporation of Arec S.p.A. (acquired on 30 June 2022) by neprix S.r.l. with legal effect from 1 January 2023, for the management of distressed loans, which also enters into commercial agreements with servicers selected from time to time on the basis of the characteristics of the assets acquired.

Arec 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.

The Bank is also supported by Abilio S.p.A., a company formed by the proportional partial spin-off of neprix S.r.l. that is wholly owned by the Bank and became operational on 1 April 2022. The company manages and sells 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, Maui SPE, Kenobi SPV, Dagobah SPV and Spicy Green SPV, and with the companies Soperga RE, Friuli LeaseCo, Doria LeaseCo, River LeaseCo, Pitti LeaseCo, Dagobah LeaseCo, River Immobiliare, SpicyCo and SpicyCo 2.

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:

1. 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;
2. 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);
3. Turnaround: the purchase of loans classified as unlikely-to-pay (UTP), 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, provides support to the Business Areas by defining tools and processes, manages the Modena branch and oversees the portfolio of the former Banca Interprovinciale regarding progressive divestment.

Investment Banking Division

The Investment Banking Division is responsible for defining and executing capital markets operations (both in the equity segment and the debt segment for corporate customers), for derivatives trading on own behalf and for third parties, for structuring structured finance transactions for funding and capital optimisation purposes to support the other units of the Bank.

The Division's Value Proposition provides:

- alternative solutions for companies in addition to those already offered by the Bank, exploiting the synergies with the Growth Credit and Distressed Credit Divisions (i.e. Basket Bonds, Basket Loans, Securitisations of secured and unsecured single tranche loans, IPOs, M&A, derivatives);
- structuring funding transactions and capital optimisation (i.e. SRTs), also supporting other Company Divisions and Functions.

The Division is divided into three organisational units, described below:

1. Capital Markets, which provides complementary solutions to companies in relation to the Growth Credit Division's offering;
2. Corporate Solutions, which invests in *corporate bonds* and *alternative debts* and offers solutions to SMEs and Mid Caps to hedge market risks;
3. Structuring, which takes care of implementing complex financial transactions for the Bank and for companies.

In order to conduct its Investment Banking business, illimity also works with the vehicle Piedmont SPV.

b-ilty Division

illimity, via the b-ilty Division, offers digital banking and digital lending products and services to Business customers or to small and medium-sized enterprises with turnover of EUR 2 million to EUR 10 million, with the goal of improving their financial management. The Division aims to develop a range of products and services that can fulfil the needs of the market. It is responsible for designing the Value Proposition and its relative commercial and pricing components.

The b-ilty Value Proposition currently extends to the following products and services categories:

- Deposit accounts with competitive rates and a simple, customisable product structure;
- Current accounts, offered through an innovative, digital User Experience, with associated credit, debit and prepaid cards managed in collaboration with nexi;
- Account Aggregator Service, a feature that enables 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;
- Digital credit, which includes factoring and green financing operations;
- Insurance products offered to customers through partnerships with selected market operators.

The Division is divided into the organisational units described below:

1. Digital Lending Product & Management Unit, which focuses primarily on defining the target market for corporate credit customers;
2. Process & Product Factory Unit, which focuses primarily on structuring products and services for the Division and designing the relevant disbursement processes;
3. Business Support & Strategy Unit, which is responsible primarily for the Division's strategic planning and achieving its cost management goals;
4. Business Partnership Area, which is responsible for defining partnership development strategies and managing relations, as well as managing associations and insurance distribution;
5. Business Development Area, which focuses on achieving target results, defining business models and developing the commercial network, including through the Top Network Unit, which reports directly to this Area;
6. CRM & Commercial Planning Area, which manages and develops the Division's information assets, as well as devising the customer segmentation model.

Chief Information Officer (CIO)

The Chief Information Officer (CIO) is responsible for managing IT infrastructure as well as managing the funding platform, i.e. the app and web channel for retail customers.

Through ICT Platforms & Data Monetization, which reports to the CIO, illimity offers digital banking products and services to retail customers. The objective of this structure is to manage the technological platforms and initiatives for developing and monetising the platforms.

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

- Current accounts, offered through an innovative, digital User Experience, with associated credit, debit and prepaid cards managed in collaboration with nexi;
- Deposit accounts with competitive rates and a simple, customisable product structure;
- Spending projects, to simply and automatically save to achieve goals;
- 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, making it possible to perform transactions;
- Offer of a complete range of products (*i.e.* personal loans, American Express credit cards and insurance products).

Asset Management Company

illimity SGR S.p.A. is the Asset Management Company ("SGR") 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:

"Business Areas" comprising:

- the UTP & Turnaround Funds Area, focused 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, focused on setting up and managing AIFs with investment strategies and policies targeting asset classes with underlying financial instruments issued by performing companies;
- The NPL Small Medium Tickets Funds Area, focused on setting up and managing AIFs with investment strategies and policies in the granular (typically unsecured) Non-Performing Loans (NPL) market, with potential counterparties both small corporates and retail businesses, and different areas of origination (utilities, consumer, commercial credit, etc.).

A transversal support area named Operations & Administration supports the organisation as a whole in all formal, administrative and operational aspects connected with managing AIFs and the SGR.

Lastly, the SGR's organisation comprises the establishment of Compliance and Anti-Money Laundering, Risk Management and Internal Audit functions, outsourced to the respective central units of the parent company illimity Bank, in order to have a structured system to monitor internal controls. It also appoints a Supervisory Body pursuant to Italian Legislative Decree 231/01, whose composition, in accordance with the approach adopted by the Group, consists of the Company's Board of Statutory Auditors.

Other functions - Corporate Centre

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

- The Chief Financial *f* (CFO), responsible for coordinating the complex process of planning, control and administration, managing strategic planning and relations with the financial community, as well as developing the Corporate Social Responsibility Plan;
- The *Chief HR & Organisation Officer*, responsible for optimising operating and procurement costs, managing human resources, as well as managing the organisational activities of supervision and transversal coordination for the Bank;
- The *General Counsel*, responsible for legal and corporate support and managing the corporate secretariat, as well as general affairs and relations with authorities;
- The *Chief Risk Officer* (CRO), responsible for guaranteeing the strategic oversight and definition of risk management policies;
- The *Chief Lending Officer* (CLO), who monitors credit analysis and approval activities;
- The *Chief Information Officer* (CIO), responsible for managing IT infrastructure, Back Office activities and the Contact Centre. The CIO is also responsible – via the Division – for the platforms owned by illimity (illimity.com; ION) and related development opportunities, as well as the customers managed through those platforms;
- The *Chief Compliance & AFC Officer*, responsible for compliance risk management and oversight of money laundering and terrorist financing risk;
- The *Chief Communication & Marketing Officer:* responsible for promoting and supporting the development of a single, shared identity of the Bank among the stakeholders and formulating the Bank's communications plan and brand development strategy to ensure positioning, customer acquisition results and optimal customer management.

Bank branches and offices

The Bank's branches and offices are as follows:

- Milan – Via Soperga, 9 (registered office);
- Modena – Via F. Lamborghini 88/90 (branch).

Human resources

As of 31 December 2022, the Bank's registered employees numbered 853 (725 as of 31 December 2021). A breakdown of the workforce is given below, divided by job level:

Category	31 December 2022			31 December 2021			Changes	
	Number of employees	in %	Average age	Number of employees	in %	Average age	Number of employees	in %
Senior managers	77	9%	46	67	9%	47	10	15%
Middle managers	350	41%	38	303	42%	38	47	16%
Other employees	426	50%	34	355	49%	33	71	20%
Employees	**853**	**100%**		**725**	**100%**		**128**	**18%**

Macroeconomic scenario

As noted by the European Central Bank (ECB) in its macroeconomic projections for the euro area, the global economic context worsened in the fourth quarter of 2022. The world economy's prospects deteriorated in light of growing uncertainty over geopolitical conditions, high and still rising inflation, and difficult financial conditions. Activity in developed countries slowed, still suffering from the repercussions of the war in Ukraine and high inflation, while China's economy also weakened due to the measures imposed in October and November to contain the Covid-19 pandemic.

The euro area's GDP remained more or less stationary in the last quarter of 2022. Consumer inflation remained high (9.2% in December on an annual basis), though lower than in November; the core component continued to rise, due partly to the gradual transfer of past energy price increases. The ECB raised its benchmark rates again, by 75 and 50 basis points respectively, and announced that they will have to further rise significantly, at a constant rate, if inflation is to soon return to its medium-term target.

In Italy, economic activity weakened in the year's last quarter, due to both the slowdown of the recovery in value-added services, which in the summer months had returned to pre-pandemic levels, and the drop in industrial production. Household expenditure slowed, despite measures aimed at supporting disposable income in a context of high inflation.

October and November saw exports of goods remain stable, while imports fell. The country's current account deficit continued to widen, due primarily to the further worsening of the energy deficit. The net foreign credit position remained solid, however. The employment rate began to grow again slightly in October and November, while pay increases continued to be contained, thanks in part to the continuation of negotiation processes in the services sector, where there is still a high proportion of employees waiting for their collective agreements to be renewed.

Harmonised consumer inflation reached new highs in the autumn (12.3% in December on an annual basis), still spurred by the energy component, which continues to transfer high prices to other goods and services. On average, a little over 70% of overall inflation in the fourth quarter was due to energy prices; government energy measures introduced in the same period mitigated the effect on consumer prices by more than 1 percentage point.

Between August and November, bank loans to the non-financial private sector slowed, affected by weaker demand from both businesses, for investment purposes, and households, for housing purchases; loan conditions became slightly more restricted. The increase in official rates was transferred to the cost of bank credit, to an extent that was more or less in line with the average increase in the euro area. In Italy, as elsewhere, conditions on the financial markets increased, on the whole, from mid-October onwards. As of mid-January the yield spreads between Italian and German government bonds stood at around 185 basis points, well below the highs reached last year.

There has been a significant reduction in the deficit and the ratio of public debt to GDP. The budget approved by Parliament in December increased the deficit by 1.1 percentage points of GDP in 2023; the ratio of public debt to GDP will continue to fall, albeit at a slower pace. Last November Italy received the second tranche of funds from the EU's Recovery and Resilience Facility, totalling EUR 21 billion.

In the baseline scenario, the tensions associated with the war are expected to remain high in the first few months of 2023 before gradually diminishing over the forecast horizon. After an increase of around 4% in 2022, GDP growth will slow to 0.6% in 2023. Growth is expected to strengthen once again in the subsequent two years, thanks to the acceleration of both exports and domestic demand. Inflation, which rose to almost 9% in 2022, is expected to fall to 6.5% in 2023 and further still subsequently, to stand at 2% in 2025.

Significant events in 2022

The impact of external factors on the strategic and operational context of the illimity Group

In relation to the current context, which is still characterised by various elements of uncertainty linked to the development of internationally relevant factors, such as the Russia-Ukraine military conflict, the spikes in inflation associated with raw materials markets, and the evolution of the epidemiological context in certain countries (such as China), the illimity Group has defined its business model and developed and applied its risk government policies, ensuring that they are resilient in a context still characterised by significant risks, based on the following key elements:

- contained exposure to direct risks and a business mix in which lines of activity have limited correlation;
- a commercial and technological proposal that can understand and meet the growing demand for remote financial services that has characterised the key markets and continues to do so;
- a highly conservative approach to pricing investments and providing funding;
- continuous monitoring and limited exposure to the economic sectors or asset classes most affected by the pandemic;
- a governance structure that relies on the managerial committees and governing boards of the Group to carry out assessments at regular intervals on the actual and potential economic, financial and operational impacts of the current context on the strategic and operational choices of the various business lines;
- an impact assessment of macro scenarios that also take into account the evolution of the context and the responses of the Authorities, markets, companies and consumers. This assessment is also formalised in the prospective capital adequacy (ICAAP) and liquidity (ILAAP) assessments and in the preparation of the Recovery Plan, and used for the update of the Risk Appetite Framework and the sustainability assessment of the Strategic Plan.

In relation to the Russia-Ukraine conflict, the direct and indirect exposures to Russian counterparties or those who depend on Russian operators and markets for their business (supply, sales, orders, etc.) are quantified and carefully monitored in order to assess the possible impacts in terms of credit and liquidity risk. The analyses conducted and direct discussions with businesses confirm that the level of exposure is still low, with attention paid to the potential negative effects of the crisis, including on companies that are demonstrating resilience (due to the measures implemented by company management, specifically those regarding supply chain continuity and management of commodities and energy prices). The Chief Compliance & AFC Officer also operates in that context, to ensure, for borrowers, compliance with the provisions of the sanctions imposed by Italy and European and international bodies on Russian parties (natural and legal persons).

Secondly, with a view to mitigating the financial risks associated with the management of the HTCS and HTC financial portfolios, the current risk profile of the portfolios - which is at a low level - is subject to analysis and monitoring, and there is no direct exposure to Russia or Ukraine. Furthermore, considering that said portfolios relate to debts, monetary policy decisions, which could be revised given the evolution of the crisis, are continuously monitored.

Corporate transactions

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 "one-tier" method of administration and control. The changes to the Articles of Association also entail the explicit inclusion of "sustainable success".

On 1 April 2022, the spin-off to Abilio S.p.A. of the scope of assets and liabilities of the neprix Sales area, previous comprised within neprix, of the equity investment in Abilio agency S.r.l. (formerly Neprix Agency S.r.l.) and of a portion of the Tech area, also previously included within neprix, was approved. The accounting and tax effects of the operation were set for 1 April 2022.

On 28 April 2022, the Shareholders' Meeting approved the financial statements of illimity Bank as of 31 December 2021 and approved the appointment of the Board of Directors, following approval of the move to the "single-tier" governance system previously approved by the Shareholders' Meeting of 21 February 2022.

On 15 June 2022, the illimity Board of Directors approved the capital increases serving the incentive plans and, specifically:

i. the “Employee Stock Ownership Plan – ESOP” (for 2022) for a total of EUR 76,865.41, corresponding to 117,946 ordinary shares, in partial execution of the authority contained in Article 5, paragraph 3 of the Articles of Association; and
ii. the “MBO” Plan (for 2021) for a total of EUR 11,621.11, corresponding to 17,832 ordinary shares, in partial execution of the authority contained in Article 5, paragraph 4 of the Articles of Association, granting a mandate for the purposes of the related execution.

The Board of Directors also approved the use of 10,060 ordinary shares already in the portfolio.

On 21 June 2022, the Extraordinary Shareholders’ Meeting of illimity approved, with a unanimous vote of those attending, the share capital increase of illimity reserved for Aurora Recovery Capital S.p.A. (“AREC”), to be freed up through contribution, and without option rights pursuant to Art. 2441, paragraph 4, first line of the Italian Civil Code. That operation, authorised in advance by the Supervisory Authorities pursuant to law, is part of the larger acquisition by the bank of AREC's business unit.

On 30 June 2022, the cash and cash equivalents purchase by illimity of 10% of AREC S.p.A. Shares was finalised and the deed regarding the contribution to illimity of the shares representing the remaining equity investment of 90% of the share capital of AREC, for the purpose of the acquiring the entire company and the subsequent planned merger with the servicer of the illimity group, neprix.

On 21 September 2022 illimity Bank announced the new composition of its share capital, following the conversion of 1,440,000 special shares of illimity into an equal number of ordinary shares having the same features of those outstanding, without any modification of the amount of the share capital.

Main business transactions

Distressed Credit Division

On 25 January 2022, illimity announced that it had signed an agreement for the acquisition of a portfolio of disputes relating to technical reserves from procurement (Public Procurement Claims or PPCs) for a total face value of approximately Euro 1.8 billion, held by funds managed by companies affiliated with Apollo Global Management (the “Apollo Funds”).

On 6 May 2022, illimity announced that it had concluded the securitisation of a portfolio of non-performing loans (NPLs) with a gross book value (GBV) of approximately EUR 475 million as of the cut-off date (30 June 2021). The portfolio consists of loans originated by a number of Italian financial institutions, which were purchased by illimity between 2018 and 2021, with secured loans accounting for 48% of its GBV. The secured loans have both residential and non-residential underlying assets (representing respectively 30.4% and 69.6% of the total value of properties with a first-degree mortgage).

The securitisation vehicle issued senior notes equivalent to 81% of the issue’s nominal value and subordinated notes for the remaining 19%. The senior notes were fully subscribed by illimity and received an investment grade rating (BBB). The mezzanine and junior notes, however, were sold to third-party investors, with the exception of the 5% retained by illimity in accordance with regulatory requirements.

On 5 August 2022, illimity announced that it had signed an agreement to purchase a portfolio of distressed loans classified as Unlikely-To-Pay (UTP) from a leading Italian banking group. The portfolio, consisting primarily of secured loans (60%) and largely of corporate loans (90%), has a gross nominal value of over EUR 340 million.

On 15 December 2022, illimity announced that it had concluded a complex financing operation in the real estate domain in support of a 5-star luxury resort located in the Sienese countryside, which is affiliated with leading international networks. The operation is aimed at strengthening the company's fundamentals whilst also optimising and resolving certain issues with its financial structure, using the significant value of the underlying real estate asset securing it.

Growth Credit Division

On 28 January 2022, illimity granted a medium-long-term loan worth approximately EUR 4.3 million, with a term of 6 years, to a company active in the processing, packaging and sale of rice at the national and international level.

On 14 April 2022, illimity structured a financing operation worth EUR 52.5 million, with a term of 6 years, for a historic Italian gas carrier company. Specifically, EUR 26.3 million was provided by illimity, with the remaining EUR 26.2 million by the operation's co-financier.

On 7 June 2022, a loan worth a total of EUR 8.5 million was granted to a company active in the veterinary domain with a complete offering of pet care services. The loan, which has a term of 6 years, is 70% guaranteed by the European Investment Fund (EIF) and is intended to support the company's organic growth strategy and external lines.

On 20 October 2022, illimity completed a financing operation worth a total of EUR 10 million for a historic Piedmont-based manufacturer of chocolate-based products.

On 5 December 2022, illimity supported the relaunch and growth plan of a leading Italian company, both at home and internationally, in the design and production of high-quality mosaics, for both large-scale artistic works and retail customers, and in the mature market of surfaces and upholstery for the construction industry. illimity's intervention consisted of the acquisition of pre-existing loans and the provision of new financing.

Investment Banking Division

On 29 July 2022, the first two minibond issues were completed for a total of EUR 17 million as part of the "Basket Bond - Sustainable Energy" programme, which was conceived by a leading player on the energy market and developed and promoted, within their respective domains, by ELITE and illimity Bank S.p.A. The programme aims to facilitate the energy transition and improve the issuers' sustainability profiles.
The issuers were supported by illimity, which acted as underwriter and arranger, coordinating and structuring both operations.

On 5 September 2022, illimity, via its Investment Banking Division, concluded a structured finance operation for a leading public-private multiservices company that operates in the Energy and Environment sectors and is one of the biggest in Italy.
Specifically, illimity acted as arranger and investor in an operation with a term of 36 months, with the aim of supporting the company's working capital, up to a maximum of EUR 100 million.

On 31 October 2022, illimity, via its Investment Banking Division, concluded its first multi-originator securitisation operation, involving a portfolio of corporate loans originated by credit institutions outside the illimity Group.

b-ilty Division

On 11 February 2022, illimity presented b-ilty, the first digital business store for financial and credit services for small and medium-sized enterprises. b-ilty was created with the aim of making life easier for entrepreneurs, thanks to a latest-generation platform that combines specialist expertise with cutting-edge technology and offers customers the products and services of an all-round bank.

On 19 May 2022, b-ilty announced the expansion of its SME offering thanks to new partnerships (from insurance and digitisation to training and sustainability), such as its digital retail collaboration with a leading Swiss insurance company that has been present in Italy for over 70 years, and the partnership signed with insurance companies operating in Italian territory and software houses.

On 20 September 2022, b-ilty enriched its offering through new partnerships under which its customers can make use of IT services and products aimed at sharing, collaboration and the improvement of business and staff productivity, making work environments increasingly smart and secure, and will have the specialist support they need to integrate these services into their business processes.

On 19 October 2022, Nexi, the European PayTech, and illimity Bank S.p.A. announced a new partnership to support Italian SMEs: b-ilty, illimity's digital store of banking and credit services dedicated to small and medium-sized enterprises, expands its offering with Nexi's digital collection solutions.

On 20 December 2022, b-ilty announced the launch of a green package with special conditions, to support loans dedicated to funding energy and environmental sustainability projects carried out by SMEs.

illimity SGR

On 28 April 2022, illimity SGR S.p.A. ("illimity SGR"), the fund management company, and "illimity Credit & Corporate Turnaround Fund" (the "Fund" or "iCCT") supported the creation of a structured operation involving a redefinition of the financial debt, the granting of new factoring lines of credit by illimity Bank S.p.A. to support the working capital needs, and a programme aimed at enhancing the value in the medium-to-long term of one of the leading operators in the trade of high-quality wool, cashmere, silk and fibres, with longstanding ties to the key players in the world of fashion and Italian manufacturing.

On 20 June 2022, illimity SGR S.p.A. supported a company in its growth plan, in part by means of the acquisition, by the Fund, of a minority interest in the company, and the granting of new factoring lines of credit by illimity Bank S.p.A. The project involves a programme aimed at enhancing the Group's value in the medium-to-long term, which could also include a stock market listing.
The operation is part of a wider relaunch programme, supported by a new CEO who will oversee the Group's growth plan together with the rest of the management team.

Other significant information

The other significant events described below took place during the course of the 2022 financial year.

In April 2022, illimity presented Quimmo, the Italian pro-tech created to meet the needs of both private and institutional buyers and sellers. A cutting-edge platform created to simplify the purchase and sale of properties and cover the entire value chain.
Quimmo was created the illimity Group's extensive investment in technology and its experience in the field accumulated in property brokerage in recent years. It is now one of illimity's significant operations which, in 2021 alone, generated 26 million visits to the portal, 900 thousand registered users and over 2,000 property transactions, also due to the presence of over 200 professionals, both central and local structures.

On 3 May 2022, illimity presented its Consolidated Non-Financial Statement ("NFS") pursuant to Italian Legislative Decree 254/2016. Illimity's Non-Financial Statement provides comprehensive disclosure to all stakeholders on sustainability performance. The document, drawn up based on the figures as of 31 December 2021, was prepared in compliance with the GRI Sustainability Reporting Standards ("GRI Standards") – Core option, to which voluntary qualitative and quantitative indicators were added.

On 20 July 2022, illimity obtained an "A" ESG rating from MSCI, among the leading agencies providing global indices and benchmarks, and an "EE-" rating from Standard Ethics, a leading independent agency that rates the sustainability of companies. It is also noted that on 11 October 2022, illimity Bank S.p.A. Had its ESG Risk rating upgraded by Sustainalytics, one of the world's leading providers of indices and benchmarks. In detail, illimity's rating improved by two risk categories, from 35.4 (High Risk) to 15.6 (Low Risk), a level that places it at the top levels of the Italian banking sector. Sustainalytics upgraded illimity's rating in light of the sound management of ESG risks, the policies and programmes launched in that area and the high level of responsibility demonstrated by the bank in relation to its stakeholders.

On 08 August 2022 illimity SGR S.p.A. completed the first closing of "illimity Real Estate Credit" (also "iREC"), a contribution Fund dedicated to investments in distressed credits – mainly UTPs – secured by real estate assets, under both the form of mortgage loans and lease agreements. The initial portfolio consists of loans with a gross nominal value of over EUR 170 million, almost entirely secured, to 77 companies operating mainly in the real estate sector with highly diversified activities (industrial, commercial, residential, hospitality, energy, etc.). These loans have been sold by banking groups that were already unit holders in illimity SGR's first fund, "illimity Credit & Corporate Turnaround" ("iCCT"), as well as by illimity Bank itself.

On 25 November 2022, illimity renewed its own "Euro Medium Term Note" (EMTN) issue Programme, involving the placement of bonds worth up to EUR 3 billion listed on the Luxembourg Stock Exchange and aimed exclusively at institutional investors.

On 30 November 2022, illimity Bank S.p.A. announced a cash buyback offer (in line with the restrictions described below) for its bond and the launch of a new senior preferred bond due to mature in 2025.

On 2 December 2022, illimity successfully concluded the placement of its second senior preferred bond issue for a total of EUR 300 million, with a term of 3 years, as part of its EUR 3 billion EMTN Programme.

On 7 December 2022, illimity announced that it had successfully completed the buyback of approximately EUR 147 million of senior bonds, equivalent to around 49% of the total nominal value of the securities issued.

On 28 December 2022, illimity SGR completed a new closing of the iREC Fund, following which additional receivables were contributed for a gross total of around EUR 94 million, bringing total funding to EUR 264 million. The receivables were contributed by banks that already held units in the Fund and expanded their subscription. The portfolio currently includes loans to around 86 companies operating in vastly different sectors (industrial, commercial, residential, hospitality, energy, etc.).

Reclassified consolidated financial statements as of 31 December 2022

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 the net interest margin;
- dividends received from financial assets measured at fair value through profit or loss were included in the Profits (losses) on trading and financial assets and liabilities;
- 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 excluded 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 and datio in solutum transactions;
- net credit exposure to customers on closed positions is shown separately from net losses/recoveries for credit risk.

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

- the inclusion of hedging derivative assets, 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 loans to financial entities and securities at amortised cost;
- the reclassification of Leasing agreement liabilities, recognised under payables to customers based on IFRS 16, to other liabilities for operational purposes;
- the inclusion of hedging derivative liabilities, the Provision for Risks and Charges and employee severance pay in residual items of other liabilities;
- the aggregate indication and items comprising shareholders’ equity.

RECLASSIFIED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(amounts in thousands of euros)

Components of official items of the Statement of Financial Position	Assets	31 December 2022	31 December 2021	Chg.	Chg. (%)
20 a) + 30	Property portfolio - Securities at FV	422,856	300,436	122,420	41%
20 c)	Financial instruments mandatorily measured at fair value	37,836	75,751	(37,915)	(50%)
20 c)	Loans mandatorily measured at fair value	36,061	-	36,061	N/A
40 a)	Due from banks	57,213	267,969	(210,756)	(79%)
40 b)	Loans to financial entities	125,588	199,857	(74,269)	(37%)
40 b)	Loans to customers HTC	3,223,510	2,509,884	713,626	28%
40 b)	Government Bonds HTC	428,309	-	428,309	N/A
40 b)	Securities at amortised cost - Growth Credit	95,144	34,266	60,878	>100%
40 b)	Securities at amortised cost – Distressed Credit	362,976	217,790	145,186	67%
40 b)	Securities at amortised cost – Investment Banking	93,990	-	93,990	N/A
70	Investments in equity	76,375	79,953	(3,578)	(4%)
90 + 100	Property and equipment and intangible assets	263,484	153,984	109,500	71%
	of which: Goodwill	65,372	36,257	29,115	80%
110	Tax assets	78,592	45,672	32,920	72%
10 + 50 + 120 + 130	Other assets	1,053,191	775,028	278,163	36%
	of which: Cash and cash equivalents	680,777	507,779	172,998	34%
	Total assets	**6,355,125**	**4,660,590**	**1,694,535**	**36%**

(amounts in thousands of euros)

Components of official items of the Statement of Financial Position	Liabilities	31 December 2022	31 December 2021	Chg.	Chg. (%)
10 a)	Due to banks	1,205,048	411,314	793,734	>100%
10 b)	Amounts due to customers	3,409,302	2,818,146	591,156	21%
10 c)	Securities issued	653,002	499,788	153,214	31%
20	Financial liabilities in own portfolio – instruments at FV	27,244	59	27,185	>100%
60	Tax liabilities	36,724	20,256	16,468	81%
40 + 80 + 90 + 100	Other liabilities	182,483	138,207	44,276	32%
(*)	Shareholders' equity	841,322	772,820	68,502	9%
	Total liabilities and shareholders' equity	**6,355,125**	**4,660,590**	**1,694,535**	**36%**

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

Summary of consolidated statement of financial position data

The Group's total assets amounted to EUR 6,355.1 million as of 31 December 2022, up by 36% on 31 December 2021, when they amounted to EUR 4,660.6 million. The increase recorded during the year, equal to EUR 1,694.5 million, relates primarily to the increase in volumes of financial assets measured at amortised cost.

The own portfolio measured at fair value, equal to EUR 422.9 million as of 31 December 2022 and up by 41% on the comparative figure, includes financial assets held for trading and financial assets held with an HTCS business model. Specifically, financial assets held for trading amounted to EUR 31.1 million and were mainly comprised of financial derivatives – operations that were consolidated during 2022.

Financial assets held with an HTCS business model were mainly represented by government bonds and securities issued by other banks and financial entities and high yield corporate bonds. The item totalled EUR 391.7 million, up by EUR 92.2 million on 31 December 2021, due primarily to Structured Products operations.

As of 31 December 2022, the Group had a total negative net valuation reserve of EUR 47.9 million, due primarily to a general rise in interest rates and the worsening of the current macroeconomic context.

Financial assets mandatorily measured at fair value through profit and loss amounted to EUR 73.9 million as of 31 December 2022, down by EUR 1.9 million on 31 December 2021. These financial assets consist of loans measured at fair value (EUR 36.1 million) and financial instruments (EUR 37.8 million).

Loans measured at fair value refer to a loan pertaining to the Growth Credit Division (EUR 24 million) and an Energy Business loan pertaining to the Distressed Credit Division that is mandatorily measured at fair value (EUR 12.1 million), held via the securitisation vehicle Spicy Green SPV.

The financial instruments refer to the subscription, during the course of the financial year, of units of the iREC Fund for EUR 20.6 million (attributable to the Distressed Credit Division), and to Equity Instruments/Earnouts referring to the Growth Credit Division for EUR 9.2 million.

The contribution of the Energy Business component to this item fell as a result of the Bank's subscription of 100% of the notes of the vehicle Spicy Green SPV, which generated the conditions for the consolidation on a line-by-line basis of the assets and liabilities of the cover pool, which are therefore allocated to the respective items as of 31 December 2022 (whereas previously they were represented generically in the note measured at fair value).

Loans due from banks totalled EUR 57.2 million, down compared to 31 December 2021 due to the closing of reverse repurchase agreements. That item was mainly comprised of deposits.

Loans to financial entities – which amounted to EUR 125.6 million as of 31 December 2022, were also down on the end of the previous year, when they amounted to EUR 199.9 million.

The Group's assets as of 31 December 2022 mainly included financial assets measured at amortised cost arising from loans to customers of EUR 3,223.5 million (up compared to EUR 2,509.9 million as of 31 December 2021). The increase in the component in question was mainly attributable to the new operations concluded during the period by the Growth Credit Division, driven by loans with a SACE guarantee, new acquisitions of POCI loans and of Public Procurement Claims carried out by the Distressed Credit Division, in addition to the new operations implemented in the period by the Investment Banking Division.

During 2022, the Bank’s ALM & Treasury Unit increased its portfolio, compared to the stock at the end of 2021, mainly due to the launch of the new business strategy of purchasing government bonds, recognised in the HTC portfolio for a value of EUR 428.3 million.

It is also noted that the securities measured at amortised cost (Held to Collect business model) include securities of the Growth Credit Division for EUR 95.1 million, securities of the Distressed Credit Division for EUR 363 million and securities of the Investment Banking Division for EUR 94 million.

The “Equity investments” item, which amounted to EUR 76.4 million as of 31 December 2022, consists predominantly of the value of the joint control equity investment held by illimity in Hype, insofar as it was consolidated using the equity method.

As of 31 December 2022, property and equipment and intangible assets amounted to EUR 263.5 million, up by approximately EUR 109.5 million compared with 31 December 2021, due primarily to the *datio in solutum* operations completed in 2022.

The Group's intangible assets, equal to EUR 135.1 million, include the specific intangible assets identified in carrying out the Purchase Price Allocation process following the acquisition of the business unit of AREC, equal to EUR 7.2 million as of 31 December 2022, in addition to the residual difference recorded under goodwill for EUR 29.1 million. The item also includes 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 in 2020 (equal to EUR 14.6 million), as well as the goodwill - albeit in a lesser amount - 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. and River SPV S.r.l., and 66.7% of the units of the securitisation vehicle Aporti S.r.l. This item also includes the IT investments made by Group companies.

Group property and equipment, equal to EUR 128.4 million, mainly consisted 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).

Tax assets amounted to EUR 78.6 million, up on the EUR 45.7 million recognised as of 31 December 2021, and comprise EUR 7.8 million in current tax and EUR 70.8 million in deferred tax assets. Deferred tax assets other than those convertible into tax credits (Article 2, paragraph 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 refer primarily to the effects recorded during the year of the exercise of the tax relief option on goodwill and other intangible assets recognised in the financial statements following extraordinary operations and purchases of equity investments, and of the write-downs recorded on the portfolio of securities measured at fair value through other comprehensive income. The main changes compared with the previous year relate to the tax relief arising from the acquisition of the equity investment in AREC S.p.A. and the write-downs recorded on the portfolio of securities measured at fair value through other comprehensive income.

Total consolidated liabilities and shareholders' equity as of 31 December 2022 amounted to EUR 6,355.1 million. Amounts due to customers, net of the lease liability referred to IFRS 16, amounted to EUR 3,409.3 million, increasing compared to 31 December 2021. Amounts due to Banks - including the central banks component - stood at EUR 1,205 million, increasing by EUR 793.7 million compared to 31 December 2021. Securities issued amounted to EUR 653 million, up compared with the end of 2021, due primarily to the new issue that took place during the year, which was partially offset by the buyback operation completed in the fourth quarter of 2022.

Financial liabilities held for trading, equal to EUR 27.2 million as of 31 December 2022, were fully comprised of derivative liabilities. The balance recorded a net increase on the comparative figure, as these operations were consolidated over the year.

Shareholders' equity of the Group came to EUR 841.3 million, up compared with 2021 due to the new issues of shares destined for the acquisition of the business unit of AREC, the issue of shares as part of the ESOP program and, lastly, due to the contribution of the profit accrued in the year, net of the negative changes recorded in the valuation reserves.

RECLASSIFIED CONSOLIDATED INCOME STATEMENT

(amounts in thousands of euros)

Components of official items of the Income Statement	Income Statement items	31 December 2022	31 December 2021	Chg.	Chg. (%)
10 + 20 + 320 + 140	Net interest margin	162,225	133,133	29,092	22%
40 + 50	Net fee and commission income	61,570	35,556	26,014	73%
70 + 80 + 100 + 110	Profits/losses on financial assets and liabilities	13,215	18,594	(5,379)	(29%)
130 a) + 130 b) + 200 a) + 280	Net write-downs/write-backs on closed positions	63,768	63,459	309	0%
280	Other profits (losses) from the disposal of investments	-	2,278	(2,278)	(100%)
230	Other operating expenses and income (excluding taxes)	23,836	18,164	5,672	31%
Total net operating income		**324,614**	**271,184**	**53,430**	**20%**
190 a)	Personnel expenses	(86,126)	(73,685)	(12,441)	17%
190 b)	Other administrative expenses	(90,701)	(76,192)	(14,509)	19%
210 + 220	Net adjustments/recoveries on property and equipment and intangible assets	(16,761)	(10,732)	(6,029)	56%
Operating expenses		**(193,588)**	**(160,609)**	**(32,979)**	**21%**
Operating profit (loss)		**131,026**	**110,575**	**20,451**	**18%**
130 a)	Net losses/recoveries for credit risk - HTC Banks	214	(92)	306	N/A
130 a)	Net losses/recoveries for credit risk - HTC financial entities	105	(159)	264	N/A
130 a)	Net losses/recoveries for credit risk - HTC Clients	(13,775)	(12,776)	(999)	8%
130 b)	Net losses/recoveries for credit risk - HTCS	(1,292)	(906)	(386)	43%
200 a)	Net adjustments/recoveries for commitments and guarantees	(1,042)	(2,729)	1,687	(62%)
Total net adjustments/recoveries		**(15,790)**	**(16,662)**	**872**	**(5%)**
200 b)	Other net provisions	(38)	(218)	180	(83%)
250	Other income (expenses) on investments	(7,633)	(7,758)	125	(2%)
190 b)	Contributions and other non-recurring expenses	(6,703)	(5,089)	(1,614)	32%
Profit (loss) from operations before taxes		**100,862**	**80,848**	**20,014**	**25%**
300 + 320	Income tax for the year on continuing operations	(25,536)	(15,257)	(10,279)	67%
Profit (loss) for the period		**75,326**	**65,591**	**9,735**	**15%**

Consolidated income statement highlights

The Group's total net operating income for the period ended 31 December 2022 amounted to EUR 324.6 million, up sharply on the previous year, when it came to approximately EUR 271.2 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 2022, which contributed to the increase in the net interest margin of the Group from EUR 133.1 million as of 31 December 2021 to EUR 162.2 million as of 31 December 2022. Specifically, the net interest margin increased by EUR 29.1 million, due mainly, with regard to interest income, to the greater disbursements made by the Growth Credit Division and the higher interest deriving from the HTC and HTCS securities portfolios. The interest expense component also included an increase in the cost of funding due to the trend in interest rates, particularly in the second half of 2022.

Net fee and commission income, which amounted to EUR 61.6 million as of 31 December 2022, also increased on the comparative figure by EUR 26 million, on the one hand, due to greater operations of the Growth Credit and Investment Banking Divisions, and, on the other, as a result of the entry of AREC into the Group, which made a positive contribution thanks to commission income from servicing.

That item also includes the revenues of Abilio and its subsidiary Abilio Agency, which contribute to the commission margin through the "auction commissions" accrued for the use of the proprietary real estate portals.

The total net operating income also included the net profit/loss on positions closed in 2022 for a total of EUR 63.8 million (EUR 63.5 million as of 31 December 2021), which includes both net recoveries on closed customer POCI positions, PPCs and performing positions, and the profits (losses) on the sale of properties and on datio in solutum transactions.

Lastly, the balance of other operating expenses/income went up, due primarily to licence rights granted to ION for the IT platform developed by illimity, which made a positive contribution of EUR 17 million in the 2022 financial year.

Operating expenses of EUR 193.6 million as of 31 December 2022 went up by approximately EUR 33 million compared to the previous financial year.

In detail, personnel expenses increased compared to the previous year by approximately EUR 12.4 million, as a result of new resources being employed, to support the increased activities of the Bank's various Divisions, and also due to the operating activities of neprix and the entry of AREC into the Group.

Other administrative expenses also increased, by approximately EUR 14.5 million compared to the previous year, due to the increase in Group operations, and refer primarily to IT and software expenses, expenses for consultancy and professional services, marketing expenses, and legal and notary's fees.

Finally, the item includes net adjustments/recoveries for property and equipment and intangible assets totalling around EUR 16.8 million, up by EUR 6 million compared to 31 December 2021, both due to the amortisation of IT investments and depreciation of materials managed in application of IFRS 16 and due to the amortisation of the specific intangible assets identified in the Purchase Price Allocation process relating to the acquisition of the business unit of AREC.

Overall net losses/recoveries on portfolio positions were negative for EUR 15.8 million. In detail, net losses on positions measured 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.

Moreover, expenses on investments, related to results for the period of consolidated companies with the equity method, came to EUR 7.6 million.

Contributions and other non-recurring expenses were also recorded for around EUR 6.7 million, mainly attributable to the contributions allocated for the purposes of the sustainability of the banking system (including the FITD and Resolution Fund).

Based on the above, as of 31 December 2022, profit for the year before taxes amounted to EUR 100.9 million.

Net of income tax for the period on continuing operations, equal to approximately EUR 25.5 million, consolidated net profit as of 31 December 2022 stood at EUR 75.3 million, up compared to a profit of EUR 65.6 million as of 31 December 2021.

Basic earnings per share as of 31 December 2022, calculated by dividing the result for the year by the weighted average number of ordinary shares issued, was equal to EUR 0.93, while diluted earnings per share as of the same date amounted to EUR 0.91. See the section “Basic and diluted earnings per share” for details of the methodology used 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 2022		31 December 2021		Change	
	Book value	Inc. %	Book value	Inc. %	Absolute	Chg. (%)
Cash and cash equivalents	**680,777**	**12.2%**	**507,779**	**12.3%**	**172,998**	**34%**
Financial assets held for trading	**31,146**	**0.6%**	**928**	**0.0%**	**30,218**	**>100%**
Financial instruments mandatorily measured at fair value	**73,897**	**1.3%**	**75,751**	**1.8%**	**(1,854)**	**(2%)**
- Distressed Credit Division	38,060	0.7%	62,332	1.5%	(24,272)	(39%)
- Growth Credit Division	33,376	0.6%	13,289	0.3%	20,087	>100%
- ALM & Treasury portfolio	130	0.0%	130	0.0%	-	0%
- Structured Products Portfolio	2,331	0.0%	-	0.0%	2,331	N/A
HTCS Financial assets	**391,710**	**7.0%**	**299,508**	**7.3%**	**92,202**	**31%**
- ALM & Treasury portfolio	278,249	5.0%	261,566	6.4%	16,683	6%
- Structured Products Portfolio	95,720	1.7%	37,942	0.9%	57,778	>100%
– Alternative Debt Portfolio	17,741	0.3%	-	0.0%	17,741	N/A
Due from banks	**57,213**	**1.0%**	**267,969**	**6.5%**	**(210,756)**	**(79%)**
- of which: Repurchase agreements	-	0.0%	191,291	4.7%	(191,291)	(100%)
Loans to financial entities	**125,588**	**2.3%**	**199,857**	**4.9%**	**(74,269)**	**(37%)**
Government Bonds HTC	**428,309**	**7.7%**	**-**	**0.0%**	**428,309**	**N/A**
Loans to customers - Loans and PPCs	**3,223,510**	**57.9%**	**2,509,884**	**61.0%**	**713,626**	**28%**
- Organic non-performing loans	41,943	0.8%	21,025	0.5%	20,918	99%
- Inorganic non-performing loans	1,129,131	20.3%	1,048,358	25.5%	80,773	8%
- Performing loans	1,967,050	35.4%	1,440,501	35.0%	526,549	37%
– Public Procurement Claims	85,386	1.5%	-	0.0%	85,386	N/A
Loans to customers - Securities	**552,110**	**9.9%**	**252,056**	**6.1%**	**300,054**	**>100%**
- Distressed Credit Division (Senior Financing) - performing	271,479	4.9%	217,790	5.3%	53,689	25%
– Distressed Credit Division – inorganic POCI	91,497	1.6%	-	0.0%	91,497	N/A
- Growth Credit Division - inorganic POCI	10,611	0.2%	10,037	0.2%	574	6%
- Growth Credit Division - organic securities	2,693	0.0%	-	0.0%	2,693	N/A
- Growth Credit Division - performing	81,840	1.5%	24,229	0.6%	57,611	>100%
– Investment Banking Division - performing	93,990	1.7%	-	0.0%	93,990	N/A
Total invested assets	**5,564,260**	**100%**	**4,113,732**	**100%**	**1,450,528**	**35%**

Loans and PPCs to customers amounted to approximately EUR 3,223.5 million, up from EUR 2,509.9 million at the end of the previous year, due primarily to the new disbursements by the Growth Credit Division and the transactions finalised by the Investment Banking Division. The line item also includes NPLs of approximately EUR 1,129.1 million classified as POCI (Purchased or Originated Credit Impaired), up from EUR 1,048.4 million recorded as of 31 December 2021. As of 31 December 2022, Public Procurement Claims were also included among Group invested assets for EUR 85.4 million. Considering securities, financing to customers amounted to EUR 3,775.6 million (+36.7%).

Financial assets mandatorily measured at fair value through profit and loss amounted to EUR 73.9 million as of 31 December 2022, down by EUR 1.9 million on 31 December 2021. These financial assets consist of loans measured at fair value (EUR 36.1 million) and financial instruments (EUR 37.8 million).

Loans measured at fair value refer to a loan pertaining to the Growth Credit Division (EUR 24 million) and an Energy Business loan pertaining to the Distressed Credit Division that is mandatorily measured at fair value (EUR 12.1 million), held via the securitisation vehicle Spicy Green SPV.

The financial instruments refer to the subscription, during the course of the financial year, of units of the iREC Fund for EUR 20.6 million (attributable to the Distressed Credit Division), and to Equity Instruments/ Earnouts referring to the Growth Credit Division for EUR 9.2 million.

The contribution of the Energy Business to this item fell as a result of the Bank's subscription of 100% of the notes of the vehicle Spicy Green SPV, which generated the conditions for the consolidation on a line-by-line basis of the assets and liabilities of the cover pool, which are therefore allocated to the respective items as of 31 December 2022 (whereas previously they were represented generically in the note measured at fair value).

Financial assets measured at fair value through other comprehensive income, held within a held-to-collect-and-sell business model, amounted to approximately EUR 391.7 million, and refer mainly to government bonds, securities issued by other banks and financial institutions, and high yield corporate bonds. These assets were up by EUR 92.2 million compared with 31 December 2021, due to the Structured Products operations.

The remaining EUR 552.1 million of securities was measured at amortised cost (held-to-collect business model) and mainly comprises EUR 271.5 million of Senior Financing securities, EUR 91.5 million of inorganic securities of the Distressed Credit Division, EUR 81.8 million of high-yield securities of the Growth Credit Division, EUR 10.6 million of inorganic securities of the Growth Credit Division, and EUR 94 million of investments in securities pertaining to the Investment Banking Division.

(amounts in thousands of euros)

INVESTED ASSETS BY TECHNICAL FORM	31 December 2022		31 December 2021		Change	
	Book value	Inc. %	Book value	Inc. %	Absolute	Chg. (%)
Cash and cash equivalents	**680,777**	**12.2%**	**507,779**	**12.3%**	**172,998**	**34%**
Due from banks	**57,213**	**1.0%**	**267,969**	**6.5%**	**(210,756)**	**(79%)**
Current accounts and deposits	57,213	1.0%	76,678	1.9%	(19,465)	(25%)
Reverse Repurchase Agreements	-	0.0%	191,291	4.7%	(191,291)	(100%)
Loans to financial entities	**125,588**	**2.3%**	**199,857**	**4.9%**	**(74,269)**	**(37%)**
Loans to customers and PPCs	**3,223,510**	**57.9%**	**2,509,884**	**61.0%**	**713,626**	**28%**
Current accounts held by customers	188,185	3.4%	229,126	5.6%	(40,941)	(18%)
Green Loans	2,949,939	53.0%	2,280,758	55.4%	669,181	29%
Public Procurement Claims	85,386	1.5%	-	0.0%	85,386	N/A
Loans mandatorily measured at fair value	**36,061**	**0.6%**	**-**	**0.0%**	**36,061**	**N/A**
Securities and financial derivatives	**1,441,112**	**25.9%**	**628,243**	**15.3%**	**812,869**	**>100%**
Debt securities	1,379,832	24.8%	613,059	14.9%	766,773	>100%
- *Government bonds*	650,356	11.7%	199,178	4.8%	451,178	>100%
- *Bank bonds*	77,962	1.4%	61,405	1.5%	16,557	27%
- *Financial companies*	544,970	9.8%	299,932	7.3%	245,038	82%
- *Non-financial companies*	106,544	1.9%	52,544	1.3%	54,000	>100%
Financial Derivatives	31,117	0.6%	896	0.0%	30,221	>100%
Financial instruments/earnouts	9,182	0.2%	10,352	0.3%	(1,170)	(11%)
Equity securities	19	0.0%	19	0.0%	-	0%
Units of UCIs	20,961	0.4%	3,917	0.1%	17,044	>100%
Total invested assets	**5,564,260**	**100%**	**4,113,732**	**100%**	**1,450,528**	**35%**

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 totalled EUR 57.2 million, down compared to 31 December 2021 due to the closing of reverse repurchase agreements, and were mainly comprised of deposits. Customer loans rose to EUR 2,949.9 million as of 31 December 2022, due mainly to the new disbursements made by the Growth Credit Division, driven by loans with a SACE guarantee and new acquisitions of POCI portfolios. The Public Procurement Claims operations carried out by the Distressed Credit Division starting in 2022 contributed EUR 85.4 million to the total invested assets.

Lastly, debt securities amounted to EUR 1,379.8 million and mainly related to government entities and financial companies. The main changes on the end of the previous year were related to the Convivio transaction, subscribed by illimity in a joint venture with Apollo Global Management, and the purchase of government bonds.

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 2022	Inc. %	31 December 2021	Inc. %	Chg.	Chg. (%)
Distressed Credit Division	1,490	34.4%	1,259	42.5%	231	18%
Growth Credit Division	2,011	46.5%	1,400	47.3%	611	44%
Investment Banking Division	133	3.1%	-	0.0%	133	N/A
Loans to ordinary former BIP customers (Growth Credit)	91	2.1%	100	3.4%	(9)	(9%)
b-ilty Division	50	1.2%	3	0.1%	47	>100%
Total due from customers (Loans and Securities)	**3,775**	**87.2%**	**2,762**	**93.2%**	**1,013**	**37%**
Loans to financial entities	126	2.9%	200	6.8%	(74)	(37%)
Government Bonds	428	9.9%	-	0.0%	428	N/A
Total loans to customers measured at amortised cost	**4,329**	**100%**	**2,962**	**100%**	**1,367**	**46%**

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 2021.

(amounts in thousands of euros)

FINANCIAL ASSETS MEASURED AT AMORTISED COST	31 December 2022						31 December 2021					
	Gross Exposure	Inc. %	Write-downs/ write-backs	Book value	Inc. %	Coverage ratio (*)	Gross Exposure	Inc. %	Write-downs/ write-backs	Book value	Inc. %	Coverage ratio (*)
Due from banks	**57,263**	**1.1%**	**(50)**	**57,213**	**1.3%**	**0.09%**	**268,226**	**8.2%**	**(257)**	**267,969**	**8.3%**	**0.10%**
- Loans	57,263	1.1%	(50)	57,213	1.3%	0.09%	268,226	8.2%	(257)	267,969	8.3%	0.10%
- Stage 1-2	*57,263*	*1.1%*	*(50)*	*57,213*	*1.3%*	*0.09%*	*268,226*	*8.2%*	*(257)*	*267,969*	*8.3%*	*0.10%*
Loans to financial entities	**125,757**	**2.5%**	**(169)**	**125,588**	**2.9%**	**0.13%**	**200,131**	**6.1%**	**(274)**	**199,857**	**6.2%**	**0.14%**
Green Loans	125,757	2.5%	(169)	125,588	2.9%	0.13%	200,131	6.1%	(274)	199,857	6.2%	0.14%
- Stage 1-2	*125,757*	*2.5%*	*(169)*	*125,588*	*2.9%*	*0.13%*	*200,131*	*6.1%*	*(274)*	*199,857*	*6.2%*	*0.14%*
Government Bonds	**428,829**	**8.6%**	**(520)**	**428,309**	**9.8%**	**0.12%**	**-**	**0.0%**	**-**	**-**	**0.0%**	**0.0%**
- Stage 1-2	*428,829*	*8.6%*	*(520)*	*428,309*	*9.8%*	*0.12%*	*-*	*0.0%*	*-*	*-*	*0.0%*	*0.0%*
Loans to customers and PPCs	**4,397,598**	**87.8%**	**(621,978)**	**3,775,620**	**86.1%**	**14.14%**	**2,790,810**	**85.6%**	**(28,870)**	**2,761,940**	**85.5%**	**1.03%**
Green Loans	3,169,374	63.3%	(31,250)	3,138,124	71.5%	0.99%	2,537,456	77.9%	(27,572)	2,509,884	77.7%	1.09%
- Stage 1-2	*1,978,403*	*39.5%*	*(11,353)*	*1,967,050*	*44.8%*	*0.57%*	*1,449,544*	*44.5%*	*(9,043)*	*1,440,501*	*44.6%*	*0.62%*
- Stage 3	*1,190,971*	*23.8%*	*(19,897)*	*1,171,074*	*26.7%*	*N/A*	*1,087,912*	*33.4%*	*(18,529)*	*1,069,383*	*33.1%*	*N/A*
Securities	555,536	11.1%	(3,426)	552,110	12.6%	0.62%	253,354	7.8%	(1,298)	252,056	7.8%	0.51%
- Stage 1-2	*450,428*	*9.0%*	*(3,119)*	*447,309*	*10.2%*	*0.69%*	*243,317*	*7.5%*	*(1,298)*	*242,019*	*7.5%*	*0.53%*
- Stage 3	*105,108*	*2.1%*	*(307)*	*104,801*	*2.4%*	*0.29%*	*10,037*	*0.3%*	*-*	*10,037*	*0.3%*	*0.00%*
Public Procurement Claims	672,688	13.4%	(587,302)	85,386	1.9%	N/A	-	0.0%	-	-	0.0%	N/A
Total	**5,009,447**	**100%**	**(622,717)**	**4,386,730**	**100%**	**N/A**	**3,259,167**	**100%**	**(29,401)**	**3,229,766**	**100%**	**N/A**

(*) In the column "Coverage ratio", the value "N/A" was inserted as it refers to net write-downs/write-backs and therefore is not correlated to the gross exposure in terms of coverage representation.

Financial assets at amortised cost, equal to EUR 4,386.7 million as of 31 December 2022, were mainly composed of loans to customers and PPCs, which comprise 86.1% of the total of the item, in addition to due from banks, which comprise 1.3% of the total, loans to financial entities and government bonds, which comprise 2.9% and 9.8% of the total, respectively.

A breakdown of the quality of organic 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 - ORGANIC	31 December 2022						31 December 2021					
	Gross Exposure	Inc. %	Write-downs/ write-backs	Book value	Inc. %	Coverage ratio	Gross Exposure	Inc. %	Write-downs/ write-backs	Book value	Inc. %	Coverage ratio
Non-performing loans – organic	**61,840**	**2.5%**	**(19,897)**	**41,943**	**1.7%**	**32.17%**	**39,554**	**2.3%**	**(18,529)**	**21,025**	**1.2%**	**46.84%**
- Bad loans	20,505	0.8%	(14,353)	6,152	0.3%	70.00%	19,014	1.1%	(14,027)	4,987	0.3%	73.77%
- Unlikely-to-pay positions	40,992	1.6%	(5,481)	35,511	1.4%	13.37%	20,370	1.2%	(4,468)	15,902	0.9%	21.93%
- Past-due positions	343	0.0%	(63)	280	0.0%	18.37%	170	0.0%	(34)	136	0.0%	20.00%
Non-performing securities - Organic	**3,000**	**0.1%**	**(307)**	**2,693**	**0.1%**	**10.23%**	**-**	**0.0%**	**-**	**-**	**0.0%**	**N/A**
- Unlikely-to-pay positions	3,000	0.1%	(307)	2,693	0.1%	10.23%	-	0.0%	-	-	0.0%	N/A
Performing loans	**2,428,831**	**97.4%**	**(14,472)**	**2,414,359**	**98.2%**	**0.60%**	**1,692,861**	**97.7%**	**(10,341)**	**1,682,520**	**98.8%**	**0.61%**
- Loans	1,978,403	79.3%	(11,353)	1,967,050	80.0%	0.57%	1,449,544	83.7%	(9,043)	1,440,501	84.6%	0.62%
- Securities	450,428	18.1%	(3,119)	447,309	18.2%	0.69%	243,317	14.0%	(1,298)	242,019	14.2%	0.53%
Growth Credit	83,230	3.3%	(1,390)	81,840	3.3%	1.67%	24,741	1.4%	(512)	24,229	1.4%	2.07%
Distressed Credit	272,956	10.9%	(1,477)	271,479	11.0%	0.54%	218,576	12.6%	(786)	217,790	12.8%	0.36%
Investment Banking	94,242	3.8%	(252)	93,990	3.8%	0.27%	-	0.0%	-	-	0.0%	0.0%
Total	**2,493,671**	**100%**	**(34,676)**	**2,458,995**	**100%**	**1.39%**	**1,732,415**	**100%**	**(28,870)**	**1,703,545**	**100%**	**1.67%**

Organic non-performing loans amounted to EUR 41.9 million, higher than the figure recorded as of 31 December 2021. The coverage ratio for organic non-performing loans as of 31 December 2022 was equal to 32.17%, down from the figure as of 31 December 2021. This is due primarily to the fact that a large number of secured credit exposures have now become UTPs. This resulted in a reduction in the proportion of the group's organic non-performing loans represented by unsecured credit.

As of 31 December 2022, performing loans amounted to EUR 1,967.1 million and performing securities amounted to EUR 447.3 million, both up on 31 December 2021 in relation to increased operations of both the Distressed Credit Division and the Growth Credit Division, and the entry of the Investment Banking Division. The total performing portfolio thus grew compared to EUR 1,682.5 million as of 31 December 2021.

The coverage ratio for performing loans of the Bank as of 31 December 2022 was equal to 0.6%, generally in line with the comparative figure as of 31 December 2021.

Below is a breakdown of the inorganic component of the portfolio, which comprises loans, securities and Public Procurement Claims.

(amounts in thousands of euros)

LOANS TO CUSTOMERS - INORGANIC & PPCs	31 December 2022						31 December 2021					
	Gross Exposure	Inc. %	Write-downs/ write-backs	Book value	Inc. %	Coverage ratio (*)	Gross Exposure	Inc. %	Write-downs/ write-backs	Book value	Inc. %	Coverage ratio (*)
Non-performing loans - inorganic	**1,129,131**	**59.3%**	**-**	**1,129,131**	**85.8%**	**N/A**	**1,048,358**	**99.1%**	**-**	**1,048,358**	**99.1%**	**N/A**
- Bad loans	618,740	32.5%	-	618,740	47.0%	N/A	699,429	66.1%	-	699,429	66.1%	N/A
- Unlikely-to-pay positions	509,661	26.8%	-	509,661	38.7%	N/A	348,929	33.0%	-	348,929	33.0%	N/A
- Past-due positions	730	0.0%	-	730	0.1%	N/A	-	0.0%	-	-	0.0%	N/A
Non-performing securities - Inorganic	**102,108**	**5.4%**	**-**	**102,108**	**7.8%**	**N/A**	**10,037**	**0.9%**	**-**	**10,037**	**0.9%**	**N/A**
- Unlikely-to-pay positions	102,108	5.4%	-	102,108	7.8%	N/A	10,037	0.9%	-	10,037	0.9%	N/A
PPCs	672,688	35.3%	(587,302)	85,386	6.5%	N/A	-	0.0%	-	-	0.0%	N/A
Total	**1,903,927**	**100%**	**(587,302)**	**1,316,625**	**100%**	**N/A**	**1,058,395**	**100%**	**-**	**1,058,395**	**100%**	**N/A**

(*) In the column "Coverage ratio", the value "N/A" was inserted as it refers to net write-downs/write-backs and therefore is not correlated to the gross exposure in terms of coverage representation.

Inorganic non-performing loans amounted to EUR 1,129.1 million, of which:

- EUR 618.7 million relating to purchase transactions concluded by the Growth Credit and Distressed Credit Divisions classified as Bad loans, registering a decrease compared to EUR 699.4 million as of 31 December 2021;
- EUR 509.7 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 348.9 million as of 31 December 2021.

Instead, inorganic non-performing securities, equal to EUR 102.1 million as of 31 December 2022, increased on the comparative figure, which was EUR 10 million. That change is mainly connected with illimity's subscription of the Convivio transaction, in a joint venture with Apollo Global Management.

In addition to inorganic loans, new investments in loans for Public Procurement Claims amounted to EUR 85.4 million.

Funding

(amounts in thousands of euros)

CUSTOMER FUNDING BY TECHNICAL FORM	31 December 2022		31 December 2021		Change	
	Book value	Inc. %	Book value	Inc. %	Absolute	Chg. (%)
Amounts due to customers (A)	3,409,302	64.7%	2,818,146	75.6%	591,156	21.0%
Securities issued (B)	653,002	12.4%	499,788	13.4%	153,214	30.7%
Total direct customer funding (A) + (B)	**4,062,304**	**77.1%**	**3,317,934**	**89%**	**744,370**	**22.4%**
Due to banks (C)	1,205,048	22.9%	411,314	11.0%	793,734	>100%
Total debt (A) + (B) + (C)	**5,267,352**	**100.0%**	**3,729,248**	**100%**	**1,538,104**	**41.2%**

The Group's liabilities present total "direct funding" of EUR 5,267.4 million, broken down between customers for EUR 4,062.3 million and banks for EUR 1,205 million. The increase was mainly due to the growth in customer funding in the form of time deposits. Due to banks – including the central bank component – was up on the comparative figure as of 31 December 2021. Securities issued amounted to EUR 653 million, up compared with the end of 2021, due primarily to the new issue that took place during the year, which was partially offset by the buyback operation completed in the fourth quarter of 2022.

Property and equipment and intangible assets

Property and equipment as of 31 December 2022 amounted to approximately EUR 128.4 million, up from EUR 68.7 million as of 31 December 2021, due mainly to the inclusion of new property portfolios accounted for pursuant to IAS 2, in the context of the Kenobi transactions and, more generally, as part of datio in solutum transactions. In accordance with IFRS 16, the item includes the rights of use of assets acquired through lease agreements, of approximately EUR 22 million, net of accumulated depreciation.

Intangible assets of the Group include the specific intangible assets identified in carrying out the Purchase Price Allocation process following the acquisition of the business unit of AREC, equal to EUR 7.2 million as of 31 December 2022, in addition to the residual difference recorded under goodwill for EUR 29.1 million. The item also includes 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. This item also includes the IT investments made by Group companies.

Tax assets and tax liabilities

Tax assets amounted to approximately EUR 78.6 million as of 31 December 2022, up from the EUR 45.7 million recognised as of 31 December 2021. Details of the breakdown of tax assets are shown below.

(amounts in thousands of euros)

TAX ASSETS	31 December 2022	31 December 2021	Chg.	Chg. (%)
Current	7,828	5,168	2,660	51%
Deferred	70,764	40,504	30,260	75%
Total	**78,592**	**45,672**	**32,920**	**72%**

Deferred tax assets other than those convertible into tax credits (Article 2, paragraph 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 refer primarily to the effects recorded during the year of the exercise of the tax relief option on goodwill and other intangible assets recognised in the financial statements following extraordinary operations and purchases of equity investments, and of the write-downs recorded on the portfolio of securities measured at fair value through other comprehensive income.

Deferred tax liabilities as of 31 December 2022 amounted to Euro 36.7 million, up compared to Euro 20.3 million as of 31 December 2021, due to higher taxes as a result of the financial results achieved during the year.

(amounts in thousands of euros)

TAX LIABILITIES	31 December 2022	31 December 2021	Chg.	Chg. (%)
Current	33,372	19,156	14,216	74%
Deferred	3,352	1,100	2,252	>100%
Total	**36,724**	**20,256**	**16,468**	**81%**

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 CRR) and in Directive 2013/36/EU (Capital Requirements Directive, the 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 17 March 2022 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 2022. 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 communicated the following capital levels, which the illimity Banking Group was invited to maintain on an ongoing basis:

- Common Equity Tier 1 (CET1) ratio of 9.10%;
- Tier 1 ratio of 11.00%;
- Total Capital ratio of 13.50%.

In that regard, it is noted that the Bank continues to substantially comply with the original voluntary commitment to maintain the CET1 ratio at a level above 15% on an ongoing basis.

In determining own funds the profit (loss) for the period was allocated net of all charges and dividends that may be forecast pursuant to the CRR, Article 26, paragraph 2, letter b) and Delegated Regulation (EU) 241/2014, articles 2 and 3. In particular, CET1 capital included 80% of profits for the period, based on a consolidated payout ratio of 20%, in line with the current business plan. That being said, the breakdown of own funds at the reporting date was as follows:

Capital ratios	31 December 2022	31 December 2021
Common Equity Tier 1 (CET1) capital	**682,872**	**642,467**
Additional Tier 1 (AT1) capital	**-**	**-**
Tier 2 (T2) capital	**200,787**	**200,432**
Total own funds	**883,659**	**842,899**
Credit risk	*312,920*	*253,619*
Credit valuation adjustment risk	-	-
Settlement risks	-	-
Market risks	*4,577*	*780*
Operational risk	*28,897*	*18,518*
Other calculation factors	-	-
Total minimum requirements	**346,394**	**272,917**
Risk-weighted assets	**4,329,921**	**3,411,468**
Common Equity Tier 1 ratio (Phased-in)	**15.77%**	**18.83%**
Common Equity Tier 1 ratio (Fully Loaded)	**15.31%**	**18.74%**
Total capital ratio (Phased-in)	**20.41%**	**24.71%**
Total capital ratio (Fully Loaded)	**19.95%**	**24.61%**

Note that the capital of the illimity Group as of 31 December 2022 takes account of the conversion on 21 September 2022 of 1,440,000 special shares into ordinary shares, which resulted in a benefit amounting to EUR 14.4 million.

The difference between the Fully Loaded ratio and the Phased-in ratio is due to the application of Regulation 2020/873, specifically: temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income in view of the COVID-19 pandemic, and to a residual extent to the application of IFRS 9 to own funds and capital ratios.

Note that on 21 June 2022, Regulation 2022/954 amending the regulatory technical standards as regards the calculation of specific and general credit risk adjustments was published in the Official Journal of the European Union. The application of that regulation, in force from July 2022, requires, for credit exposures acquired with a discount of 20% or more, a weighting factor of 100% on the non-guaranteed portion (instead of 150%). The benefit amounted to around EUR 250 million on own funds.

Changes in shareholders' equity

Consolidated shareholders' equity came to EUR 841.3 million, up on the end of 2021 due to the share capital increase destined for the acquisition of the business unit of AREC, the issue of shares as part of the ESOP program and, lastly, due to the contribution of the profit accrued in the year, net of the negative changes recorded in the valuation reserves.

Items/Technical forms	31 December 2022	31 December 2021
1. Share capital	54,514	52,620
2. Share premium reserve	624,583	597,589
3. Reserves	135,516	63,904
4. Equity instruments	-	-
5. (Treasury shares)	(747)	(832)
6. Valuation reserves	(47,875)	(6,057)
7. Profit (loss) for the year	75,326	65,591
Total shareholders' equity attributable to the Group	**841,317**	**772,815**
Shareholders' equity attributable to minority interests	5	5
Total shareholders' equity	**841,322**	**772,820**

Share capital and ownership structure

As of 31 December 2022, the Bank's share capital amounted to EUR 54,513,905.72, fully subscribed and paid up, divided into 83,645,108 ordinary shares.

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.

Treasury shares

As of 31 December 2022, the Bank held 88,445 treasury shares for a value of EUR 747 thousand, down on the figures as of 31 December 2021, due to the allocation of 10,060 ordinary shares held to the MBO plan. The Bank's subsidiaries do not hold any shares in it. 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 2022:

	Shareholders' equity	Result
illimity Bank S.p.A.	**851,418**	**80,715**
Effect of consolidation of subsidiaries	(2,591)	-
Result of subsidiaries	1,270	1,270
Consolidation adjustments	6,570	974
Dividends	-	-
Effect of measuring associates and joint ventures using the equity method	(15,350)	(7,633)
Group	**841,317**	**75,326**

Financial performance

Net interest margin

(amounts in thousands of euros)

Items/Technical forms	Loans/ Payables	Debt securities	Other transactions	31 December 2022	31 December 2021	Absolute changes	Change %
Interest and similar income							
1. Financial assets measured at fair value through profit or loss	-	1,782	-	1,782	1,329	453	34%
Held for trading	-	-	-	-	*80*	*(80)*	*(100%)*
Carried at FV	-	-	-	-	-	-	*N/A*
Mandatorily measured at fair value	-	*1,782*	-	1,782	*1,249*	*533*	*43%*
2. Financial assets at FV through other comprehensive income	-	8,135	-	8,135	4,191	3,944	94%
3. Financial assets measured at amortised cost	192,133	28,816	-	220,949	186,048	34,901	19%
Due from banks	*1,284*	-	-	1,284	*591*	*693*	*>100%*
Loans to customers	*190,849*	*28,816*	-	219,665	*185,457*	*34,208*	*18%*
4. Hedging derivatives	-	-	4,394	4,394	-	4,394	N/A
5. Other assets	-	-	2,220	2,220	580	1,640	>100%
6. Financial liabilities	-	-	-	1,213	2,806	(1,593)	(57%)
Total interest income	**192,133**	**38,733**	**6,614**	**238,693**	**194,954**	**43,739**	**22%**
Interest expenses							
1. Amounts due to customers	(45,983)	(20,760)	-	(66,743)	(55,943)	(10,800)	19%
Due to central banks	*(406)*	-	-	(406)	*(27)*	*(379)*	*>100%*
Due to banks	*(5,549)*	-	-	(5,549)	*(4,764)*	*(785)*	*16%*
Amounts due to customers	*(40,028)*	-	-	(40,028)	*(36,009)*	*(4,019)*	*11%*
Securities issued	-	*(20,760)*	-	(20,760)	*(15,143)*	*(5,617)*	*37%*
2. Financial liabilities held for trading	-	-	-	-	-	-	N/A
3. Financial liabilities carried at FV	-	-	-	-	-	-	N/A
4. Other liabilities and provisions	-	-	(3,585)	(3,585)	(2,088)	(1,497)	72%
5. Hedging derivatives	-	-	(4,435)	(4,435)	-	(4,435)	N/A
6. Financial assets	-	-	-	(1,705)	(3,790)	2,085	(55%)
Total interest expenses	**(45,983)**	**(20,760)**	**(8,020)**	**(76,468)**	**(61,821)**	**(14,647)**	**24%**
Net interest margin	**146,150**	**17,973**	**(1,406)**	**162,225**	**133,133**	**29,092**	**22%**

As of 31 December 2022, the net interest margin amounted to approximately EUR 162.2 million, up considerably on the previous year, when it came to approximately EUR 133.1 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 34.2 million compared to the previous year. This increase is due to disbursements and to larger portfolio volumes in the Bank's assets as against the comparable figure.

Interest income also increased on financial assets measured at fair value through profit and loss and through other comprehensive income, due primarily to the purchase of securities assigned to this own portfolio.

Interest expense increased by approximately EUR 14.6 million compared to 31 December 2021, mainly due to the rise of EUR 5.6 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 million, directly related to the increase in volumes of direct funding and interest rates.

Net fee and commission income

(amounts in thousands of euros)

Items/Technical forms	31 December 2022	31 December 2021	Absolute changes	Change %
Fee and commission income				
a) Financial instruments	1	3	(2)	(67%)
b) Corporate Finance	5,419	3,559	1,860	52%
e) Collective portfolio management	3,697	1,683	2,014	>100%
f) Custody and administration	1	1	-	0%
i) Payment services	1,259	1,131	128	11%
j) Distribution of third party services	216	132	84	64%
l) Servicing activities for securitisation operations	5,811	13	5,798	>100%
n) Financial guarantees issued	250	68	182	>100%
o) Loan operations	31,423	15,514	15,909	>100%
p) Currency trading	60	48	12	25%
r) Other fee and commission income	17,564	18,131	(567)	(3%)
Total	**65,701**	**40,283**	**25,418**	**63%**
Fee and commission expense				
a) Financial instruments	-	(198)	198	(100%)
c) Custody and administration	(239)	(156)	(83)	53%
d) Collection and payment services	(1,595)	(1,067)	(528)	49%
e) Servicing activities for securitisation operations	(398)	(1,838)	1,440	(78%)
g) Financial guarantees received	-	(1)	1	(100%)
j) Other fee and commission expense	(1,899)	(1,467)	(432)	29%
Total	**(4,131)**	**(4,727)**	**596**	**(13%)**
Net fee and commission income	**61,570**	**35,556**	**26,014**	**73%**

Net fee and commission income amounted to EUR 61.6 million, up significantly compared to the period ended 31 December 2021, when it amounted to EUR 35.6 million. The increase was primarily generated by fee and commission income referring to the Distressed Credit, Growth Credit and Investment Banking Divisions. A positive contribution was also made by the commission income generated by illimity SGR, which is recorded under the item "Collective portfolio management".

As regards commission income from servicing, the entry of AREC into the Group provided a positive contribution of EUR 5.8 million to the item.

Lastly, note that Other fee and commission income includes the fee and commission income deriving from the specific business of Group companies, referring to neprix, Abilio and Abilio Agency – and specifically the auction commissions and commissions from associated services, accrued on the use of the company's real estate portals – for around EUR 11.1 million.

Other operating expenses and income

(amounts in thousands of euros)

Items/Technical forms	31 December 2022	31 December 2021	Absolute changes	Change %
Other operating expenses				
Amortisation of expenses for improvements on third party assets	(155)	(87)	(68)	78%
Other operating expenses	(1,087)	(886)	(201)	23%
Total	**(1,242)**	**(973)**	**(269)**	**28%**
Other operating income				
Recoveries of expenses from other customers	3,907	2,083	1,824	88%
Other income	17,965	14,121	3,844	27%
Rental income	3,206	2,933	273	9%
Total	**25,078**	**19,137**	**5,941**	**31%**
Other operating income/expenses	**23,836**	**18,164**	**5,672**	**31%**

The item includes operating income and expenses of the Bank and its subsidiaries. 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 the 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 2022	31 December 2021	Absolute changes	Change %
1. Employees	(81,080)	(68,196)	(12,884)	19%
2. Other personnel in service	(2,562)	(3,291)	729	(22%)
3. Directors and statutory auditors	(2,484)	(2,198)	(286)	13%
Personnel expenses	**(86,126)**	**(73,685)**	**(12,441)**	**17%**

Personnel expenses amounted to approximately EUR 86.1 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.

The Group had a total of 853 employees as of 31 December 2022, up on 31 December 2021 (725). The following table shows the number of employees as of 31 December 2022, broken down by classification, together with changes compared to 31 December 2021.

Category	31 December 2022			31 December 2021			Changes	
	Number of employees	in %	Average age	Number of employees	in %	Average age	Number of employees	in %
Senior managers	77	9%	46	67	9%	47	10	15%
Middle managers	350	41%	38	303	42%	38	47	16%
Other employees	426	50%	34	355	49%	33	71	20%
Employees	**853**	**100%**		**725**	**100%**		**128**	**18%**

Other Administrative expenses

(amounts in thousands of euros)

Items/Technical forms	31 December 2022	31 December 2021	Absolute changes	Change %
Insurance	(3,236)	(3,268)	32	(1%)
Various consulting services	(11,024)	(8,911)	(2,113)	24%
Cost of services	(4,889)	(3,365)	(1,524)	45%
Financial information	(3,315)	(2,630)	(685)	26%
Adverts and advertising	(6,206)	(2,669)	(3,537)	>100%
Financial statement audit	(802)	(722)	(80)	11%
IT and software expenses	(25,425)	(21,214)	(4,211)	20%
Legal and notary's fees	(9,177)	(5,480)	(3,697)	67%
Property management expenses	(5,621)	(3,552)	(2,069)	58%
Expenses for professional services	(6,217)	(10,035)	3,818	(38%)
Utilities and services	(1,706)	(1,437)	(269)	19%
Other indirect taxes and duties	(8,715)	(11,650)	2,935	(25%)
Others	(4,368)	(1,259)	(3,109)	>100%
Total other administrative expenses	**(90,701)**	**(76,192)**	**(14,509)**	**19%**

Other administrative expenses amounted to approximately EUR 90.7 million, increasing by EUR 14.5 million compared to the end of the previous year, and refer primarily to IT and software expenses, consultancy fees, marketing expenses, legal and notary's fees, and other indirect duties and taxes.

Net adjustments/recoveries on property and equipment and intangible assets

(amounts in thousands of euros)

Items/Technical forms	31 December 2022	31 December 2021	Absolute changes	Change %
Net adjustments/recoveries on property and equipment				
Property and equipment with functional use	(3,691)	(3,132)	(559)	18%
of which: own Property and equipment	*(818)*	*(779)*	*(39)*	*5%*
of which: Inventories	*(102)*	-	*(102)*	*N/A*
of which: Rights of use acquired through lease agreements	*(2,771)*	*(2,353)*	*(418)*	*18%*
Net adjustments/recoveries on intangible assets				
Finite useful life	(13,070)	(7,600)	(5,470)	72%
Net adjustments/recoveries on property and equipment and intangible assets	**(16,761)**	**(10,732)**	**(6,029)**	**56%**

Net write-downs on property and equipment and intangible assets amounted to approximately EUR 16.8 million, compared to EUR 10.7 million as of 31 December 2021. 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. The item also includes the amortisation of intangible assets recognised in accordance with IFRS 3 following the acquisition of the business unit of AREC.

Net losses/recoveries for assets measured at amortised cost

(amounts in thousands of euros)

Transaction/ Income items	Write-downs/write-backs						Recoveries				31/12/2022
	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	**(14)**	**-**	**-**	**-**	**-**	**-**	**228**	**-**	**-**	**-**	**214**
- loans	(14)	-	-	-	-	-	228	-	-	-	214
- debt securities	-	-	-	-	-	-	-	-	-	-	-
B. Loans to customers:	**(7,459)**	**(2,870)**	**-**	**(4,575)**	**-**	**(118,339)**	**6,537**	**452**	**1,853**	**174,370**	**49,969**
- loans	(4,624)	(2,573)	-	(4,268)		(118,339)	5,863	334	1,853	174,370	52,616
- debt securities	(2,835)	(297)	-	(307)		-	674	118	-	-	(2,647)
Total	**(7,473)**	**(2,870)**	**-**	**(4,575)**	**-**	**(118,339)**	**6,765**	**452**	**1,853**	**174,370**	**50,183**

Net adjustments/recoveries for assets measured at amortised cost amounted to EUR 50.2 million. In particular, net recoveries on POCI loans amounted to EUR 56 million, primarily attributable to closed positions.

Item 130 a) also includes net adjustments/recoveries relating to banks, financial entities and open POCI positions. The column "purchased or originated impaired financial assets" 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.

Income tax for the year on continuing operations

Income tax for the year amounted to EUR 25.5 million. This was affected primarily by the positive effect of the tax relief following the acquisition of the equity investment in AREC S.p.A. (Article 15, paragraph 10 of Italian Legislative Decree 15/2008), the application of the "Patent Box" regime (Article 6 of Italian Legislative Decree 146/2021) and the “ACE” scheme aimed at supporting economic growth (Article 1 of Italian Legislative Decree 201/2011), as well as the negative effects of the loss generated by the Hype S.p.A. equity investment.

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 and diluted earnings per share	Net profit/loss for the year	Average number of shares	Basic and diluted earnings per share
Year ended 31 December 2022	75,326	81,149,186	0.93
Year ended 31 December 2021	65,591	74,768,897	0.88

The diluted earnings (loss) per share differs from the basic earnings (loss) per share due to the potential shares in service of the Long-Term Incentive (LTI) plan.

(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 2022	75,326	83,180,280	0.91
Year ended 31 December 2021	65,591	75,377,813	0.87

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 2022	30 September 2022	30 June 2022	31 March 2022	31 December 2021
Property portfolio - Securities at FV	422,856	428,554	432,345	428,100	300,436
Financial instruments mandatorily measured at fair value	37,836	95,477	79,237	78,634	75,751
Loans mandatorily measured at fair value	36,061	22,500	22,500	-	-
Due from banks	57,213	38,504	30,737	54,729	267,969
Loans to financial entities	125,588	145,115	160,022	159,964	199,857
Loans and securities to customers	3,775,620	3,317,820	3,194,213	2,831,749	2,761,940
Government Bonds	428,309	215,290	160,846	107,565	-
Investments in equity	76,375	78,336	76,145	78,147	79,953
Property and equipment and intangible assets	263,484	248,943	218,739	168,091	153,984
Tax assets	78,592	65,934	61,302	51,144	45,672
Other assets	1,053,191	634,636	690,578	964,286	775,028
Total assets	**6,355,125**	**5,291,109**	**5,126,664**	**4,922,409**	**4,660,590**

(amounts in thousands of euros)

Liabilities	31 December 2022	30 September 2022	30 June 2022	31 March 2022	31 December 2021
Due to banks	1,205,048	581,314	539,198	412,190	411,314
Amounts due to customers	3,409,302	3,186,094	3,106,712	3,064,799	2,818,146
Securities issued	653,002	514,632	509,630	504,681	499,788
Financial liabilities in own portfolio – instruments at FV	27,244	24,293	13,413	1,855	59
Tax liabilities	36,724	28,476	16,211	26,747	20,256
Other liabilities	182,483	142,848	139,636	134,710	138,207
Shareholders' equity	841,322	813,452	801,864	777,427	772,820
Total liabilities and shareholders' equity	**6,355,125**	**5,291,109**	**5,126,664**	**4,922,409**	**4,660,590**

Reclassified Income Statement

(amounts in thousands of euros)

Income Statement items	4Q2022	3Q2022	2Q2022	1Q2022	4Q2021
Net interest margin	46,125	42,045	38,009	36,046	34,484
Net fee and commission income	19,779	14,145	14,809	12,837	11,639
Profits/losses on financial assets and liabilities	(73)	4,647	5,890	2,751	6,153
Net write-downs/write-backs on closed positions	18,464	8,553	16,195	20,556	18,956
Other operating expenses and income (excluding taxes)	6,725	5,155	5,694	6,262	6,579
Total net operating income	**91,020**	**74,545**	**80,597**	**78,452**	**77,811**
Personnel expenses	(21,757)	(20,900)	(22,768)	(20,701)	(22,215)
Other administrative expenses	(26,614)	(21,414)	(21,859)	(20,814)	(23,337)
Net adjustments/recoveries on property and equipment and intangible assets	(4,850)	(4,587)	(3,912)	(3,412)	(2,898)
Operating expenses	**(53,221)**	**(46,901)**	**(48,539)**	**(44,927)**	**(48,450)**
Operating profit (loss)	**37,799**	**27,644**	**32,058**	**33,525**	**29,361**
Net losses/recoveries for credit risk - HTC Banks	150	43	(162)	183	(137)
Net losses/recoveries for credit risk - HTC Other financial entities	55	59	(8)	(1)	(30)
Net losses/recoveries for credit risk - HTC Clients	(9,658)	7,351	(5,679)	(5,789)	(13,699)
Net losses/recoveries for credit risk - HTCS	(374)	(205)	(171)	(542)	(222)
Net adjustments/recoveries for commitments and guarantees	(801)	(875)	110	524	218
Total net adjustments/recoveries	**(10,628)**	**6,373**	**(5,910)**	**(5,625)**	**(13,870)**
Other net provisions	-	-	(10)	(28)	(218)
Other income (expenses) on investments	(1,968)	(1,817)	(2,020)	(1,828)	(1,788)
Contributions and other non-recurring expenses	(1,992)	(2,622)	(127)	(1,962)	(1,351)
Profit (loss) from operations before taxes	**23,211**	**29,578**	**23,991**	**24,082**	**12,134**
Income tax for the period on continuing operations	1,518	(10,449)	(8,198)	(8,407)	7,258
Profit (loss) for the period	**24,729**	**19,129**	**15,793**	**15,675**	**19,392**

The net interest margin in the fourth quarter of 2022 amounted to EUR 46.1 million, up on the previous quarter and up strongly on the same period of 2021, following the purchases of NPL and PPC portfolios in the year and the disbursements carried out by the Growth Credit Division. The Distressed Credit Division was able to make a significant contribution to the result for the quarter, in spite of the challenging market conditions.

Total net operating income for the fourth quarter of 2022 amounted to EUR 91 million. Besides net interest, revenues for the quarter included net commission for EUR 19.8 million, a net gain on positions closed in the quarter for approximately EUR 18.5 million, a more-or-less neutral contribution from trading 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 2022, equal to approximately EUR 53.2 million, improved over the previous quarter. Personnel costs increased due to the growth in the workforce in support of the Group's new and expanded operations. Administrative expenses also rose compared with the previous quarter.

Net losses/recoveries, negative in the amount of EUR 10.6 million, are essentially linked to the valuation of the Customer HTC portfolio, with a negative impact compared with the previous quarters in the context of the usual ongoing analysis of individual positions carried out by the management and as a consequence of the profits made on closed positions.

Furthermore, expenses on investments, related to results for the period of companies consolidated using the equity method, came to EUR 2 million, in addition to membership fees and other non-recurring expenses for EUR 2 million, mainly relating to the extraordinary contributions to the FITD.

As a result of the above dynamics, the fourth quarter of 2022 ended with a profit before taxes on continuing operations equal to EUR 23.2 million. As a result of the positive contribution of taxes, linked to the tax relief deriving from the acquisition of the equity investment in AREC S.p.A. and the application of the "Patent Box" regime, the net profit achieved by the Group in the quarter amounted to EUR 24.7 million.

Contribution of operating segments to the Group's results

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

a. Distressed Credit
b. Growth Credit
c. Investment Banking
d. B-ilty
e. CIO
f. Asset Management Company.

In addition to these, the Group also has Hype, a fintech company that illimity co-owns as a joint venture with the Sella Group, and the Corporate Center, which oversees the steering, coordination and control of the entire Group.

In the context of the reorganisation of the operating sectors, the former Direct Banking Division has been subdivided into three different units: b-ilty (which is now an autonomous operating sector), Hype (also now an autonomous operating sector) and *illimitybank.com*. The latter, in particular, has been combined with the Digital Operations unit (previously allocated to the Corporate Center) to form the new CIO Division.

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 2022 financial year.

Economic performance	Distressed Credit	Growth Credit	Investment Banking	b-ilty	SGR	Direct Banking	Corporate Center (*)	Hype	31 December 2022
Net interest margin	113.2	38.9	5.0	0.6	-	4.5	-	-	162.2
Net fee and commission income	21.8	27.4	8.8	0.8	3.7	(0.9)	-	-	61.6
Other economic components	75.0	7.4	1.3	-	0.1	17.0	-	-	100.8
Total net operating income	**210.0**	**73.7**	**15.1**	**1.4**	**3.8**	**20.6**	**-**	**-**	**324.6**
Personnel expenses	(33.7)	(11.4)	(3.8)	(4.2)	(2.5)	(7.4)	(23.1)	-	(86.1)
Other administrative expenses and Net adjustments/recoveries on property and equipment and intangible assets	(45.7)	(6.5)	(1.9)	(7.1)	(0.5)	(26.2)	(19.6)	-	(107.5)
Operating expenses	**(79.4)**	**(17.9)**	**(5.7)**	**(11.3)**	**(3.0)**	**(33.6)**	**(42.7)**	**-**	**(193.6)**
Operating profit (loss)	**130.6**	**55.8**	**9.4**	**(9.9)**	**0.8**	**(13.0)**	**(42.7)**	**-**	**131.0**
Total net adjustments/ recoveries and other provisions	(11.5)	(2.2)	(1.6)	(0.5)	-	-	-	-	(15.8)
Contributions and other non-recurring expenses	-	-	-	-	-	-	(6.7)	-	(6.7)
Other income (expenses) on investments	(0.3)	-	-	-	-	-	-	(7.3)	(7.6)
Profit (loss) from operations before taxes	**118.8**	**53.6**	**7.8**	**(10.4)**	**0.8**	**(13.0)**	**(49.4)**	**(7.3)**	**100.9**

Economic performance	Distressed Credit	Growth Credit	Investment Banking	b-ilty	SGR	Direct Banking	Corporate Center (*)	Hype	31 December 2022
Financial assets measured at fair value through profit or loss	38.1	54.0	12.7	-	0.2	-	-	-	105.0
Customer loans	1,127.3	2,007.1	39.5	49.6	-	-	-	-	3,223.5
Asset securities at amortised cost	571.1	301.6	97.0	10.7	-	-	-	-	980.4
Property and Equipment	104.7	-	-	-	-	-	23.7	-	128.4
Amounts due to customers and securities issued	-	-	-	15.2	-	2,520.3	1,553.6	-	4,089.1
RWAs	2,100.2	1,532.2	169.0	14.2	5.4	89.0	375.9	44.0	4,329.9

Shown below are the main economic data illustrating developments in the operating segments of the illimity Group in 2021, calculated pro forma based on the new structure in force as of 31 December 2022.

Economic performance	Distressed Credit	Growth Credit	Investment Banking	b-ilty	SGR	Direct Banking	Corporate Center (*)	Hype	31 December 2021
Total net operating income	198.7	49.3	5.3	-	1.8	16.1	-	-	**271.2**
Operating expenses	(66.7)	(18.2)	(3.5)	(6.6)	(2.8)	(26.1)	(36.7)	-	**(160.6)**
Profit (loss) from operations before taxes	**114.1**	**33.2**	**1.1**	**(6.6)**	**(1.0)**	**(10.0)**	**(41.8)**	**(8.2)**	**80.8**

Amounts in millions of euros. Any discrepancies between the figures presented are due solely to rounding.

The Distressed Credit Division reported approximately EUR 113.2 million of net interest income in 2022, and a net operating income of EUR 210 million (approximately 64.7% of the Group's net operating income). Profits before taxes amounted to EUR 118.8 million for the year.

The Growth Credit Division reported a profit before taxes of EUR 53.6 million, a net increase compared to the profit for 2021, which amounted to EUR 33.2 million.

The Investment Banking Division, established on 1 January 2022, reported operating profit of approximately EUR 9.4 million, especially due to Capital Markets and structuring commissions.

B-ilty, the division created from the former Direct Banking Division, presented a loss before taxes of approximately EUR 10.4 million, referring mainly to around EUR 0.6 million of net interest, EUR 0.8 million of net commission, EUR 11.3 million of operating costs and EUR 0.5 million of write-downs on loans.

The CIO Division incorporated the positive contribution from the granting of the licence to use the IT platform between illimity and the ION Group, which generated EUR 17 million of income. The costs arising from the operations of the illimitybank.com channel, as well as the amortisation of the software capitalised by the Bank and expenses pertaining to personnel dedicated to the Division's specific operations, are allocated to that Division.

The SGR contributed to consolidated results as of 31 December 2022 with an operating profit of approximately EUR 0.8 million. It is believed that the growing operation of illimity SGR will gradually bring greater benefits to the Group, especially in terms of improving the commission margin.

The central functions of the Corporate Center reported an operating loss of EUR 42.7 million in the 2022 financial year, which is consistent with its nature as a cost centre for all other functions of the Group.

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

Distressed Credit

Direct Acquisitions

As of 31 December 2021, the Distressed Credit Division had purchased EUR 8.6 billion of distressed loans, in terms of gross book value, for the price of approximately EUR 1.3 billion.

During the course of 2022, loan acquisitions were carried out for a total invested amount of around EUR 366 million, with a total nominal value of approximately EUR 2.6 billion. These opportunities were finalised through three 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.
- acquisitions of Public Procurement Claims finalised through securitisation vehicles pursuant to Italian Law 130/1999: those operations were carried out through the subscription of 100% of the notes issued by the securitisation vehicles.

Also taking into account investments made in previous years, as of 31 December 2022 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 1.7 billion, as shown below.

(Amounts in millions of euros)

Investment transactions in Distressed Loans	Price	GBV
Investments up to 31/12/2021	**1.332**	**8.594**
Q1 2022	119	631
Total as of 31/03/2022	**1.451**	**9.225**
Q2 2022	73	1.427
Total as of 30/06/2022	**1.524**	**10.652**
Q3 2022	10	114
Total as of 30/09/2022	**1.534**	**10.766**
Q4 2022	164	413
Total as of 31/12/2022	**1.698**	**11.179**

Senior Financing Operations

During the course of 2022, the operations finalised by the Senior Financing area amounted to EUR 118 million disbursed.
Also taking into consideration the investments made by the Senior Financing area in previous years, as of 31 December 2022 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 604 million, as shown below.

(Amounts in millions of euros)

Asset-backed financing on Distressed Loans	Amount paid
Investments up to 31/12/2021	**486**
Q1 2022	57
Total as of 31/03/2022	**543**
Q2 2022	21
Total as of 30/06/2022	**564**
Q3 2022	20
Total as of 30/09/2022	**584**
Q4 2022	20
Total as of 31/12/2022	**604**

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 47 million disbursed.

Also taking into account investments made in previous years, as of 31 December 2022 the Bank subscribed notes with the support of the Special Situations - Real Estate area, for a total amount of approximately EUR 105 million, as shown below. Note that that figure does not include the Convivio transaction, as it is already included in the new investments in distressed loans in the amount of 50%, as illimity's contribution to the joint venture with Apollo Global Management.

(Amounts in millions of euros)

Asset-backed financing on Distressed Loans	Amount paid
Investments up to 31/12/2021	**58**
Q1 2022	0
Total as of 31/03/2022	**58**
Q2 2022	0
Total as of 30/06/2022	**58**
Q3 2022	21
Total as of 30/09/2022	**79**
Q4 2022	26
Total as of 31/12/2022	**105**

Energy operations

Up to the date of acquisition of the entirety of the notes of the vehicle Spicy Green SPV in December 2022, the Bank recorded its Special Situations Energy positions under the item “financial instruments mandatorily measured at fair value” by means of the notes, and the following income components were therefore recognised overall in profit or loss:

- a monthly component of coupon interest related to the outstanding amount of the underwritten note, reflecting a business plan equal to 3% of portfolio profitability;
- an extra-return component recognised under the item “Net result of assets mandatorily measured at fair value”, to the extent that an amount of cash is received (therefore, net of costs and cash reserves of the operation identified by the securitisation vehicle), greater than the amount of the coupon, on condition that future cash flows of the business plan are confirmed and therefore extra cash is not attributable to time advances of future cash flows;
- a component consisting of recoveries or adjustments to increase or decrease the return recognised under the item “Net result of assets mandatorily measured at fair value”.

With the acquisition of 100% of the “notes”, the conditions were met for the consolidation on a line-by-line basis of the assets and liabilities of the cover pool of the vehicle within the consolidated financial statements of the illimity Group.

Therefore, the Bank recorded in the consolidated financial statements, starting on 14 December 2022, the vehicle’s loan portfolio (broken down into performing positions recognised under financial assets measured at amortised cost classified as performing loans - stage 1, non-performing positions recognised under financial assets measured at amortised cost classified as POCI – stage 3 and, for a specific position, financial instruments mandatorily measured at fair value for which the underlying asset has already been repossessed), as well as the vehicle’s other assets and liabilities. In the same way, the vehicle's results were 100% recognised through Group profit and loss starting on 14 December 2022.

In view of the above, considering also the investments made in previous years, as of 31 December 2022, the Distressed Credit Division finalised investment transactions in the Special Situations Energy sector, through the vehicle Spicy Green, for an overall amount of approximately EUR 111 million, in terms of the purchase price of positions, against a gross nominal value of purchased positions of approximately EUR 257 million.

In addition to the above, illimity granted a revolving credit line to SpicyCo S.r.l. for a maximum agreed amount of EUR 10 million as of 31 December 2022.

Growth Credit Division

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%).

2022 was marked by a considerable growth in the lending portfolio, with an increase in volumes of around EUR 630 million (+41% compared to 31 December 2021). 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 carried out during the year.

The portfolio of corporate bonds as of 31 December 2022 totalled EUR 52 million. In that regard, it is noted that on 1 January 2022, with the revision of the corporate organisation and the introduction of the Investment Banking Division, the HTCS bond portfolio was removed from the responsibility of the Growth Credit Division.

In brief, the main qualitative trends observed in 2022 are as follows:

a) new loans secured by public guarantees for a total of approximately EUR 472 million, mainly relating to the Crossover & Acquisition Finance and Turnaround Areas;
b) disbursement of unsecured loans for almost EUR 303 million, mainly attributable to the Crossover & Acquisition Finance and Turnaround Areas;
c) purchases of receivables of the Turnaround Area related to portfolios and single name positions;
d) repayments amounting to approximately EUR 335 million.

As regards factoring, there was growth in loans, which were at values higher than those recorded as of 31 December 2021, equal to EUR 370 million. The trend in turnover was also positive, amounting to EUR 589 million in the fourth quarter, which brought the total figure since the beginning of the year to EUR 1,847 million.

The gradual reduction in former BPI portfolio exposures continued, with a decrease of around EUR 10 million in 2022. Note that due to operating practices the aggregate also includes loans granted to illimity Group employees.

As of 31 December 2022, the Growth Credit portfolio had a gross exposure of EUR 2,158 million, broken down as follows:

- former BIP portfolio, amounting to EUR 108 million (5%);
- Turnaround amounting to approximately EUR 692 million (32%);
- Crossover and Acquisition Finance amounting to EUR 874 million (41%);
- Factoring, amounting to EUR 484 million (22%).

b-ilty Division

Initiatives and projects

The year 2022 saw the construction and launch of b-ilty, the first digital offering 100% dedicated to small and medium-sized enterprises. A complete range of digital financial services that are easy to use with transparent terms and conditions: a current account, debit and credit cards, but also payment collection tools, credit to fund working capital and investments, insurance cover products, and the services of the best partners on the market to support entrepreneurs in developing their business.

b-ilty offers a contact person: professionals who are familiar with the company's business and can support it in its credit choices, and the possibility to interact on a daily basis within a cutting-edge digital platform, available 24/7.

b-ilty was presented to the market in February during a dedicated press conference: the event hosted various professionals and stakeholders from the SME segment, who gave their own perspective on the market and connections with illimity, as well as on the new model of human & tech-based service.

Throughout the year, b-ilty continued to gradually enrich its offer ecosystem, launching numerous partnerships:

- In the insurance domain, it initiated collaborations with Helvetia Vita S.p.A. and Italiana Assicurazioni S.p.A. Thanks to the partnership with Italiana Assicurazioni, customers are offered various solutions for protecting their company activities and assets. Through the collaboration with Helvetia, customers have the possibility to take out a Credit Protection Insurance (CPI) policy. The placement of the CPI policies has been active since the second quarter;
- To meet day-to-day operational needs, two partnerships were launched with Zucchetti and Microsoft to help businesses with the digitisation process. Thanks to the collaboration with Zucchetti, SMEs can benefit from favourable financial conditions for Zucchetti applications (e.g. credit intelligence services, corporate check-ups for company financial and performance monitoring). Thanks to the collaboration with Microsoft and IWG (a Microsoft Gold Partner specialising in solutions for SMEs), b-ilty's corporate customers will be able to make use of Microsoft products and IWG digital and consultancy services to support their digital transformation process;

- In the area of sustainability, the b-ilty pursued its partnership with ENI, which supports the sustainable development of companies through the Open-es platform, first by assessing their Environment, Social, Governance (ESG) score and then by offering them support to improve and grow their sustainability performance. illimity is the first bank to join Open-es;
- In the third quarter, b-ilty's offer was enriched with digital collection solutions, through a strengthening of the collaboration with Nexi. Thanks to this, customers can directly request online the most suitable POS for their needs, choosing from the best solutions on the market;
- Lastly, regarding training, illimity continued to participate in Step up with Amazon, an initiative that supports the development of SMEs' digital skills for online sales and success in the world of e-commerce, by means of webinars with industry experts on digital and financial matters.

Thanks in part to its partnerships, b-ilty laid the foundations for the construction of an ecosystem that can offer the user a 360° experience that is not limited to banking.

During the course of the last quarter, the value proposition was further integrated with new services that enable b-ilty to stand out from its market competitors, focusing on initiatives that aim to support companies in the crucial process of digitisation or the green transition. The following initiatives were launched in December:

- b-green, the offer designed for businesses that want to carry out sustainable projects (e.g. installation of photovoltaic panels or improving the energy efficiency of their facilities), which enables them to apply for loans of up to EUR 2 million with particularly advantageous interest rates and structuring commissions;
- b-innovative, the offer that aims to help companies with their digital development, thereby boosting their competitiveness within their market segment. In particular, it enables businesses to apply for loans to support the investments required to digitise their business operations and management activities.

b-ilty's offering was also enhanced at the end of the year thanks to "Cerca il Bando", a service offered in partnership with Cerved that helps companies to identify invitations to tender in Italy. A partner consultant then assists with the entire process, providing support with the preparation of the relevant documents, administrative management and the final reporting stage.

With regard to loan processes, the end of the first year of operations saw the successful conclusion of the parallel run phase of the loan engine. Thanks to dedicated, in-depth training, this made it possible to refine the tool's credit assessment logics. The conclusion of the beta phase led, in December, to the definition and implementation of the new single credit process: this means that, starting from the early months of 2023, loan requests will be assessed automatically based on a series of qualitative and quantitative parameters (including company economic-financial performance indicators, as well as KPIs pertaining to credit, financial statements and risk levels) and a prospective assessment aimed at assessing the sustainability of the loan. Thanks to this innovative tool, b-ilty will be able to considerably reduce its decision-making activities, and consequently the time it takes to disburse a loan, guaranteeing the necessary scalability to increase the disbursement volumes expected in 2023.

A totally digital onboarding process specific to SMEs has also been created, thanks to innovative technological tools such as recognition through SPID (Italy's Public Digital Identity System). The necessary information, such as the assessment of positions and creditworthiness, is collected in a highly integrated way with infoproviders. Through the onboarding process, the customer has the chance to make a fully digital application for transnational loan products.

Lastly, the commercial network currently consists of 18 experts, each of whom is trained to give customers the highest level of support with their financial needs. Furthermore, in the last quarter, the strengthening of the networks of credit mediators was concluded: as of 31 December 2022 there were over 45 companies fully operational in the segment, supporting both the disbursement of MLT loans and factoring operations.

Financial performance

As of 31 December 2022, at the end of the first year of operations, b-ilty had disbursed loans worth EUR 61 million, structured as follows:

- Medium-/long-term (MLT) loans worth EUR 49 million, with an average term of 69 months and an average ticket of around EUR 340 thousand;
- Factoring turnover equal to EUR 12 million.

As regards medium- and long-term loans, over 140 loans fully secured by the MCC Fund were fully resolved upon and disbursed during the year, including 40 in the last quarter. The guarantee rate is around 75%.

The GBV of the portfolio at the end of the year was EUR 50 million, broken down as follows:

- MLT loans, amounting to approximately EUR 47.8 million (96%);
- Factoring, amounting to approximately EUR 2.2 million (4%).

The highly selective approach adopted during the beta phase in the selection and assessment of positions made it possible to achieve a level of quality of the portfolio that was in line with the business objectives.

Asset Management Company ("SGR")

In 2022 the SGR continuously performed the activities connected with investment and management of the assets of the illimity Credit & Corporate Turnaround Fund ("iCCT Fund"), in line with the provisions of the Management Regulation and the Fund's policies and investment strategy.

With effect from 8 August 2022, the SGR completed the first closing of the "illimity Real Estate Credit" alternative investment fund (the "iREC Fund"), a contribution fund dedicated to investments in non-performing loans – mainly UTPs – secured by real estate assets, under the form of both mortgage loans and lease agreements, established on 29 March 2022. The initial portfolio of the iREC Fund includes loans worth a gross total of more than EUR 170 million, almost all of which are secured loans. These loans were sold by banking groups that already held units in the iCCT Fund, as well as by the Parent Company, illimity Bank.

During the fourth quarter of 2022, illimity SGR completed a new closing of the iREC Fund, following which additional receivables were contributed for a gross total of around EUR 94 million, bringing total funding to EUR 264 million. The receivables were contributed by banks that already held units in the Fund and expanded their subscription. The portfolio currently includes loans to around 86 companies operating in vastly different sectors (industrial, commercial, residential, hospitality, energy, etc.).

On 17 October 2022, the Company resolved to set up a third closed-end, reserved, securities alternative investment fund for loans, named illimity Selective Credit (the "iSC Fund"). The iSC Fund is intended as an alternative investment fund for direct lending that can act as a medium-/long-term strategic partner for non-listed performing Italian SMEs, through the use of a broad spectrum of financial instruments, and therefore will invest primarily in senior debt instruments, whereas the remainder of the Fund's portfolio will be made up of subordinated debt instruments and equity instruments. In December, the SGR also obtained authorisation from Consob, pursuant to Article 43 of the Consolidated Law on Finance, to begin marketing the iSC Fund, thus enabling it to become operational within the first quarter of 2023.

In line with the strategies of the SGR and of the specific Group , in the rest of the year, the SGR of illimity will implement the necessary activities to pursue and differentiate business opportunities, in line with its status, having conducted the analyses necessary to ensure compliance with the regulations applicable in each case, and the consistently with its organisational structure. To that end, it is specifically noted that, in accordance with the prospects outlined in its 2021-2025 Business Plan, the SGR has launched a series of project activities aimed at extending its operations:

- in the UTP exposures sector, through the project of a new, flexible (Equity/Debt) AIF for selected Italian SEMs undergoing temporary financial imbalance;
- The NPL Small Medium Tickets Funds sector, through the setting up of an AIF with investment strategies and policies in the granular Non-Performing Loans (NPL) market, with potential counterparties both small corporates and retail businesses, and different areas of origination (utilities, consumer, commercial credit, etc.)

Investment Banking

On 1 January 2022, the new business division named Investment Banking was established, which targets companies, financial companies and public institutions in order to support them in structuring market and private operations, to meet their needs for capital, debt and strategic growth, not only through IPOs, but also through bond issues and structuring securitisations. The offering also includes the structuring and provision of risk hedging operations and consulting for operations such as mergers, spin-offs, incorporations, acquisitions and corporate restructuring.

The Division's operations break down into the following activities:

- Capital Markets;
- Corporate Solutions;
- Structuring.

These activities are managed by dedicated, separate organisational structures in the Division.

As of 31 December 2022, the Division's KPIs were as follows (considering the previous operations carried out in 2021 within the other business divisions):

- Five IPOs successfully concluded on Euronext Growth Milan, for total funding of EUR 81 million since the date of establishment of the Unit Capital Markets;
- Investment portfolio of around EUR 120 million in corporate bonds and EUR 145 million in alternative debt instruments;
- EUR 240 million in nominal value of instruments traded with customers;
- Three securitisations of trade receivables and secured loans for a total programme amount of around EUR 230 million, and a multi-originator securitisation of a portfolio of secured corporate loans for EUR 40 million.

Capital Markets Operations

Capital Markets operations aim to structure strategic development plans for small and medium-sized enterprises, also through accessing the capital markets, defining organic and inorganic growth solutions and optimising the financial structure.

As part of IPOs, the Capital Markets structure performs the role of Global Coordinator and Euronext Growth Advisor (EGA), assisting companies in their processes of listing on the Euronext Growth Milan (EGM) market. With regard to bond issues, the structure holds the role of Arranger and placement agent on the market with institutional investors. illimity's Capital Markets also acts as strategic advisor for extraordinary finance transactions and corporate broking.

As of 31 December 2022, in addition to acquiring numerous Euronext Growth Advisor (EGA) and *advisory* mandates, the Division successfully completed two IPOs on EGM as Global Coordinator, for a total of EUR 27 million in placements.

From the date of establishment of the Unit to 31 December 2022, 5 IPOs were therefore successfully concluded on the EGM for a total of EUR 81 million.

Corporate Solutions Operations

The Corporate Solutions structure manages the Division's investment portfolio and structures solutions such to manage and hedge risks for companies, by trading derivatives.

With regard to the management of the investment portfolio, the structure invests in the (primary and secondary) markets of corporate bonds and alternative debt (tranches of securitisations, hybrid instruments, etc.) to support companies and finance their current operations and growth, guaranteeing quick execution and time-to-market.

As of 31 December 2022, the investment portfolio managed by Corporate Solutions amounted to a nominal value of approximately EUR 120 million, with the following characteristics:

- extensive single name, geographical and sector diversification (the portfolio is invested in over 90 instruments, with over 70% of investments made in domestic issuers and in around 30 industries);
- an average duration limited to 4 years.

To that portfolio of corporate bonds can be added EUR 145 million invested in tranches of securitisations originated by the structuring activities of the Division of the same name.

Due to the synergies with the other business divisions, the Investment Banking Division offers customers a wide range of risk hedging solutions, providing them with the necessary instruments to reduce and limit the risks linked to their operations and statement of financial position structures. A total of EUR 180 million was managed and structured in 2022.

Structuring Operations

The activities of the Structuring Unit consist of defining and identifying efficient structured financing solutions that require extensive financial specialisation and expertise to achieve the objectives of diversifying funding sources, improving companies' financial positions and optimising the capital of our customers.

The Unit operates as an Arranger and Lead Manager in structurings and placements on the market, for institutional investors, of securitisations, basket bonds and alternative debt.

Since its creation in December 2022, the Structuring Unit has successfully concluded three securitisations of trade receivables and secured loans for a total programme amount of around EUR 230 million. The Unit also structured the first multi-originator securitisation of a portfolio of secured corporate loans for an amount of EUR 40 million. Three additional mandates were also acquired, in which the Unit will act as Arranger with regard to securitisations of trade receivables and secured loans.

The Unit also acts for the bank – in support of the operations of the Treasury department - in the structuring of funding solutions (securitisations, repos, bond issues under the EMTN Programme) and of capital management solutions (SRT securitisations, synthetic transactions and financial guarantees).

CIO

The CIO Division's activities continued in 2022; all illimiters work at the company and remotely as necessary, facilitated by the IT architecture present as per the Bank's policy.

IT platform projects

As part of IT4IT projects, initiatives dedicated to the technological evolution of infrastructure continued. Specifically, a project was approved to upgrade the API technological platform, which will move from an "IAAS" to a "Hybrid PAAS" paradigm. February 2023 will see the switch from one infrastructure to the other, which is expected to result in lower infrastructure and platform management costs.

A series of cost optimisation activities scheduled for 2022 in the direct banking domain were also completed, including:

- replacement of the identity document acquisition and authentication system for retail customers;
- optimisation of costs for sending SMS through both the scouting and integration of new providers and the renegotiation of agreements with the existing provider;
- optimisation of costs on the account information service (AIS) PSD2 service.

In the area of Data Governance, as regards the definition of ownership/responsibilities over the Core Banking data, ownership was assigned on all of the data tables available to the Bank, following meetings with the operating structures, while the assignment of ownership/responsibilities on the new tables is still ongoing. In the same area, the "Data Quality" project is active, which, through the web app "Data Quality Dashboard" and the "Data Quality Monitor" dashboard, accessible by Data Owners and Data Users, enables the creation, constant monitoring and analysis of the results produced by Data Quality controls. The solution implemented for Data Quality was integrated with Jira to facilitate the reporting of anomalies detected by controls, and monitor their remediation.

The Data Governance team supports Data Owners in creating Data Quality controls, monitors the outcomes in support of the business officers and checks the actual data reconciliation, if necessary.

In the area of IT Security, in relation to fraud in the Retail Banking channel, automatic mechanisms based on Open Source Intelligence (OSINT) were implemented that can predict potentially fraudulent conduct with a high degree of accuracy, blocking the suspected party or placing them under monitoring. These automatic mechanisms will also be implemented in the Corporate Banking channel.

Project activities are also under way to develop an Identity Governance framework. Those activities will enable the control of access to company systems based on "least privilege" and "need to know" principles.

The CIO Division is also carrying out ongoing oversight of the Business Continuity Management system and Disaster Recovery activities, with a view to developing and consolidating them. The Business Continuity and Disaster Recovery tests for crisis scenarios (as provided for by Bank of Italy Circular no. 285) carried out in 2022 yielded a positive outcome, highlighting the effectiveness of the Business Continuity solutions and strategies adopted.

Projects in support of the other divisions

In addition, the IT Function supports the b-ilty, Growth Credit, Investment Banking and Distressed Credit Divisions in developing the projects identified in their respective masterplans:

b-ilty Division

- In the first quarter of 2022, the evolved digital transactional platform b-ilty was issued, with an inclusive value proposition of credit products and value-added services dedicated to small and micro-enterprises. The digital acquisition process is subject to prior assessment of potential prospects. In the second quarter of 2022, acquisition was extended to the entire public, save for the acceptance criteria defined by the Business. The evolution of Open Banking for Payment Initiation and Account Information services continued, for the purpose of ensuring that the platform aligns with the Directives of the EBA and Bank of Italy;
- A new credit assessment engine owned by illimity is under development, which, thanks to the new credit policies and the revision of the process, will make it possible to automate the credit check process and automatically approve applications if certain conditions are fulfilled (fast lending). The new engine is expected to be launched in the first quarter of 2023;

- During the first quarter of 2023, a new project based on CRM is scheduled to be released called Omni Channel, which will streamline the work of our back office and the user experience, as well as reducing costs.

Growth Credit Division

- The development of the module in the COMS (Credit Origination & Management System) application which will centralise the management of write-downs/write-backs and reclassification of loan relations in the Group's portfolio was completed. Conclusive tests are also under way in preparation for the launch of a new CMIT module to manage analytical and lump-sum write-downs;
- The first release of the Early Warning Dashboard was completed, which will monitor the Bank's loan portfolio through external scores, data from info providers and internal and external performance data;
- The Capital Relief project was completed, which had the goal of automating the updating of the ceilings of the insurance policies of factoring receivables.

Investment Banking Division

- The extension of the scope managed to listed derivatives and corporate customers FX derivatives was completed;
- The implementation of a centralised reporting system to allow automated monitoring of business activities was completed;
- The development of frameworks for early warning and monitoring of the origination of transactions is under way;
- Analysis is under way for the development of a front-end and of the layer of data transmission to external suppliers and providers for the management of non-captive customers with regard to the subscription of derivative products.

Distressed Credit Division

- Cost Administrative Database that enables the management of the payable cycle "on an actual cost basis" for all securitisation companies within illimity's perimeter, as well as partial management of the payable cycle at bank level (integration to be completed on Zucchetti);
- Production of the various Payment Reports;
- Upgrading of the collections module to align with the in-house Master Servicer, particularly with regard to the following activities:
  - DAI blocking;
  - Bank transfer management;
  - Breakdown of VAT;
  - Recording of third-party payer;
  - Communication of credit recovery plans;
- Management of the receivable cycle of the ReoCos and LeaseCos on the new Real Estate module with the possibility of recording lease contracts and deeds of sale;
- Upgrading of the BP module to manage cases of collection pursuant to out-of-court agreement recognised in the month prior to recording in the application;
- Configuration in the application of part of the Senior Financing back book to enable periodic monitoring of the relevant operations;
- Data activities to guarantee the input and alignment between the data managed on COMS applications and the databases;
- Upgrades that make the Pricing module more fluid, both through a "mirror" data structure of uploads to LDT and through widgets to make "Blockly" easier to use;
- Arrangement and running of the Jawa Jedi and Fantino deals.

Central Functions

With regard to the main projects under way, dedicated to the Central Functions, micro and macro measures are continuing to constantly improve the Corporate Performance Management systems, in line with the evolution of the Bank's scope of business. The reporting functionality for the calculation engine for the ITR (internal transfer rate, whose expected benefits include a better understanding and measurement of business income as well as enabling active management of interest rate risk) for managing liquidity, treasury mismatches and integration into the management control models is being released.

The calculation engine for profitability by product is being released, which will analyse profitability by single product/cluster and supplement the data in the forward-looking assessments of management control.

The new ESG framework is under development, aiming to provide the Bank with an ESG assessment for originating transactions for customers, produce reports for the market and investors, and prepare the Non-Financial Report. The framework for the automated management of the non-financial report based on FINREP data is being released.

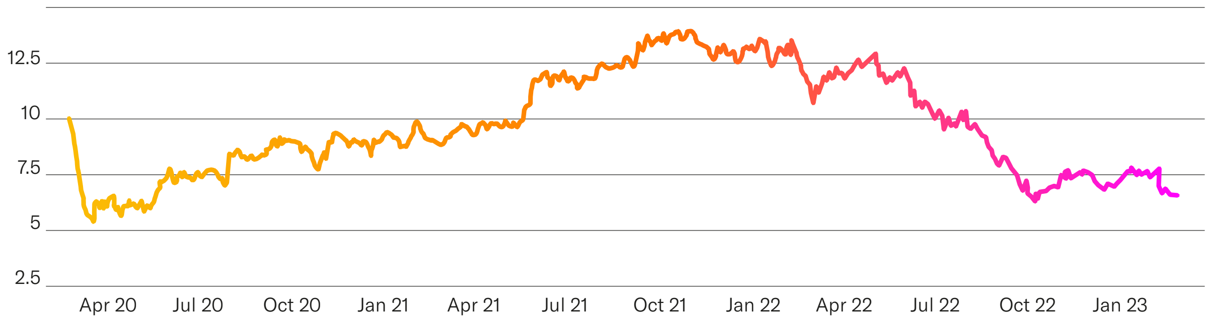
Corporate Centre

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

- 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.

illimity Bank share performance

The ordinary shares of illimity are traded on the Mercato Telematico Azionario Euronext Milan 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. Share performance in the last three years 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 7 March 2023, 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
Banca Sella Holding S.p.A.	Banca Sella Holding S.p.A.	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.a.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' agreement measures. Specifically, this agreement, which governs AMC Metis S.a.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.a.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 Management Control Committee monitors the adequacy and concrete functioning of the company's organisational structure and internal control system. It supports the Board of Directors in defining the guidelines for the internal control and risk management system, in line with the Bank's strategies and in assessing, at least annually, the adequacy of that system with respect to the characteristics of the Bank and the risk profile assumed, as well as the efficacy of the system.

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, governing the process of identification, analysis, modelling, assessment, measuring, controlling and reporting.

The Chief Compliance & AFC Officer, as a function of second-level control, oversees regulatory compliance, with a view to preventing, managing and mitigating the risk of incurring legal or administrative penalties, major financial losses or damage to reputation resulting from violations of mandatory regulations or self-regulation, as well as preventing money laundering and terrorist financing risk and the risk of breach of financial sanctions. The Chief Compliance & AFC Officer is also responsible for overseeing issues relating to the processing of personal data and is identified as the Data Protection Officer, in accordance with the applicable regulations in force.

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, and assesses the completeness, adequacy, functionality and reliability of the organisational structure and the internal control system, notifying the company bodies of possible improvements, with specific regard to the RAF, the risk management process and the risk measurement and monitoring tools.

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 of the RAF, that represents an organic and structured approach which has implications on integrated risk management and governance processes, producing impacts on nearly all company functions. The RAF is structured and set out at an operational level by Company, Business Division and business segment, and covers escalation processes, metrics and quantitative limits, as well as qualitative guidelines, indicated annually in the Risk Appetite Statement (RAS). The formalisation of the risk management process is fundamental to ensure a sound and prudent company management;
- the internal capital adequacy assessment process (ICAAP) and the internal liquidity adequacy assessment process ILAAP), which have the objective of providing an internal assessment of the assets with respect to exposure to the risks that characterise their operations and the operational and structural liquidity profile, under ordinary and stressed conditions, also on a forward-looking basis on achievement of the objectives of the Strategic Plan and the Budget;
- 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 to manage and control risk under normal operating conditions, the Group has implemented a process connected with drawing up the Recovery Plan, which governs the management of crisis situations, and strategies and options for intervention designed to restore ordinary operations, as well as the Contingency Funding Plan procedure (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 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, 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 Chief Financial Officer and with 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, 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 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.

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 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 2022 a material related party transaction was carried out involving an agreement to manage the liquidity deposited by said counterparty in current and deposit accounts with illimity Bank S.p.A. (about which adequate information was disclosed to the market, which should be referred to for more details). There were no further material or minor related party transactions in 2022 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 9th update to Circular no. 263 of 27 December 2006 which introduced prudential supervisory requirements for banks, issued in implementation of Article 53, paragraph 4 et seq., of the Consolidated Law on Banking and in accordance with Resolution of the Interministerial Committee for Credit and Savings no. 277 of 29 July 2008, as well as the regulations set forth by Article 136 of the Consolidated Law on Banking. 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 2022 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 led to the realisation of various projects of significance to the Group. Specifically, during the course of 2022, the Chief Information Officer (“CIO”) Division continued to invest in a single IT infrastructure and in illimitybank.com, completing the digital platform so that all the bank's businesses can fully make use of the new technologies of data and augmented and artificial intelligence.

Events after the reporting date

Taking effect for legal, accounting and tax purposes on 01 January 2023, the merger by incorporation of AREC S.p.A. into neprix S.r.l. was completed, resulting in the creation of the legal entity ARECneprix S.p.A.

Through this operation, illimity is strengthening its positioning and innovative approach to servicing distressed corporate loans, confirming its position as a comprehensive market leader capable of covering the entire value chain of the management process, from investment to the remarketing of assets guaranteeing these loans.

Pursuant to the requirements of IAS 10, after 31 December 2022 (the reporting date), no events occurred requiring any rectification of the information presented in the financial statements.

Business outlook

The macroeconomic context continues to be characterised by a high level of uncertainty. Economists' projections point to a slowdown in growth in 2023, together with inflation that will fall somewhat, but remain at high levels. As a result of inflation, short-term benchmark interest rates are expected to rise further in 2023, as confirmed by the recent monetary policy decisions announced by the European Central Bank.

illimity is believed to be well placed to deal with the new, more difficult economic and market context, since it has robust capital levels and high asset quality, with more than half of its performing loans being secured or insured. In its core businesses, illimity has already built a consolidated market presence, and has reached an extensive operational scale and efficiency. It is believed that the current scenario will present significant opportunities for growth in all markets in which the Bank operates, both with regard to transactions in non-performing loans and in terms of demand for new financing from SMEs, in a context in which the competitive scenario is expected to develop favourably.

With these prospects, illimity expects to generate a considerable volume of new loans and investments in 2023, up on that recorded in 2022, driven by all the business segments in which it operates. The solid pipeline under assessment in this first part of the year supports these expectations.

The Bank has confirmed its funding strategy for 2023, which will use a plurality of financing channels to maintain a good diversification of sources.

The strong growth expected in loans and investments, together with the increase in the spread on new loans, will drive interest income to more than offset the rise in the average cost of funding, leading to significant growth in the net interest margin.

Net commissions are also projected to grow further, driven by the expected generation of new business during the year and the development of new initiatives already under way: illimity SGR, investment banking services, Quimmo and b-ilty.

Overall, the bank expects to see further strong growth in total revenues in 2023, whilst also consolidating its diversification profile.

As regards the cost component, the Bank believes that in 2022 its operating structure reached the optimum scope in most areas and divisions, while investments in digitisation were largely completed, enabling high scalability of technological and operational infrastructure. As a result, in 2023 costs are expected to grow at a much slower rate than in the previous year, and in relation mainly to the further expansion of the business and the completion of the tech initiatives already under way.

With revenues forecast to grow faster than costs, operational leverage should visibly improve. This result should also be boosted by the income profile of the three tech initiatives – b-ilty, Quimmo and Hype – which made significant investments in 2021 and 2022, and whose contribution to the Group's profit before taxes is expected to be a considerable improvement on the loss of approximately EUR 20 million recorded in 2022.

In the context of the forecast economic slowdown, combined with high inflation, write-downs on business portfolios are expected to increase compared with 2022. With regard to the performing loans component, the high proportion of said loans that are secured is expected to lead, even with the expectation of a rise in the default rate, to a lower cost of credit than initially forecast in the Bank's Strategic Plan.

As a result of the aforementioned dynamics, the guidance of EUR 100 million of net profit for 2023 together with the relative development drivers, as communicated on 10 February 2023, is confirmed. The inertial development of said guidance over the period of the plan leads us to believe that a net profit of approximately EUR 200 million in 2025 is reasonable.

Lastly, the Bank's robust capital levels 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.

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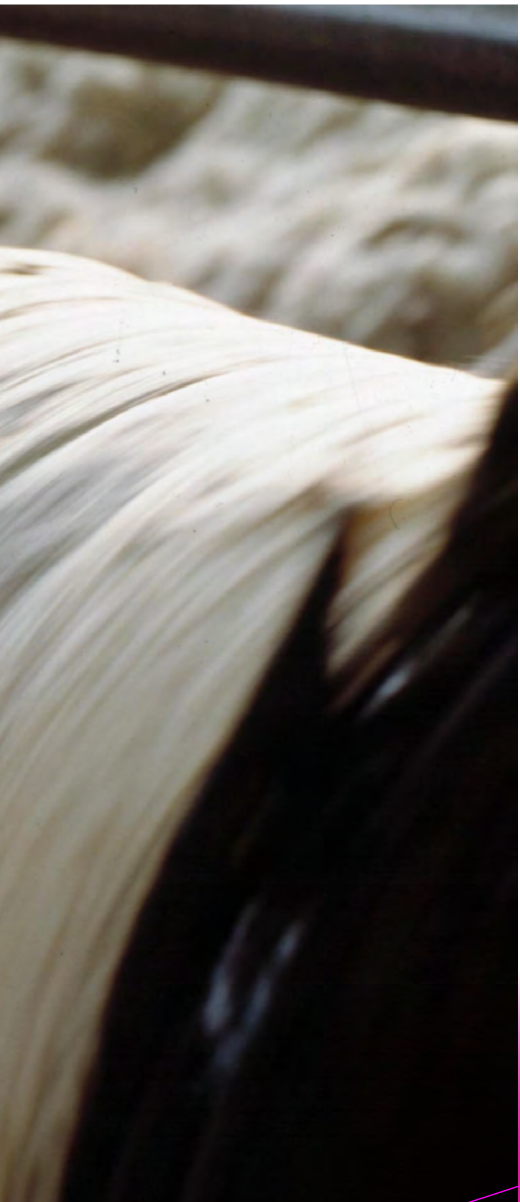

Consolidated Financial Statements

illimity

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets		31 December 2022	31 December 2021
10.	Cash and cash equivalents	680,777	507,779
20.	Financial assets measured at fair value through profit or loss	105,043	76,679
	a) financial assets held for trading	31,146	928
	b) financial assets at fair value	-	-
	c) other financial assets mandatorily measured at fair value	73,897	75,751
30.	Financial assets measured at fair value through other comprehensive income	391,710	299,508
40.	Financial assets measured at amortised cost	4,386,730	3,229,766
	a) due from banks	57,213	267,969
	b) loans to customers	4,329,517	2,961,797
50.	Hedging derivatives	29,874	-
60.	Fair value change of financial assets in hedged portfolios (+/-)	-	-
70.	Equity investments	76,375	79,953
80.	Technical reinsurance reserves	-	-
90.	Property and equipment	128,383	68,735
100.	Intangible assets	135,101	85,249
	of which:		
	- goodwill	65,372	36,257
110.	Tax assets	78,592	45,672
	a) current	7,828	5,168
	b) deferred	70,764	40,504
120.	Non-current assets held for sale and discontinued operations	-	43,117
130.	Other assets	342,540	224,132
	Total assets	**6,355,125**	**4,660,590**

Continued: CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Liabilities and shareholders' equity		31 December 2022	31 December 2021
10.	Amounts due to customers	5,294,132	3,752,384
	a) due to banks	1,205,048	411,314
	b) due to customers	3,436,082	2,841,282
	c) securities issued	653,002	499,788
20.	Financial liabilities held for trading	27,244	59
30.	Financial liabilities designated at fair value	-	-
40.	Hedging derivatives	32,646	-
50.	Fair value change of financial liabilities in hedged portfolio (+/-)	-	-
60.	Tax liabilities	36,724	20,256
	a) current	33,372	19,156
	b) deferred	3,352	1,100
70.	Liabilities associated with non-current assets held for sale and discontinued operations	-	-
80.	Other liabilities	113,123	105,596
90.	Employee severance pay	3,575	3,695
100.	Allowances for risks and charges	6,359	5,781
	a) commitments and guarantees given	4,863	4,482
	b) post-employment benefits	28	18
	c) other allowances for risks and charges	1,468	1,281
110.	Technical reserves	-	-
120.	Valuation reserves	(47,875)	(6,057)
130.	Redeemable shares	-	-
140.	Equity instruments	-	-
150.	Reserves	135,516	63,904
160.	Share premium reserve	624,583	597,589
170.	Share capital	54,514	52,620
180.	Treasury shares (-)	(747)	(832)
190.	Equity attributable to minority interests (+/-)	5	5
200.	Profit (loss) for the period (+/-)	75,326	65,591
	Total liabilities and shareholders' equity	**6,355,125**	**4,660,590**

CONSOLIDATED INCOME STATEMENT

Items		31 December 2022	31 December 2021
10.	Interest income and similar income	238,693	194,288
	of which: interest income calculated according to the effective interest method	229,004	188,230
20.	Interest expenses and similar charges	(74,558)	(61,223)
30.	**Net interest margin**	**164,135**	**133,065**
40.	Fee and commission income	65,701	40,283
50.	Fee and commission expense	(6,451)	(5,708)
60.	**Net fee and commission income**	**59,250**	**34,575**
70.	Dividends and similar income	200	-
80.	Profits (losses) on trading	4,729	3,167
90.	Fair value adjustments in hedge accounting	-	-
100.	Profits (losses) on disposal or repurchase of:	(467)	5,393
	a) financial assets measured at amortised cost	11	302
	b) financial assets measured at fair value through other comprehensive income	(174)	5,091
	c) financial liabilities	(304)	-
110.	Profits (losses) on other financial assets and liabilities measured at fair value through profit or loss	8,753	10,034
	a) financial assets and liabilities designated at fair value	-	-
	b) other financial assets mandatorily measured at fair value	8,753	10,034
120.	**Total net operating income**	**236,600**	**186,234**
130.	Net losses/recoveries for credit risks associated with:	48,891	43,135
	a) financial assets measured at amortised cost	50,183	43,505
	b) financial assets measured at fair value through other comprehensive income	(1,292)	(370)
140.	Profits/losses on changes in contracts without derecognition	-	196
150.	**Net result from banking activities**	**285,491**	**229,565**
160.	Net premiums	-	-
170.	Other net insurance income (expense)	-	-
180.	**Profits (losses) of banking and insurance management**	**285,491**	**229,565**
190.	Administrative expenses:	(186,999)	(157,719)
	a) personnel expenses	(85,871)	(73,563)
	b) other administrative expenses	(101,128)	(84,156)
200.	Net allowances for risks and charges	(707)	(2,622)
	a) commitments and guarantees given	(669)	(2,404)
	b) other net provisions	(38)	(218)
210.	Net adjustments/recoveries on property and equipment	(4,201)	(3,132)
220.	Net adjustments/recoveries on intangible assets	(13,070)	(7,600)
230.	Other operating income/expenses	27,715	21,421
240.	**Operating expenses**	**(177,262)**	**(149,652)**
250.	Profits (losses) on equity investments	(7,633)	(7,758)
260.	Net gains/losses on the measurement at fair value of property and equipment and intangible assets	-	-
270.	Adjustments/recoveries of goodwill	-	-
280.	Profits (losses) on disposal of investments	266	8,344
290.	**Profit (loss) before tax from continuing operations**	**100,862**	**80,499**
300.	Income tax for the period on continuing operations	(25,536)	(15,161)
310.	**Profit (loss) after tax from continuing operations**	**75,326**	**65,338**
320.	Net income (loss) from discontinued operations after tax	-	253
330.	**Profit (Loss) for the period**	**75,326**	**65,591**
340.	Profit (Loss) for the period attributable to minority interests	-	-
350.	**Profit (Loss) for the period attributable to the Parent Company**	**75,326**	**65,591**

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

Items		31 December 2022	31 December 2021
10.	**Profit (loss) for the year**	**75,326**	**65,591**
	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	1
30.	Financial liabilities measured 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	961	(100)
80.	Non-current assets held for sale and discontinued operations	-	-
90.	Share of valuation reserves for equity investments measured at equity	37	5
	Other comprehensive income, after taxes, 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	(42,817)	(5,685)
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)**	**(41,818)**	**(5,779)**
180.	**Other comprehensive income (Item 10+170)**	**33,508**	**59,812**
190.	Consolidated comprehensive income attributable to minority interests	-	-
200.	**Consolidated comprehensive income attributable to the parent company**	**33,508**	**59,812**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AS OF 31 DECEMBER 2022

				Allocation of profit (loss) from the previous year		
	Balance as of 31 December 2021	Change in opening balances	Balance as of 1 January 2022	Reserves	Dividends and other allocations	Change in reserves
Share capital:						
a) ordinary shares	51,682	–	51,682	–	–	–
b) other shares	938	–	938	–	–	–
Share premium reserve	597,589	–	597,589	–	–	–
Reserves:						
a) retained earnings	29,801	–	29,801	65,591	–	–
b) other	34,103	–	34,103	–	–	–
Valuation reserves	(6,057)	–	(6,057)	–	–	–
Equity instruments	–	–	–	–	–	–
Treasury shares	(832)	–	(832)	–	–	–
Net profit (loss) (+/-) for the period	**65,591**	**–**	**65,591**	**(65,591)**	**–**	**–**
Group shareholders' equity	**772,815**	**–**	**772,815**	**–**	**–**	**–**
Shareholders' equity attributable to minority interests	**5**	**–**	**5**	**–**	**–**	**–**

SEGUE1

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

				Allocation of profit (loss) from the previous year		
	Balance as of 31 December 2020	Change in opening balances	Balance as of 1 January 2021	Reserves	Dividends and other allocations	Change in reserves
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 period	**31,086**	**–**	**31,086**	**(31,086)**	**–**	**–**
Group shareholders' equity	**583,122**	**–**	**583,122**	**–**	**–**	**7**
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 2022	Shareholders' equity attributable to the Group as of 31/12/2022	Shareholders' equity attributable to minority interests at 31/12/2022
Share capital:										
a) ordinary shares	1,806	–	–	938	–	88	–	–	**54,514**	3
b) other shares	–	–	–	(938)	–	–	–	–	**–**	–
Share premium reserve	26,994	–	–	–	–	–	–	–	**624,583**	–
Reserves:										
a) retained earnings	–	–	–	–	–	4,655	–	–	**100,057**	2
b) other	(100)	–	–	–	–	1,456	–	–	**35,459**	–
Valuation reserves	–	–	–	–	–	–	–	(41,818)	**(47,875)**	–
Equity instruments	–	–	–	–	–	–	–	–	**–**	–
Treasury shares	–	–	–	–	–	85	–	–	**(747)**	–
Net profit (loss) (+/-) for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**75,326**	**75,326**	**–**
Group shareholders' equity	**28,700**	**–**	**–**	**–**	**–**	**6,294**	**–**	**33,508**	**841,317**	**–**
Shareholders' equity attributable to minority interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**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 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 period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**65,591**	**65,591**	**–**
Group shareholders' equity	**127,121**	**–**	**–**	**–**	**–**	**2,752**	**–**	**59,812**	**772,815**	**–**
Shareholders' equity attributable to minority interests	**–**	**–**	**–**	**–**	**–**	**–**	**5**	**–**	**–**	**5**

FLOW STATEMENT (INDIRECT METHOD)

A. OPERATING ACTIVITIES	Amount	
	31 December 2022	31 December 2021
1. Cash flow from operations	***163,985***	***120,219***
Net profit/loss for the year (+/-)	75,326	65,591
Gains/losses on financial assets held for trading and other financial assets/ liabilities measured at fair value through profit or loss (-/+)	(4,726)	(1,408)
Profits/losses on hedging activities (-/+)	-	-
Net losses/recoveries for credit risk (+/-)	7,032	1,680
Net adjustments/recoveries on property and equipment and intangible assets (+/-)	17,271	10,732
Net allocations to allowances for risks and charges and other costs/income (+/-)	16,955	14,478
Net premiums not collected (-)	-	-
Other income/expenses from insurance activities not collected (-/+)	-	-
Taxes, duties and unpaid tax credits (+)	30,957	21,035
Net adjustments/recoveries on discontinued operations, net of the tax effect (+/-)	-	-
Other adjustments (+/-)	21,170	8,111
2. Cash flow generated/absorbed by financial assets	***(1,477,416)***	***(870,363)***
Financial assets held for trading	(25,523)	(876)
Financial assets designated at fair value	-	-
Other financial assets mandatorily measured at fair value	3,262	(54,924)
Financial assets measured at fair value through other comprehensive income	(161,886)	(215,301)
Financial assets measured at amortised cost	(1,178,263)	(387,837)
Other assets	(115,006)	(211,425)
3. Cash flow generated/absorbed by financial liabilities	***1,513,980***	***276,920***
Amounts due to customers	1,499,892	319,674
Financial liabilities held for trading	27,185	59
Financial liabilities designated at fair value	-	-
Other liabilities	(13,097)	(42,813)
Net cash generated/absorbed by operating activities	**200,549**	**(473,224)**

B. INVESTING ACTIVITIES	Amount	
	31 December 2022	31 December 2021
1. Cash flows from	***8,092***	***6,666***
Sales of equity investments	-	-
Dividends received on equity investments	-	-
Sales of property and equipment	8,092	6,666
Sales of intangible assets	-	-
Sales of subsidiaries and business units	-	-
2. Cash flows used in	***(35,543)***	***(53,143)***
Purchases of equity investments	(8,159)	(31,574)
Purchases of property and equipment	(1,637)	(101)
Purchases of intangible assets	(25,747)	(21,468)
Purchases of subsidiaries and business units	-	-
Net cash generated/absorbed by investing activities	**(27,451)**	**(46,477)**

C. FINANCING ACTIVITIES	Amount	
	31 December 2022	31 December 2021
Issues / Purchases of treasury shares	-	-
Issues/purchases of equity instruments	(100)	73,872
Distribution of dividends and other purposes	-	-
Sale/purchase of third-party control	-	-
Net cash generated/absorbed by financing activities	**(100)**	**73,872**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	172,998	(445,829)

Key:

(+) generated
(–) absorbed

Reconciliation

FINANCIAL STATEMENT ITEMS	Amount	
	31 December 2022	31 December 2021
Cash and cash equivalents at start of year	**507,779**	**953,608**
Total net cash generated/absorbed during the year	172,998	(445,829)
Cash and cash equivalents: foreign exchange effect	-	-
Cash and cash equivalents at end of year	680,777	**507,779**

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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 Italian 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 2022 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 Italian Legislative Decree no. 38/05 and article 43 of Italian 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.

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 Consolidated 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 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 accordance with Article 5 of Italian 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 2022, as described in the section "Consolidation scope and methods".

The general principles used in the preparation of the financial statements are outlined below:
- going concern basis: 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 of 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 2022, which were approved by the Board of Directors on 9 March 2023, 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 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 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.

Contents 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.

Section 3 - Consolidation scope and methods

The following are the consolidation criteria and principles used to prepare the financial statements as of 31 December 2022.

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 2022 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 2022 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. **Doria LeaseCo S.r.l.** ("Doria LeaseCo"), a wholly owned subsidiary of the Bank, established to service the lease transactions included in the portfolios of acquired NPLs, operating in accordance with Article 7.1 of Italian Law no. 130/1999 on securitisation;
iv. **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;
v. **Friuli LeaseCo S.r.l.** ("Friuli LeaseCo"), a wholly owned subsidiary of the Bank, established to service the lease transactions included in the portfolios of acquired NPLs, operating in accordance with Article 7.1 of Italian Law no. 130/1999 on securitisation;

vi. **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;

vii. **Pitti LeaseCo S.r.l.** ("Pitti LeaseCo"), a wholly owned subsidiary of the Bank, established to service the lease transactions included in the portfolios of acquired NPLs, operating in accordance with Article 7.1 of Italian Law no. 130/1999 on securitisation;

viii. **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;

ix. **River LeaseCo S.r.l.** ("River LeaseCo"), a wholly owned subsidiary of the Bank, established to service the lease transactions included in the portfolios of acquired NPLs, operating in accordance with Article 7.1 of Italian Law no. 130/1999 on securitisation;

x. **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;

xi. **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;

xii. **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;

xiii. **AREC S.p.A.** ("AREC"), a company in which illimity holds 100% of the share capital, established to include the assets and liabilities sold by Aurora Recovery Capital S.p.A. As part of the acquisition of the business of that company for its future incorporation into neprix;

xiv. **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;

xv. **Abilio S.p.A.** ("Abilio"), whose entire share capital is held by illimity, and whose purpose is to execute real estate operations and develop and organise sales through online and offline public auctions;

xvi. **Abilio Agency S.r.l.** ("Abilio Agency"), wholly-owned by Abilio, a real-estate broker that handles sales and leases and certifies the value of properties and companies for third parties;

xvii. **MAUI SPE S.r.l.** ("MAUI 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;

xviii. **Kenobi SPV S.r.l.** ("Kenobi SPV"), 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;

xix. **Piedmont SPV S.r.l.** ("Piedmont SPV"), established to undertake the securitisation of receivables, through the subscription by the Bank of the notes issued by the securitisation vehicle established in accordance with Italian Law no. 130/1999;

xx. **Dagobah LeaseCo S.r.l.** ("Dagobah LeaseCo"), a wholly owned subsidiary of the Bank, established to service the lease transactions included in the portfolios of acquired NPLs, operating in accordance with Article 7.1 of Italian Law no. 130/1999 on securitisation;

xxi. **Dagobah SPV S.**r.l. ("Dagobah 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;

xxii. **Spicy Green SPV S.**r.l. ("Spicy Green SPV"), established to undertake the securitisation of receivables in the *energy* area, through the subscription by the Bank of the notes issued by the securitisation vehicle established in accordance with Italian Law no. 130/1999;

xxiii. **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;

xxiv. **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%;

xxv. **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 2021. Below is a summary of the transactions that led to the change in the scope of consolidation.

Increases

a) Establishment of the company Abilio through a proportionate spin-off from neprix, consolidated on a line-by-line basis;
b) Full subscription of the monotranching note issued by the vehicle MAUI SPE S.r.l., consolidated on a line-by-line basis;
c) Full subscription of the monotranching note issued by the vehicle Kenobi SPV S.r.l., consolidated on a line-by-line basis;
d) Full subscription of the monotranching note issued by the vehicle Piedmont SPV S.r.l., consolidated on a line-by-line basis;
e) Acquisition of 100% of the share capital of Dagobah LeaseCo S.r.l., consolidated on a line-by-line basis;
f) Acquisition of 100% of the share capital and subscription of 100% of the monotranching note issued by the vehicle Dagobah SPV S.r.l., consolidated on a line-by-line basis;
g) Full subscription of the monotranching note issued by the vehicle Spicy Green SPV S.r.l., consolidated on a line-by-line basis;
h) Acquisition of 100% of the share capital of AREC S.p.A., consolidated on a line-by-line basis.

Decreases

a) Full redemption of the monotranching note issued by the vehicle Beagle SPV S.r.l., previously consolidated on a line-by-line basis.

For further information on changes in the scope of consolidation during 2022, 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 2022 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 Doria Leasco S.r.l.	Milan	Milan	1	A.0	100.0%
A.4 Doria SPV S.r.l. (SPV)	Milan	Milan	1-4	A.0	100.0%
A.5 Friuli LeaseCo. S.r.l.	Milan	Milan	1	A.0	100.0%
A.6 Friuli SPV S.r.l. (SPV)	Milan	Milan	1-4	A.0	100.0%
A.7 Pitti Leasco S.r.l.	Milan	Milan	1	A.0	100.0%
A.8 Pitti SPV S.r.l. (SPV)	Milan	Milan	1-4	A.0	100.0%
A.9 River Leasco S.r.l.	Milan	Milan	1	A.0	100.0%
A.10 River SPV S.r.l. (SPV)	Milan	Milan	1-4	A.0	100.0%
A.11 River immobiliare S.r.l.	Milan	Milan	1	A.0	100.0%
A.12 neprix S.r.l.	Milan	Milan	1	A.0	100.0%
A.13 AREC S.p.A.	Rome	Rome	1	A.0	100.0%
A.14 illimity SGR	Milan	Milan	1	A.0	100.0%
A.15 Abilio S.p.A.	Faenza	Faenza	1	A.0	100.0%
A.16 Abilio Agency S.r.l.	Faenza	Faenza	1	A.15	100.0%
A.17 MAUI SPE S.r.l.	Milan	Milan	4	A.0	
A.18 Kenobi SPV S.r.l.	Milan	Milan	4	A.0	
A.19 Piedmont SPV S.r.l.	Milan	Milan	4	A.0	
A.20 Dagobah LeaseCo S.r.l.	Milan	Milan	1-4	A.0	100.0%
A.21 Dagobah SPV S.r.l.	Milan	Milan	1-4	A.0	100.0%
A.22 Spicy Green SPV S.r.l.	Milan	Milan	4	A.0	
Companies consolidated on an equity basis					
A.23 Hype S.p.A.	Biella	Biella	5	A.0	50.0%
A.24 SpicyCo S.r.l.	Milan	Milan	6	A.0	49.0%
A.25 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 decide on the investee company's significant assets;
- 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 subsidiaries where:

- 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 2022.

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 Consolidated Operations; in this part of the Explanatory Notes it is indicated that pursuant to the requirements of IAS 10, after 31 December 2022, 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 AREC S.p.A.

On 11 May 2022, illimity and the shareholders of Aurora Recovery Capital S.p.A. announced that they had reached an agreement concerning the acquisition by illimity of that company, which specialises in the management of Unlikely to Pay ("UTP") loans with a focus on the corporate real estate segment.

The acquisition of AREC S.p.A. ("AREC"), a newly incorporated entity to which the company's scope of business had previously been transferred by Aurora Recovery Capital S.p.A., was subsequently completed on 30 June 2022 through:

- the transfer to illimity of 90% of AREC's shares by means of a capital increase by illimity, with the exclusion of the right of option pursuant to Article 2441, paragraph 4, of the Italian Civil Code, reserved for AREC, to be paid with the aforementioned share transfer, with the issuance of 2,769,230 ordinary shares at an issue price for new illimity shares fixed at EUR 13 per share, for a total amount of EUR 36 million. This capital increase was approved unanimously by attendees of the extraordinary shareholders' meeting of illimity on 21 June 2022;
- the purchase in cash of the remaining 10% of AREC's shares for a total of EUR 4 million. This cash component was appropriately adjusted to reflect the value of AREC's net financial position, as determined on the date on which the operation was completed.

As a result of the aforementioned events AREC became part of the illimity Group, with effect from 30 June 2022, being consolidated into the Group's consolidated financial statements on a line-by-line basis in accordance with IFRS 10.

Based on the value of the acquisition cost paid compared with the value of the company's shareholders' equity, and based on the purchase price allocation pursuant to IFRS 3, which was completed on 31 December 2022, a specific intangible asset was recognised in relation to NPL portfolio management for EUR 8 million and goodwill was determined at approximately EUR 29.1 million.

5.2 Spin-off of the neprix Sales business unit to Abilio S.p.A.

Note that on 17 March 2022, the deed of partial spin-off of the sales business unit of neprix S.r.l. to Abilio S.p.A. was entered into. The operation became effective on 1 April 2022. The accounting and tax effects of the operation started from 1 April 2022.

That operation had no effects on the consolidated financial statements, as both companies were controlled by the Group as of 31 March 2022 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;
- measurement of the real estate portfolio;
- determination of the amount of accruals to allowances for risks and charges;
- determination of deferred taxes;
- measurements relating to 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 2022.

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 and IAS 41	May 2020	1 January 2022	28 June 2021	(EU) 2021/1080 2 July 2021
Property, plant and equipment – Proceeds before Intended Use (Amendments to IAS 16)	May 2020	1 January 2022	28 June 2021	(EU) 2021/1080 2 July 2021
Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37)	May 2020	1 January 2022	28 June 2021	(EU) 2021/1080 2 July 2021
Reference to the Conceptual Framework (Amendments to IFRS 3)	May 2020	1 January 2022	28 June 2021	(EU) 2021/1080 2 July 2021

As shown in the above table, the adoption of several amendments to accounting standards endorsed by the European Commission in 2022 is mandatory with effect from 2022.

In more detail, Regulation (EU) no. 2021/1080 of 28 June 2021 incorporates some minor amendments, published by the IASB on 14 May 2020, to IAS 16 Property, plant and equipment, IAS 37 Provisions, contingent liabilities and contingent assets, and IFRS 3 Business combinations.

The amendments concern:

- IAS 16 – Components of cost: the amendments clarify the way companies should account for the proceeds from sale of items produced while the company was preparing the relevant asset for its intended use (e.g. samples produced during checks on the correct functioning of the asset). The company must recognise such proceeds from sale and the relevant costs in the income statement;
- IAS 37 – Onerous contracts: this amendment specifies that an estimate intended to determine whether a contract is onerous must include all costs that relate directly to the contract, not just the incremental costs of fulfilling that contract. Consequently, the assessment of a contract's possible onerousness must include incremental costs (e.g. the cost of the material directly used in the manufacture), but also the costs that the company cannot avoid after signing the contract (e.g. the relevant portion of personnel costs and of the depreciation of the property, plant and equipment used in fulfilling the contract);
- IFRS 3 – References to the Conceptual Framework: updates were made to some references to the new version of the Conceptual Framework of 2018, though no amendments were made to the pre-existing accounting methods. Companies are also explicitly prohibited from recording contingent assets (i.e. assets whose existence will be confirmed only after uncertain future events) in business combinations;
- incorporation of the usual annual improvements - Annual cycle of improvements to IFRS 2018-2020, which clarify statements or correct errors, oversights or conflicts between the requirements of the accounting standards. These minor amendments include changes to IFRS 9 Financial instruments, with certain clarifications concerning the fees to be included in the 10% test for derecognition of financial liabilities; it is specified that only fees paid or received between the parties should be included, not fees that are directly attributable to third parties.

These amendments are not particularly relevant to the Group.

IAS/IFRS and the relative IFRIC interpretations applicable to financial statements of financial years starting after 1 January 2022

Documents endorsed by the'EU as of 31 December 2022

Document title	Issue date	Effective date	Date endorsed	EU regulation and publication date
Amendments to IFRS 1, IFRS 2 Practice statement, and IAS 8	February 2021	1 January 2023	2 March 2022	(EU) 2022/357 3 March 2022
Deferred taxes relating to assets and liabilities arising from a single transaction (Amendments to IAS 12 Income taxes)	May 2021	1 January 2023	11 August 2022	(EU) 2022/1392 12 August 2022
Initial application of IFRS 17 and IFRS 9 – Comparative information (Amendments to IFRS 17 Insurance contracts)	December 2021	1 January 2023	8 September 2022	(EU) 2022/1491 9 September 2022

In further detail:

- Regulation (EU) no. 2022/357: this regulation approved the document "Amendments to IFRS 1, IFRS 2 Practice statement, and IAS 8", published by the IASB on 12 February 2021, which amended:
  - "IAS 1 – Presentation of financial statements", which was amended by requiring entities to disclose their material accounting policy information, instead of significant accounting policies. In detail, the principle clarifies that accounting policy information is considered material if, together with other information included in the financial statements, it may reasonably influence decisions that the key users of the financial statements, drawn up for general purposes, take based thereon;

- "IAS 8 - Accounting policies, changes in accounting estimates and errors": the amendments to IAS 8 focused, on the one hand, on drawing up a new definition of "accounting estimates" and, on the other, on clarifying the relationship between "accounting estimates" and "accounting policies". The IASB replaced the definition of "change in accounting estimates" with the new concept of "accounting estimates", i.e. monetary amounts in financial statements that are subject to measurement uncertainty.
- Regulation (EU) no. 2022/1392: this regulation endorsed the document "Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)", published by the IASB on 7 May 2021. With the Amendments to IAS 12, the IASB clarified how to recognise deferred tax in relation to leases and decommissioning obligations;
- Regulation (EU) no. 2022/1491: this regulation endorsed the document "Initial Application of IFRS 17 and IFRS 9 — Comparative Information (Amendment to IFRS 17)", published by the IASB on 9 December 2021.

The amendments, applicable upon the initial application of IFRS 17, are aimed at eliminating accounting mismatches that may arise in the comparative financial statement data as a result of the initial application of IFRS 17 and IFRS 9. In particular, the IASB has added a new transition option to IFRS 17, known as the "classification overlay", which allows insurance entities that apply IFRS 17 and IFRS 9 at the same time to classify and measure financial assets related to insurance activity in the comparative financial statements, pursuant to IFRS 9.

These amendments are not particularly relevant to the Group.

Documents NOT yet endorsed by the EU as of 31 December 2022

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	1 January 2016	Yet to be defined
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	Yet to be defined
Classification of Liabilities as Current or Non-current (Amendments to IAS 1), including subsequent amendment issued in July 2020	January 2020 July 2020	1 January 2024	Yet to be defined
Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)	September 2022	1 January 2024	Yet to be defined
Non-current Liabilities with Covenants (Amendments to IAS 1)	October 2022	1 January 2024	Yet to be defined

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 consolidated accounts to 31 December 2022 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 (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 instruments 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 measurement 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 measurement 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".

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 recognised in 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, 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 carrying amount at the time of the initial 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 valuation 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 valuation, if the credit risk has not increased significantly compared to the initial recognition, based on the changes in the write-downs/write-backs due to expected losses over the following twelve months;
- at the time of subsequent valuation, 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 recognised in the income statement is defined according to a detailed measurement 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. The assessment concerning the substance of the change must be carried out in consideration of both qualitative and quantitative elements. 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

The Group makes use of the possibility, provided for upon the introduction of IFRS 9, to continue to fully apply the provisions of IAS 39 on "hedge accounting" (in the carve-out version approved by the European Commission) for hedges.

Risk hedging operations are aimed at neutralising potential losses, attributable to a given risk, which can be recognised under a specific element or group of elements, if that particular risk should arise.

The possible types of hedge are as follows:

- fair value hedge: this hedges exposure to changes in the fair value of a recognised asset or liability or an unrecognised irrevocable commitment, or an identified part of said asset, liability or irrevocable commitment, which is attributable to a particular risk and could influence the income statement;
- cash flow hedge: this hedges exposure to the variability of cash flows attributable to a particular risk associated with a recognised asset or liability (such as all or some payments of future interest on a variable-rate debt) or a highly likely planned operation that could influence the income statement;
- foreign currency investment hedge: this hedges the risks relating to an investment in a foreign business expressed in foreign currency, as defined in IAS 21.

Only instruments that involve an external counterparty can be designated as hedging instruments.

Given the decision to make use of the possibility to continue fully applying the rules of IAS 39 for hedging, it is not possible to designate equity instruments classified under Financial assets measured at fair value through other comprehensive income (FVOCI) as instruments hedged for price risk or exchange rate risk, given that those instruments do not impact the income statement, even in the event of sale (except for dividends, which are recognised in the income statement).

With regard to the management of hedging operations, the type of hedge chosen by the Bank (fair value hedge) refers to specific elements (micro-hedges) consisting of debt securities measured at fair value through other comprehensive income and amounts due to customers.

Hedging derivatives, like all derivatives, are initially recognised and subsequently measured at fair value through other comprehensive income.

A position is classified as a hedge, and recognised as such for accounting purposes, only if all the following conditions are met:

- the hedged element and the hedging instrument must be specifically identifiable;
- at the outset of the hedge there is a designation and formal documentation of the hedging relationship, the objectives of the risk management entity and the strategy in implementing the hedge. This documentation must include the identification of the hedging instrument, the hedged element or operation, the nature of the hedged risk and how the entity will assess the effectiveness of the hedging instrument when offsetting the exposure to changes in fair value of the hedged element or the cash flows attributable to the hedged risk;
- it is expected that the hedge will be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk, in line with the risk management strategy originally documented for that particular hedging relationship;
- for cash flow hedges, a planned operation that is the subject of hedging must be highly likely and must present exposure to changes in cash flows that could ultimately impact the income statement;
- the effectiveness of the hedge can be reliably assessed, i.e. the fair value or the cash flows of the hedged element that are attributable to the hedged risk and the fair value of the hedged instrument can be reliably assessed;
- the hedge is measured on the basis of continuity and is considered to be highly effective for all financial years in which the hedge was designated.

With regard to hedge accounting rules:

- in the case of fair value hedging, the change in the fair value of the hedged element is offset with the change in the fair value of the hedging instrument. This offsetting is recognised through the recognition through profit or loss of the changes in value, referring to both the hedged element (as regards changes brought about by the underlying risk factor) and the hedging instrument. Any difference, which represents the partial ineffectiveness of the hedge, consequently constitutes the net economic effect thereof;

  In the case of generic fair value hedging operations (macro-hedges), the changes in fair value with regard to the hedged risk of the assets and liabilities subject to hedging are recognised in the statement of financial position, respectively, under item 60. “Fair value change of financial assets in hedged portfolios” or 50. “Fair value change of financial liabilities in hedged portfolios”;
- in the case of cash flow hedges, the changes in fair value of the derivative are recognised in shareholders’ equity, for the effective portion of the hedge, and are recognised through profit or loss only when, with regard to the hedged item, there is a change in cash flows to be offset or if the hedge is ineffective;
- foreign currency investment hedges are recognised in the same way as cash flow hedges.

A hedge is considered highly effective only if both the following conditions are met:
- at the outset of the hedge and in subsequent periods, the hedge is expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk, during the period for which the hedge is designated. This expectation may be demonstrated in various ways, including a comparison between the previous changes in fair value or cash flows of the hedged element that are attributable to the hedged risk and the previous changes in fair value or cash flows of the hedging instrument, or by demonstrating a high statistical correlation between the fair value or cash flows of the hedged element and those of the hedging instrument;
- when the changes in fair value (or cash flows) of the hedging instrument almost entirely offset, i.e. within the limits of the 80-125% range, the changes in the hedged instrument, for the element of risk being hedged.

An entity must prospectively discontinue fair value hedge accounting if:
- the hedging instrument expires or is sold, terminated or exercised (for that purpose, the replacement or carrying forward of a hedging instrument with another hedging instrument is not a conclusion or termination if that replacement or carrying forward is part of the entity's documented hedging strategy);
- the hedge no longer meets the criteria for hedge accounting; or
- the entity revokes the designation.

If checks do not confirm the effectiveness of the hedge, from that moment on the accounting of hedging operations, as set out above, is suspended, the hedging derivative is reclassified under trading instruments, and the hedged financial instrument reacquires the measurement criteria corresponding to its classification in the financial statements. If the hedged asset or liability is measured at amortised cost, the greater or lesser value arising from the measurement thereof at fair value as a result of the now-ineffective hedge is recognised through profit or loss according to the effective interest rate method.

Lastly, in each of the following circumstances a company must prospectively discontinue cash flow hedge accounting:
- the hedging instrument expires or is sold, terminated or exercised (for that purpose, the replacement or carrying forward of a hedging instrument with another hedging instrument is not a conclusion or termination if that replacement or carrying forward is part of the company's documented hedging strategy). In that case, the total profit (or loss) of the hedging instrument is recognised directly in shareholders' equity until the financial year in which the hedge was effective and is separately recognised until the planned operation subject to hedging occurs;
- the hedge no longer meets the criteria for hedge accounting. In that case, the total profit (or loss) of the hedging instrument recognised directly in shareholders' equity starting from the financial year in which the hedge was effective is separately recognised in shareholders' equity until the planned operation occurs;
- it is no longer believed that the planned operation will take place, in which case any related total profit or loss on the hedging instrument recognised directly in shareholders' equity starting from the financial year in which the hedge was effective is recognised through profit or loss;
- the company revokes the designation. For hedges of a planned operation, the total profit (or loss) of the hedging instrument recognised directly in shareholders' equity starting from the financial year in which the hedge was effective is separately recognised in shareholders' equity until the planned operation occurs or it is expected that it will not take place.

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 cash flows derived from the assets in question expire, or when the equity 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.

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.

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.

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, and deferred tax assets and liabilities.

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 a contra entry in 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 in relation to the charges for which it was originally recognised.

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.

Financial Liabilities measured at amortised cost

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.

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 amounts due to customers.

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 2022 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 2022 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 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
- 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 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:

- 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 Italian 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 Italian 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 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 measurement 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, measurement 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

Italian 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 Group deemed the following approach to be 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.

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

This section provides a summary, divided by type of instrument, of the measurement techniques used for instruments classified as having a level 2 and level 3 fair value.

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 loans

The characteristics of loans measured at fair value result in their failing the SPPI test. illimity does not hold loans for trading. Loans are mainly measured using the discounted cash flow method. That technique is supplemented with the enterprise value measurement method of the debtor (e.g. multiples and comparable transactions) when the loan characteristics mean that its value depends on the value of the company. That dependence is normally due to the convertibility of the loan into equity or its degree of subordination.

Measurement of structured loan products

Structured loan products are attributable to two groups. The first relates to the subordinate tranches of securitisations of NPL portfolios, the second, to securitisations of performing underlying portfolios structured by illimity and held for disposal, in line with an HTCS business model.

In the first case the exposures are part of an investment strategy that involves the bank's subscription of the senior quota and, as the originator, also of part of the subordinate tranches (mezzanine or junior).

The starting point for valuation is the acquisition, in which the price is determined by analysing the debtor's capacity to repay firstly the senior quota and, subsequently, the subordinate tranches, pursuant to the payment 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, since it involves the securitisation of variable-rate senior notes, periodic checks are carried out on the performance of the collateral and the soundness of the structure in order to confirm the initially recognised price or perform a write-down where necessary.

The measurement includes prudent assumptions on the capacity of the underlying to generate cash flows, preferring an inclusion of expected cash flows when there is a high probability of their occurrence.

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 primarily, 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.

Valuation of closed-end funds

Closed-end funds are valued using the latest net asset value (NAV) approved by the SGR, adjusted only to take into account events that occurred after the date the NAV was published (e.g. recalls by the fund and relevant distributions).

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	(8)	1 bp
FVTPL securities	Recovery rate	(240)	(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 2022			31 December 2021		
	L1	L2	L3	L1	L2	L3
1. Financial assets measured at fair value through profit or loss	2,078	31,117	71,848	98	896	75,685
a) financial assets held for trading	-	31,117	29	-	896	32
b) financial assets at fair value	-	-	-	-	-	-
c) other financial assets mandatorily measured at fair value	2,078	-	71,819	98	-	75,653
2. Financial assets measured at fair value through other comprehensive income	373,950	-	17,760	299,489	-	19
3. Hedging derivatives	-	29,874	-	-	-	-
4. Property and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	**376,028**	**60,991**	**89,608**	**299,587**	**896**	**75,704**
1. Financial liabilities held for trading	-	27,244	-	-	59	-
2. Financial liabilities designated at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	32,646	-	-	-	-
Total	**-**	**59,890**	**-**	**-**	**59**	**-**

Legend:

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 17% 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	**75,685**	**32**	**-**	**75,652**	**19**	**-**	**-**	**-**
2. Increases	**56,474**	**-**	**-**	**56,474**	**17,809**	**-**	**-**	**-**
2.1. Purchases	42,396	-	-	42,396	17,717	-	-	-
2.2. Gains recognised in:	512	-	-	512	-	-	-	-
2.2.1. Income Statement	512	-	-	512	-	-	-	-
- of which capital gains	370	-	-	370	-	-	-	-
2.2.2. Shareholders' equity	-	-	-	-	-	-	-	-
2.3. Transfers from other levels	-	-	-	-	-	-	-	-
2.4. Other increases	13,566	-	-	13,566	92	-	-	-
3. Decreases	**60,311**	**3**	**-**	**60,308**	68	**-**	**-**	**-**
3.1. Sales	960	-	-	960	-	-	-	-
3.2. Repayments	188	-	-	188	-	-	-	-
3.3. Losses allocated to:	206	3	-	203	68	-	-	-
3.3.1. Income Statement	206	3	-	203	-	-	-	-
- of which capital losses	206	3	-	203	-	-	-	-
3.3.2. Shareholders' equity	-	-	-	-	68	-	-	-
3.4. Transfers from other levels	-	-	-	-	-	-	-	-
3.5. Other decreases	58,957	-	-	58,957	-	-	-	-
4. Closing balance	**71,848**	**29**	**-**	**71,819**	**17,760**	**-**	**-**	**-**

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 2022				31 December 2021			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets measured at amortised cost	4,386,730	451,776	2,993	3,692,574	3,229,766	21,496	2,993	3,490,536
2. Property and equipment held for investment	-	-	-	-	-	-	-	-
3. Non-current assets and groups of assets held for disposal	-	-	-	-	43,117	-	-	-
Total	**4,386,730**	**451,776**	**2,993**	**3,692,574**	**3,272,883**	**21,496**	**2,993**	**3,490,536**
1. Financial liabilities measured at amortised cost	5,294,132	630,404	-	4,641,130	3,752,384	516,329	-	3,423,818
2. Liabilities associated with non-current assets held for sale and discontinued operations	-	-	-	-	-	-	-	-
Total	**5,294,132**	**630,404**	**-**	**4,641,130**	**3,752,384**	**516,329**	**-**	**3,423,818**

Legend:

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 in 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 31/12/2022	Total 31/12/2021
a) Cash and cash equivalents	1	308
b) Current accounts and on-demand deposits with central banks	670,374	492,599
c) Current accounts and on-demand deposits with banks	10,402	14,872
Total	**680,777**	**507,779**

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 31/12/2022			Total 31/12/2021		
	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	-	-	29	-	-	32
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Others	-	-	-	-	-	-
Total (A)	**-**	**-**	**29**	**-**	**-**	**32**
B. Derivatives	-	-	-	-	-	-
1. Financial derivatives	-	31,117	-	-	896	-
1.1 held for trading	-	31,117	-	-	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)	**-**	**31,117**	**-**	**-**	**896**	**-**
Total (A+B)	**-**	**31,117**	**29**	**-**	**896**	**32**

Key:

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

2.2 Financial assets held for trading: borrower/issuer/counterparty breakdown

Items/Values	Total 31/12/2022	Total 31/12/2021
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	29	32
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)	**29**	**32**
B. Derivatives		
a) Central counterparties	-	-
b) Others	31,117	896
Total (B)	**31,117**	**896**
Total (A+B)	**31,146**	**928**

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 assets mandatorily measured at fair value: breakdown

Items/Values	Total 31/12/2022			Total 31/12/2021		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**1,980**	**-**	**5,809**	**-**	**-**	**61,992**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	1,980	-	5,809	-	-	61,992
2. Equity securities	**-**	**-**	**9,115**	**-**	**-**	**9,875**
3. Units of UCIs	**98**	**-**	**20,834**	**98**	**-**	**3,786**
4. Loans	**-**	**-**	**36,061**	**-**	**-**	**-**
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Others	-	-	36,061	-	-	-
Total	**2,078**	**-**	**71,819**	**98**	**-**	**75,653**

Key:

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

Financial assets mandatorily measured at fair value through profit and loss amounted to EUR 73.9 million as of 31 December 2022, down by EUR 1.9 million on 31 December 2021. These financial assets consist of loans measured at fair value (EUR 36.1 million) and other financial instruments (EUR 37.8 million).

Loans measured at fair value refer to a loan pertaining primarily to the Growth Credit Division (EUR 24 million) and an Energy Business loan pertaining to the Distressed Credit Division that is mandatorily measured at fair value (EUR 12.1 million), held via the securitisation vehicle Spicy Green SPV.

The other financial instruments refer to the subscription, during the course of the financial year, of units of the iREC Fund for EUR 20.6 million (attributable to the Distressed Credit Division), and to Equity Instruments/Earnouts referring to the Growth Credit Division for EUR 9.2 million.

2.6 Other financial assets mandatorily measured at fair value: breakdown by borrower/ issuer

	Total 31/12/2022	Total 31/12/2021
1. Equity securities	**9,115**	**9,875**
of which: banks	-	-
of which: other financial companies	-	-
of which: other non-financial companies	9,115	9,875
2. Debt securities	**7,789**	**61,992**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	477	32
d) Other financial companies	5,709	61,483
of which: insurance companies	-	-
e) Non-financial companies	1,603	477
3. Units of UCIs	**20,932**	**3,884**
4. Loans	**36,061**	**-**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	36,061	-
f) Households	-	-
Total	**73,897**	**75,751**

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 31/12/2022			Total 31/12/2021		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**373,950**	**-**	**17,741**	**299,489**	**-**	**-**
1.1 Structured securities	4,673	-	-	2,986	-	-
1.2 Other debt securities	369,277	-	-	296,503	-	-
2. Equity securities	**-**	**-**	**19**	**-**	**-**	**19**
3. Loans	**-**	**-**	**-**	**-**	**-**	**-**
Total	**373,950**	**-**	**17,760**	**299,489**	**-**	**19**

Key:

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

The debt securities in the financial statement item were issued by governments (EUR 222 million), credit institutions (EUR 77.5 million), financial companies (EUR 44.6 million) and non-financial companies (EUR 47.6 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 31/12/2022	Total 31/12/2021
1. Debt securities	**391,691**	**299,489**
a) Central banks	-	-
b) Public administrations	222,047	199,177
c) Banks	77,485	61,375
d) Other financial companies	44,546	10,837
of which: insurance companies	-	-
e) Non-financial companies	47,613	28,100
2. Equity securities	**19**	**19**
a) Banks	-	-
b) Other issuers:	19	19
- other financial companies	11	11
of which: insurance companies	-	-
- non-financial companies	8	8
- other	-	-
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	**391,710**	**299,508**

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	393,235	241,955	768	-	-	2,017	295	-	-
Loans	-	-	-	-	-	-	-	-	-
Total 31/12/2022	**393,235**	**241,955**	**768**	**-**	**-**	**2,017**	**295**	**-**	**-**
Total 31/12/2021	**300,510**	**181,300**	**-**	**-**	**-**	**1,021**	**-**	**-**	**-**

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 31/12/2022						Total 31/12/2021					
	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	**57,213**	**-**	**-**	**-**	**-**	**57,675**	**267,969**	**-**	**-**	**-**	**-**	**268,029**
1. Loans	57,213	-	-	-	-	57,675	267,969	-	-	-	-	268,029
1.1 Current accounts	-	-	-	X	X	X	-	-	-	X	X	X
1.2 Time deposits	22,884	-	-	X	X	X	69,792	-	-	X	X	X
1.3 Other loans:	34,329	-	-	X	X	X	198,178	-	-	X	X	X
- Reverse repurchase agreements	-	-	-	X	X	X	191,292	-	-	X	X	X
- Loans for leasing	-	-	-	X	X	X	-	-	-	X	X	X
- Others	34,329	-	-	X	X	X	6,885	-	-	X	X	X
2. Debt securities	-	-	-	-	-	-	-	-	-	-	-	-
2.1 Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt securities	-	-	-	-	-	-	-	-	-	-	-	-
Total	**57,213**	**-**	**-**	**-**	**-**	**57,675**	**267,969**	**-**	**-**	**-**	**-**	**268,029**

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".

4.2 Financial assets measured at amortised cost: breakdown of loans to customers

Type of operations/ Values	Total 31/12/2022						Total 31/12/2021					
	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.Finanziamenti	**2,172,119**	**41,047**	**1,135,933**	**-**	**-**	**3,380,474**	**1,640,359**	**21,024**	**1,048,358**	**-**	**-**	**2,846,631**
1.1. Current accounts	7,575	5,076	179,535	X	X	X	10,127	5,492	213,507	X	X	X
1.2. Reverse Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
1.3. Mortgages	208,029	7,379	577,238	X	X	X	202,968	5,335	518,561	X	X	X
1.4. Credit cards and personal loans, including wage assignment loans	940	53	2,197	X	X	X	683	143	2,227	X	X	X
1.5 Loans for leases	17,726	-	153,457	X	X	X	-	-	111,805	X	X	X
1.6. Factoring	467,067	2,859	-	X	X	X	350,659	4,868	-	X	X	X
1.7. Other loans	1,470,782	25,680	223,506	X	X	X	1,075,922	5,186	202,258	X	X	X
2. Debt securities	**875,618**	**2,693**	**102,108**	**451,776**	**2,993**	**254,425**	**242,019**	**-**	**10,037**	**21,496**	**2,993**	**375,876**
1. Structured securities	-	2,693	-	-	2,993	-	-	-	-	-	-	-
2. Other debt securities	875,618	-	102,108	451,776	-	254,425	242,019	-	10,037	21,496	2,993	375,876
Total	**3,047,737**	**43,739**	**1,238,041**	**451,776**	**2,993**	**3,634,899**	**1,882,378**	**21,024**	**1,058,395**	**21,496**	**2,993**	**3,222,507**

Key:

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

The sub-item "Other performing debt securities" primarily includes securities connected to securitisation operations for a total of EUR 271.5 million referring to the Distressed Credit division, as well as high-yield bonds for EUR 50.4 million referring to the Growth Credit division. The "Impaired financial assets" item under "Debt securities" also includes EUR 10.6 million of securities classified as "unlikely-to-pay" relating to the Growth Credit Division and EUR 91.5 million of securities classified as "unlikely-to-pay" relating to the Distressed Credit Division.

4.3 Financial assets measured at amortised cost: breakdown by borrower/issuer of loans to customers

Type of operations/Values	Total 31/12/2022			Total 31/12/2021		
	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	**875,618**	**2,693**	**102,108**	**242,019**	**-**	**10,037**
a) Public administrations	428,309	-	-	-	-	-
b) Other financial companies	403,217	-	91,497	227,612	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	44,092	2,693	10,611	14,407	-	10,037
2. Loans to:	**2,172,119**	**41,047**	**1,135,933**	**1,640,359**	**21,024**	**1,048,358**
a) Public administrations	11,030	3,099	65	13,085	35	6
b) Other financial companies	282,006	13	11,811	393,430	25	19,972
of which: insurance companies	468	-	-	239	-	-
c) Non-financial companies	1,831,111	35,922	975,758	1,196,391	18,646	894,905
d) Households	47,972	2,013	148,299	37,452	2,318	133,476
Total	**3,047,737**	**43,740**	**1,238,041**	**1,882,378**	**21,024**	**1,058,395**

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	877,338	375,959	1,920	3,000	102,108	3,342	297	307	-	-
Loans	2,725,867	480,070	101,680	60,943	1,136,591	595,838	2,377	19,897	659	-
Total 31/12/2022	**3,603,205**	**856,029**	**103,600**	**63,943**	**1,238,699**	**599,180**	**2,674**	**20,204**	**659**	**-**
Total 31/12/2021	**2,095,777**	**369,205**	**65,106**	**39,554**	**1,058,395**	**9,969**	**568**	**18,530**	**337**	**-**

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				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	-	-	-	709	-	-	-	27	-	-
4. New financing	769,374	-	39,398	25,017	2,152	3,371	644	2,181	-	-
Total 31/12/2022	**769,374**	**-**	**39,398**	**25,726**	**2,152**	**3,371**	**644**	**2,208**	**-**	**-**
Total 31/12/2021	**499,745**	**-**	**28,569**	**5,589**	**-**	**2,488**	**223**	**820**	**-**	**-**

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

5.1 Hedging derivatives: breakdown by hedge type and level

	Fair Value 31/12/2022			Nominal Value 31/12/2022	Fair Value 31/12/2021			Nominal Value 31/12 2021
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives								
1) Fair value	-	29,874	-	195,000	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
3) Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives								
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**29,874**	**-**	**195,000**	**-**	**-**	**-**	**-**

Key:

NV = Nominal Value
L 1 = Level 1
L 2 = Level 2
L 3 = Level 3

5.2 Hedging derivatives: breakdown by hedged portfolios and hedge type

Hedging operations/ type	Fair Value							Cash flows		Foreign investments
	Specific						Generic	Specific	Generic	
	debt securities and interest rates	equity securities and share indices	currencies and gold	credit	goods	other				
1. Financial assets measured at fair value through other comprehensive income	29,874	-	-	-	X	X	X	-	X	X
2. Financial assets measured at amortised cost	-	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	-	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**29,874**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Financial liabilities	-	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	-	X	-	-

Section 6 - Fair value change of financial assets in hedged portfolios – Item 60

The Group has no hedging 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 defined by the parties based on the shared growth and development targets 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.

As required by IAS/IFRS, the equity investment was tested for impairment to check for objective evidence that its recognition value may not be fully recoverable.

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.

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 2022, the prospective financial information used to determine the value in use was inferred from the financial position as of 31 December 2022 and the 2023-2027 prospective data relating to the equity investment.

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.

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 2022 (consistent with the methodology adopted in the previous financial year), in order to determine the terminal value, the cash flows for 2027, 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 2%. In line with the methodology adopted as of 31 December 2021, consideration was also given to a 3-year phase of growth rate convergence (observed in the last year of explicit planning) towards the long-term sustainable rate, assumed to be equal to the expected inflation for the Italian market.

The projections for the key economic, financial and regulatory data and KPIs of Hype have taken into account the factors and assumptions that form the basis of the 2023-2027 Projections drawn up by the Group's management. Cash flows were defined by considering fulfilment of the minimum capital requirements, according to the specific applicable regulations. Specifically, from a prudential perspective, a capital requirement equal to 130% of the regulatory minimum was taken into consideration, with a buffer of 30%.

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 6 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 2022 was 13.87% (11.02% as of 31 December 2021).

Results of the impairment tests

The results of the impairment testing showed that the value in use of the equity investment is considerably higher than the carrying amount. Therefore, no write-down was necessary for the purposes of the financial statement for the year ended as of 31 December 2022.

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.

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.	76,214	N/A	-
B. Companies in which significant influence is exercised			
SpicyCo S.r.l.	161	N/A	-
SpicyCo 2 S.r.l.	-	N/A	-
Total	**76,375**	**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.	340,344	113,171	27,978	444,591	16,693	20,663	1,231	(1,991)	(19,318)	(14,677)	-	(14,677)	-	(14,677)
B. Companies in which significant influence is exercised													-	
SpicyCo S.r.l.	226	-	23	2,801	58	-	(258)	-	(331)	(331)	-	(331)	-	(331)
SpicyCo 2 S.r.l.	1	-	-	-	-	-	-	-	(22)	(22)		(22)		(22)

7.4 Insignificant equity investments: accounting information

The Group does not hold such equity investments as of the reporting date.

7.5 Equity investments: annual changes

	Total 31/12/2022	Total 31/12/2021
A. Opening balances	**79,953**	-
B. Increases	**4,000**	88,144
B.1 Purchases	4,000	87,706
- from business combinations	-	-
B.2 Write-backs	-	-
B.3 Revaluations	-	-
B.4 Other changes	-	438
C. Decreases	**(7,578)**	**(8,191)**
C.1 Sales	-	-
- from business combinations	-	-
C.2 Write-downs/write-backs	-	-
C.3 Depreciation	-	-
C.4 Other changes	(7,578)	(8,191)
D. Closing balance	**76,375**	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 31/12/2022	Total 31/12/2021
1. Proprietary assets	**1,021**	**1,159**
a) land	-	-
b) buildings	-	-
c) furniture and fittings	511	578
d) electronic systems	442	509
e) others	68	72
2. Rights of use acquired through lease agreements	**22,624**	**19,321**
a) land	-	-
b) buildings	21,534	18,133
c) furniture and fittings	-	-
d) electronic systems	-	-
e) others	1,090	1,188
Total	**23,645**	**20,480**
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 31/12/2022	Total 31/12/2021
1. Inventories of property and equipment obtained through enforcement of guarantees received	**104,738**	**48,255**
a) land	-	-
b) buildings	104,738	48,255
c) furniture and fittings	-	-
d) electronic systems	-	-
e) others	-	-
2. Other assets inventories	**-**	**-**
Total	**104,738**	**48,255**
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	**-**	**22,974**	**1,787**	**2,233**	**2,661**	**29,655**
A.1 Total net write-downs	-	4,841	1,209	1,724	1,401	9,175
A.2 Opening net balance	**-**	**18,133**	**578**	**509**	**1,260**	**20,480**
B. Increases:	**-**	**7,981**	**367**	**419**	**1,660**	**10,427**
B.1 Purchases	-	-	83	314	1,240	1,637
- 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	-	7,981	284	105	420	8,790
C. Decreases:	**-**	**4,580**	**434**	**486**	**1,762**	**7,262**
C.1 Sales	-	-	-	-	-	-
- from business combinations	-	-	-	-	-	-
C.2 Depreciation	-	2,223	348	171	684	3,426
C.3 Write-downs/write-backs from impairment charged to	-	-	54	102	7	163
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	54	102	7	163
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	-	-	-	-	-	-
b) non-current assets and groups of assets held for disposal	-	-	-	-	-	-
C.7 Other changes	-	2,357	32	213	1,071	3,673
D. Closing net balance	**-**	**21,534**	**511**	**442**	**1,158**	**23,645**
D.1 Total net write-downs	-	7,064	1,611	1,997	2,092	12,764
D.2 Gross closing balance	**-**	**28,598**	**2,122**	**2,439**	**3,250**	**36,409**
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	**-**	**48,255**	**-**	**-**	**-**	**-**	**48,255**
B. Increases	**-**	**67,397**	**-**	**-**	**-**	**-**	**67,397**
B.1 Purchases	-	67,167	-	-	-	-	67,167
B.2 Write-backs	-	-	-	-	-	-	-
B.3 Positive foreign exchange differences	-	-	-	-	-	-	-
B.4 Other changes	-	230	-	-	-	-	230
C. Decreases	**-**	**10,914**	**-**	**-**	**-**	**-**	**10,914**
C.1 Sales	-	10,288	-	-	-	-	10,288
C.2 Write-downs/write-backs from impairment	-	612	-	-	-	-	612
C.3 Negative foreign exchange differences	-	-	-	-	-	-	-
C.4 Other changes	-	14	-	-	-	-	14
D. Closing balance	**-**	**104,738**	**-**	**-**	**-**	**-**	**104,738**

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 31/12/2022		Total 31/12/2021	
	Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life
A.1 Goodwill	X	**65,372**	X	**36,257**
A.1.1 attributable to the group	X	65,372	X	36,254
A.1.2 attributable to minorities	X	-	X	3
A.2 Other intangible assets	**69,729**	**-**	**48,992**	**-**
of which: software	58,266	-	40,440	-
A.2.1 Assets measured at cost:	69,729	-	48,992	-
a) Intangible assets generated internally	7,987	-	5,557	-
b) Other assets	61,742	-	43,435	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
Total	**69,729**	**65,372**	**48,992**	**36,257**

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) Investment Banking; (iv) b-ilty; (v) CIO; (vi) Corporate Center; (vii) Hype and (viii) SGR.

Considering the quantitative and qualitative analyses carried out, the operating segments with the characteristics of a CGU correspond to the operating divisions that generate incoming cash flows for the Bank and benefit from the synergies arising from business combinations. The Bank therefore identified the following CGUs: (i) Distressed Credit; (ii) Growth Credit; (iii) Investment Banking; (iv) b-ilty; (v) CIO; (vi) Hype and (vii) SGR.

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, seven 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.

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.

Similarly, the specific intangibles arising from the acquisition of IT Auction S.r.l., now recognised within Abilio S.p.A., in relation to the spin-off of the *neprix sales* unit to Abilio S.p.A., which took place during the year, were fully allocated to the CGU Distressed Credit. The carrying amount of these specific intangibles underwent initial individual impairment testing, which confirmed that the values allocated to the intangible assets identified remained the same. Subsequently, these intangible assets were included in the carrying amount of the DC CGU and tested during the impairment testing of this CGU.

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.

Goodwill resulting from the purchase price allocation process for the purchase price, equal to EUR 29.1 million, and the specific intangibles, for a residual value of EUR 7.2 million as of 31 December 2022, 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.

The next table shows the allocation of goodwill to the CGUs of the illimity Group.

€/thousand	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**
Goodwill arising from the acquisition of AREC	29,115	-	**29,115**
Total Goodwill	**61,372**	**4,000**	**65,372**

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.

The purpose of second level testing is to consider the Group's overall cash flows (consolidated level) to verify the recoverability of the value of any net assets not allocated to the CGUs identified (i.e. corporate center, etc.).

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 Investment Banking, b-ilty, CIO, Hype and the SGR were not considered for impairment testing purposes as they did not hold non-current assets as of 31 December 2022, 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 the main applicable IAS/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 2022, the prospective financial information used to determine the value in use was inferred from the financial position as of 31 December 2022 and the 2023-2025 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 2022 (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 long-term growth of Italy's nominal GDP, which is equal to 2%.

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 2023-2025 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 2023-2025 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 6 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 2022 was 10.56% (7.54% as of 31 December 2021).

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 2022, 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:

€/thousand

	First level impairment testing		Second level impairment testing
	Distressed Credit	Growth Credit	illimity Group
Carrying amount	427,775	251,806	**841,322**

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 2022.

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		
		10.78%	11.28%	11.78%
g	1.50%	3%	-3%	-8%
	2.00%	6%	0%	-5%
	2.50%	10%	3%	-3%

TABLE 2 - SENSITIVITY ANALYSIS OF THE GROWTH CREDIT CGU

		Ke		
		9.48%	9.98%	10.48%
g	1.50%	4%	-4%	-10%
	2.00%	8%	0%	-7%
	2.50%	13%	4%	-4%

TABLE 3 - SENSITIVITY ANALYSIS OF THE CGU ILLIMITY GROUP

		Ke		
		10.06%	10.56%	11.06%
g	1.50%	3%	-3%	-9%
	2.00%	7%	0%	-6%
	2.50%	12%	4%	-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. With regard to the valuations expressed by the market, the Group's value in use is greater than its market capitalisation.

In any case, it is worth stressing that the valuations expressed by the market and by financial analysts typically present characteristics that differentiate them from a "fundamental" valuation represented by the value in use. With regard to the underlying objectives of these latter valuations, it should be pointed out that they are intended for financial investors and therefore are likely to represent a short-term definition of prices and values.

These valuations represent the value that may be obtained from the sale on the stock exchange of limited quantities of securities, i.e. from the disposal of minority interests, and therefore are strictly anchored to current market conditions and prices. The fair value calculated by analysts typically represents the price of a single share, unlike the value in use, which assesses the bank's entire share capital.

The value in use, on the other hand, responds to a general logic according to which the value of an asset is a direct expression of the cash flows that it is capable of generating throughout its usage. This value is therefore also based on the company's internal expectations, unlike the market valuations, which are instead anchored to the short-term expectations of the market itself, taking into account elements other than the Group's capacity to generate profits in order to remunerate its shareholders.

In conclusion, it is believed that the impairment tests must be carried out with the awareness that the current economic situation, influenced by the current macroeconomic context, has an impact on the cash flows expected from short- and medium-term operating activities, but should not undermine the main sources of generating income and the competitive advantages that the illimity Group enjoys, as has been illustrated by its results in recent years.

10.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: internally generated		Other intangible assets: others		Total
		DEF	INDEF	DEF	INDEF	
A. Opening balance	**36,257**	**7,465**	-	**56,740**	-	**100,462**
A.1 Total net write-downs	-	1,908	-	13,305	-	15,213
A.2 Opening net balance	**36,257**	**5,557**	-	**43,435**	-	**85,249**
B. Increases	**29,115**	**7,249**	-	**31,259**	-	**67,623**
B.1 Purchases	29,115	3,112	-	29,544	-	61,771
- from business combinations	29,115	-	-	8,084	-	37,199
B.2 Increases in internal intangible assets	X	3,755	-	-	-	3,755
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	-	382	-	1,715	-	2,097
C. Decreases	-	**4,819**	-	**12,952**	-	**17,771**
C.1 Sales	-	-	-	-	-	-
- from business combinations	-	-	-	-	-	-
C.2 Write-downs/write-backs	-	3,440	-	9,630	-	13,070
- Amortisation	X	3,440	-	9,630	-	13,070
- 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	-	1,379	-	3,322	-	4,701
D. Closing net balance	**65,372**	**7,987**	-	**61,742**	-	**135,101**
D.1 Total net write-downs/write-backs	-	5,348	-	22,935	-	28,283
E. Gross closing balance	**65,372**	**13,335**	-	**84,677**	-	**163,384**
F. Valuation 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

Deferred tax assets amounted to approximately EUR 71 million as of 31 December 2022, up from the EUR 41 million recognised as of 31 December 2021. Details of the breakdown of tax assets are shown below.

Main deductible temporary differences: IRES	31/12/2022	31/12/2021
Depreciation of loans and receivables with customers	1,150	1,324
Tax losses	317	663
ACE	-	-
Write-down of securities HTCS/FVOCI	20,619	2,696
Goodwill	34,465	7,971
Others	2,405	21,258
Total	**58,956**	**33,912**

Main deductible temporary differences: IRAP	31/12/2022	31/12/2021
Depreciation of loans and receivables with customers	142	163
Write-down of securities HTCS/FVOCI	4,176	546
Goodwill	6,875	1,510
Others	616	4,373
Total	**11,809**	**6,592**

Deferred tax assets refer primarily to the effects of the exercise of the tax relief option on goodwill and other intangible assets recognised in the financial statements following extraordinary operations and purchases of equity investments, and of the write-downs recorded on the portfolio of securities measured at fair value through other comprehensive income.

Deferred tax assets other than those convertible into tax credits (Article 2, paragraph 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. 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 carried out, which consists of simulating the ability to recover the deductible temporary differences and tax losses accrued at the reporting date using future taxable income. The test yielded a positive outcome.

11.2 Deferred tax liabilities: breakdown

As regards tax liabilities, relating to deferred taxes, as of 31 December 2022 they amounted to Euro 3.4 million, compared to Euro 1.1 million as of 31 December 2021.

Main taxable temporary differences: IRES	31/12/2022	31/12/2021
Gains by instalments	-	-
Revaluation of securities FVOCI	8	32
Others	3,176	936
Total	**3,184**	**968**

Main taxable temporary differences: IRAP	31/12/2022	31/12/2021
Revaluations of FVOCI securities	2	7
Others	166	125
Total	**168**	**132**

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 31/12/2022	Total 31/12/2021
1. Initial amount	**35,680**	**30,089**
2. Increases	**16,297**	**25,059**
2.1 Deferred tax assets recognised during the year	16,297	25,059
a) related to previous years	2,989	-
b) due to changes in accounting criteria	-	-
c) write-backs	-	-
d) others	13,308	25,059
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**6,111**	**19,468**
3.1 Deferred tax assets cancelled during the year	5,961	19,468
a) reversals	5,961	19,468
b) write-downs of non-recoverable items	-	-
c) changes in accounting criteria	-	-
d) others	-	-
3.2 Reductions in tax rates	-	-
3.3 Other reductions:	150	-
a) conversion into tax credits pursuant to Italian Law no. 214/2011	-	-
b) other	150	-
4. Final amount	**45,866**	**35,680**

11.4 Changes in deferred tax assets pursuant to Italian Law no. 214/2011

	Total 31/12/2022	Total 31/12/2021
1. Initial amount	**1,488**	**1,767**
2. Increases	**-**	**-**
3. Decreases	**196**	**279**
3.1 Reversals	196	279
3.2 Conversion into tax credits	-	-
a) arising from losses for the year	-	-
b) arising from tax losses	-	-
3.3 Other reductions	-	-
4. Final amount	**1,292**	**1,488**

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

	Total 31/12/2022	Total 31/12/2021
1. Initial amount	**160**	**15**
2. Increases	**389**	**234**
2.1 Deferred tax liabilities recognised during the year	-	-
a) related to previous years	-	-
b) due to changes in accounting criteria	-	-
c) other	389	234
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**518**	**89**
3.1 Deferred taxes derecognised during the year	-	-
a) reversals	518	-
b) due to changes in accounting criteria	-	-
c) other	-	89
3.2 Reductions in tax rates	-	-
3.3 Other reductions	-	-
4. Final amount	**31**	**160**

11.6 Changes in deferred tax assets (recognised in shareholders' equity)

	Total 31/12/2022	Total 31/12/2021
1. Initial amount	**4,824**	**2,108**
2. Increases	**21,554**	**3,718**
2.1 Deferred tax assets recognised during the year	21,554	3,718
a) related to previous years	-	-
b) due to changes in accounting criteria	-	-
c) other	21,554	3,718
2.2 New taxes or increases in tax rates		
2.3 Other increases	-	-
3. Decreases	**1,480**	**1,002**
3.1 Deferred tax assets cancelled during the year	1,480	1,002
a) reversals	889	1,002
b) write-downs of non-recoverable items	-	-
c) due to changes in accounting criteria	-	-
d) others	591	-
3.2 Reductions in tax rates	-	-
3.3 Other reductions	-	-
4. Final amount	**24,898**	**4,824**

11.7 Changes in deferred taxes (recognised in shareholders' equity)

	Total 31/12/2022	Total 31/12/2021
1. Initial amount	**940**	**733**
2. Increases	**2,410**	**300**
2.1 Deferred tax liabilities recognised during the year	2,410	300
a) related to previous years	-	-
b) due to changes in accounting criteria	-	-
c) other	2,410	300
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**29**	**93**
3.1 Deferred taxes derecognised during the year	-	93
a) reversals	-	-
b) due to changes in accounting criteria	-	-
c) other	29	-
3.2 Reductions in tax rates	-	-
3.3 Other reductions	-	93
4. Final amount	**3,321**	**940**

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 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	31/12/2022	31/12/2021
Deferred taxes paid to tax authority	7,534	4,726
Withholding taxes	74	1
Other receivables from the Treasury	220	441
Total	**7,828**	**5,168**

Current fiscal liabilities: breakdown

Main taxable temporary differences: IRAP	31/12/2022	31/12/2021
Balance for the previous year	19,156	3,460
Provision for taxes	33,372	19,156
Withdrawals to pay taxes	(19,156)	(3,460)
Total	**33,372**	**19,156**

Section 12 - Non-current assets held for sale and discontinued operations and associated liabilities – Item 120 of assets and Item 70 of liabilities

	Total 31/12/2022	Total 31/12/2021
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	99,390
Miscellaneous items	78,956
Various borrowers	111,813
Items being processed	45,106
Accrued income and prepaid expenses	5,165
Leasehold improvements	2,110
Total 31/12/2022	**342,540**
Total 31/12/2021	**224,132**

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 31/12/2022				Total 31/12/2021			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Due to central banks	**382,290**	X	X	X	**182,355**	X	X	X
2. Due to banks	**822,758**	X	X	X	**228,959**	X	X	X
2.1 Current accounts and on-demand deposits	9,848	X	X	X	1	X	X	X
2.2 Time deposits	30,092	X	X	X	37,843	X	X	X
2.3 Loans	751,815	X	X	X	190,674	X	X	X
2.3.1 Repurchase agreements - payable	751,815	X	X	X	190,649	X	X	X
2.3.2 Others	-	X	X	X	25	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	31,003	X	X	X	441	X	X	X
Total	**1,205,048**	**-**	**-**	**1,205,048**	**411,314**	**-**	**-**	**411,314**
Total	**1,205,048**				**411,314**			

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 loans to customers

Type of operations/Values	Total 31/12/2022				Total 31/12/2021			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and on-demand deposits	858,461	X	X	X	919,139	X	X	X
2. Time deposits	2,542,884	X	X	X	1,888,701	X	X	X
3. Green Loans	7,125	X	X	X	7,636	X	X	X
3.1 Repurchase agreements - payable	-	X	X	X	-	X	X	X
3.2 Others	7,125	X	X	X	7,636	X	X	X
4. Debt for commitments to repurchase equity instruments	-	X	X	X	-	X	X	X
5. Payables for leasing	26,779	X	X	X	23,110	X	X	X
6. Other payables	833	X	X	X	2,696	X	X	X
Total	**3,436,082**	**-**	**-**	**3,436,082**	**2,841,282**	**-**	**-**	**2,998,583**

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 31/12/2022				Total 31/12/2021			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. bonds	653,002	630,404	-	-	499,788	516,329	-	13,921
1.1 structured	-	-	-	-	-	-	-	-
1.2 others	653,002	630,404	-	-	499,788	516,329	-	13,921
2. other securities	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 others	-	-	-	-	-	-	-	-
Total	**653,002**	**630,404**	**-**	**-**	**499,788**	**516,329**	**-**	**13,921**

Key:

BV = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

Securities issued amounted to EUR 653 million, compared with EUR 499.8 million as of 31 December 2021, following new senior bond issues carried out during the course of 2022.

1.4 Breakdown of subordinated payables/securities

	31/12/2022	31/12/2022
Subordinated securities	**200,787**	**200,432**
- banks	-	-
- customers	200,787	200,432

1.6 Payables for leases

At the reporting date, the Group had outstanding payables for leases equal to EUR 26.8 million, divided between EUR 25.7 million relating to property and EUR 1.1 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 31/12/2022					Total 31/12/2021				
	Nominal Value	Fair Value			Fair Value	Nominal Value	Fair Value			Fair Value
		L1	L2	L3			L1	L2	L3	
A. Cash and cash equivalents liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Amounts due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	X	-	-	-	-	-
3.1 Bonds	-	-	-	-	X	-	-	-	-	-
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	X	-	-	-	-	-
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Others	-	-	-	-	X	-	-	-	-	X
Total (A)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivatives										
1. Financial derivatives	-	-	27,244	-	X	-	-	59	-	-
1.1 Held for trading	X	-	27,244	-	X	X	-	59	-	X
1.2 Connected to the fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Others	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	-	-	-	-	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**	**-**	**27,244**	**-**	**X**	**X**	**-**	**59**	**-**	**X**
Total (A+B)	**X**	**-**	**27,244**	**-**	**X**	**X**	**-**	**59**	**-**	**X**

Key:

NV = Nominal Value
L 1 = Level 1
L 2 = Level 2
L 3 = 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

4.1 Hedging derivatives: breakdown by hedge type and level

	Fair Value 31/12/2022			Nominal Value 31/12/2022	Fair Value 31/12/2021			Nominal Value 31/12/2021
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives								
1) Fair value	-	32,646	-	624,336	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
3) Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives								
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**32,646**	**-**	**624,336**	**-**	**-**	**-**	**-**

Key:

NV = Nominal Value
L 1 = Level 1
L 2 = Level 2
L 3 = Level 3

4.2 Hedging derivatives: breakdown by hedged portfolios and hedge type

Hedging operations/ type	Fair Value							Cash flows		Foreign investments
	Specific						Generic	Specific	Generic	
	debt securities and interest rates	equity securities and share indices	currencies and gold	credit	goods	other				
1. Financial assets measured at fair value through other comprehensive income	1,125	-	-	-	X	X	X	-	X	X
2. Financial assets measured at amortised cost	-	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	-	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**1,125**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Financial liabilities	31,521	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	**31,521**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	-	X	-	-

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	47,582
Due to suppliers	28,901
Due to the Treasury	15,446
Due to employees	12,435
Accrued expenses and deferred income	4,957
Due to social security and welfare bodies	3,802
Total 31/12/2022	**113,123**
Total 31/12/2021	**105,595**

The item consists mainly of miscellaneous items, including tax payables, and of trade payables to suppliers.

Section 9 - Employee severance pay – Item 90

Following the reforms to supplementary pensions in Italian 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 31/12/2022	Total 31/12/2021
A. Opening balance	**3,695**	**2,656**
B. Increases	**2,648**	**1,469**
B.1 Provision for the year	1,167	1,366
B.2 Other changes	1,481	103
- from business combinations	444	1
C. Decreases	**2,768**	**430**
C.1 Payments made	271	81
C.2 Other changes	2,497	349
- from business combinations	1,014	-
D. Closing balance	**3,575**	**3,695**
Total	**3,575**	**3,695**

The following criteria were used to calculate the TFR for IAS purposes:

SUMMARY OF TECHNICAL ECONOMIC ASSUMPTIONS

	31/12/2022	31/12/2021
Annual discount rate	4.17%	1.09%
Annual inflation rate	2.30%	1.75%
Annual rate of TFR increase	3.23%	2.81%
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 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

With regard to the additional information required by IAS 19, for post-employment defined benefit plans, please refer to the relevant paragraph in Part B - Explanatory notes of the parent company illimity Bank S.p.A. - Section 9 – Employee severance pay – Item 90 - “9.2 Other Information”.

Section 10 - Allowances for risks and charges – Item 100

10.1 Allowances for risks and charges: breakdown

Items/Components	Total 31/12/2022	Total 31/12/2021
1. Allowances for credit risk relating to commitments and financial guarantees given	4,863	4,482
2. Provisions for other commitments and guarantees issued	-	-
3. Post-employment benefits and similar commitments	28	18
4. Other allowances for risks and charges	1,468	1,281
4.1 legal and tax disputes	767	612
4.2 personnel cost	651	609
4.3 others	50	60
Total	**6,359**	**5,781**

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	-	**18**	**1,281**	**1,299**
B. Increases	-	**28**	**1,032**	**1,060**
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	-	28	1,032	1,060
- from business combinations	-	-	-	-
C. Decreases	**-**	**18**	**845**	**863**
C.1 Utilisations for the year	-	-	31	31
C.2 Changes due to variations in the discount rate	-	-	-	-
C.3 Other changes	-	18	814	832
- from business combinations	-	-	-	-
D. Closing balance	**-**	**28**	**1,468**	**1,496**

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
Commitments to disburse funds	195	-	-	4,556	4,751
Financial guarantees	64	48	-	-	112
Total	**259**	**48**	**-**	**4,556**	**4,863**

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 28 thousand, refer to the supplementary benefits of agents of the Group companies.

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

As of 31 December 2022, the Bank's share capital amounted to EUR 54,513,905.72, fully subscribed and paid up, divided into 83,645,108 ordinary shares, without indication of the 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	**79,103,090**	**1,440,000**
- fully paid-up	79,201,595	1,440,000
- not fully paid-up	-	-
A.1 Treasury shares (-)	(98,505)	-
A.2 Shares outstanding: initial balance	**79,103,090**	**1,440,000**
B. Increases	**4,453,573**	**-**
B.1 New issues	-	-
- against payment:	-	-
- bonds converted	-	-
- warrants exercised	-	-
- other	-	-
- free:	-	-
- for employees	-	-
- for directors	-	-
- other	-	-
B.2 Sales of treasury shares	-	-
B.3 Other changes	4,453,573	-
C. Decreases	-	**(1,440,000)**
C.1 Cancellation	-	-
C.2 Purchase of treasury shares	-	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	(1,440,000)
D. Shares issued: closing balance	**83,556,663**	**-**
D.1 Treasury shares (+)	88,445	-
D.2 Shares existing at the end of the year	83,645,108	-
- fully paid-up	83,645,108	-
- 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 31/12/2022
Legal reserve	5,047
Extraordinary reserve	10,444
Other Provisions	84,566
Total	**100,057**

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

(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
Year ended 31 December 2022	75,326	81,149,186	0.93
Year ended 31 December 2021	65,591	74,768,897	0.88

The diluted earnings (loss) per share differs from the basic earnings (loss) per share due to the potential shares in service of the Long-Term Incentive (LTI) plan.

(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 2022	75,326	83,180,280	0.91
Year ended 31 December 2021	65,591	75,377,813	0.87

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 2022:

	Shareholders' equity	Result
illimity Bank S.p.A.	**851,418**	**80,715**
Effect of consolidation of subsidiaries	(2,591)	-
Result of subsidiaries	1,270	1,270
Consolidation adjustments	6,570	974
Dividends	-	-
Effect of measuring associates and joint ventures using the equity method	(15,350)	(7,633)
Group	**841,317**	**75,326**

Section 14 - Equity of minority interests – Item 190

Company names	Total 31/12/2022	Total 31/12/2021
Investments in consolidated subsidiaries with significant minority interests	-	-
Other equity investments	5	5
Total	**5**	**5**

Other information

1. Commitments and financial guarantees issued

	Nominal value on commitments and financial guarantees issued				Total 31/12/2022	Total 31/12/2021
	Stage one	Stage two	Stage three	Purchased or originated impaired		
1. Commitments to disburse funds	**102,196**	**139**	**40,434**	**-**	**142,770**	**126,125**
a) Central banks	-	-	-	-	-	-
b) Public administrations	-	-	-	-	-	-
c) Banks	-	-	-	-	-	1,766
d) Other financial companies	37,782	-	16,404	-	54,186	28,410
e) Non-financial companies	62,675	128	24,030	69,983	156,816	93,513
f) Households	1,739	11	-	658	2,409	2,436
2. Financial guarantees issued	**5,900**	**1,295**	**75**	**-**	**7,270**	**6,431**
a) Central banks	-	-	-	-	-	-
b) Public administrations	-	-	-	-	-	-
c) Banks	84	-	-	-	84	-
d) Other financial companies	-	-	-	-	-	12
e) Non-financial companies	5,797	1,295	75	6,355	13,522	6,377
f) Households	19	-	-	-	19	42

2. Other commitments and guarantees issued

	Nominal value Total 31/12/2022	Nominal value Total 31/12/2021
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	2,295	2,447
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	8,843	11,159
e) Non-financial companies	37,742	67,068
f) Households	-	-

3. Assets given as collateral for own liabilities and commitments

Portfolios	Amount 31/12/2022	Amount 31/12/2021
1. Financial assets measured at fair value through profit or loss	1,634	98
2. Financial assets measured at fair value through other comprehensive income	217,196	107,121
3. Financial assets measured at amortised cost	419,684	69,300
4. Property and equipment	-	-
of which: Property and Equipment held as inventories	-	-

4. 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	**6,697,193**
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	6,223
1. securities issued by companies included in the consolidation	-
2. other securities	6,223
c) third party securities deposited with third parties	2,152
d) proprietary securities deposited with third parties	6,688,818
4. Other transactions	**-**

5. Assets subject to offsetting in financial statement, 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 2022	Net amount 31 December 2021
				Financial instruments (d)	Cash deposits received as guarantees (e)		
1. Derivatives	60,788	-	60,788	-	60,788	-	-
2. Repurchase agreements	-	-	-	-	-	-	(191,292)
3. Loan of securities	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-
Total 31/12/2022	**60,788**	**-**	**60,788**	**-**	**60,788**	**-**	**X**
Total 31/12/2021	**191,292**	**-**	**-**	**-**	**-**	**X**	**(191,292)**

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 2022	Net amount 31 December 2021
				Financial instruments (d)	Cash deposits as guarantees (e)		
1. Derivatives	47,835	-	47,835	-	47,835	-	-
2. Repurchase agreements	751,815	-	751,815	751,815	-	-	-
3. Loan of securities	-	-	-	-	-	-	-
4. Other transactions	-	-	-	-	-	-	-
Total 31/12/2022	**799,650**	**-**	**799,650**	**751,815**	**47,835**	**-**	**X**
Total 31/12/2021	**190,649**	**-**	**190,649**	**-**	**-**	**X**	**190,649**

Since 1 January 2013, the changes to IFRS 7 concerning disclosures on set-off agreements, as approved with Regulation no. 1256 of 13 December 2012, came into mandatory application. IFRS 7 requires specific disclosures to be given about financial instruments that have been offset in the statement of financial position under IAS 32, and which can potentially be offset under certain conditions, but presented in the statement of financial position with opening balances as they are regulated by "master netting agreements or similar" which do not however meet the criteria of IAS 32 to make the set off in the financial statements.

In providing disclosures of these agreements, the standard also requires that consideration be given to the effects of the real financial guarantees (including guarantees in cash) received and given.

7. *Securities lending transactions*

There are no securities lending transactions at the reference date.

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 on the consolidated income statement

Section 1 - Interest – Items 10 and 20

1.1 Interest income and similar income: breakdown

Items/Technical forms	Debt securities	Green Loans	Other transactions	Total 31 December 2022	Total 31 December 2021
1. Financial assets measured at fair value through profit or loss:	**1,782**	**-**	**-**	**1,782**	**1,329**
1.1 Financial assets held for trading	-	-	-	-	80
1.2 Financial assets at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	1,782	-	-	1,782	1,249
2. Financial assets measured at fair value through other comprehensive income	**8,135**	**-**	**X**	**8,135**	**4,191**
3. Financial assets measured at amortised cost	**28,815**	**192,133**	**-**	**220,948**	**185,382**
3.1 Due from banks	-	1,284	X	1,284	591
3.2 Loans to customers	28,815	190,849	X	219,664	184,791
4. Hedging derivatives	**X**	**X**	**4,394**	**4,394**	**-**
5. Other assets	**X**	**X**	**2,220**	**2,220**	**580**
6. Financial liabilities	**X**	**X**	**X**	**1,214**	**2,806**
Total	**38,732**	**192,133**	**6,614**	**238,693**	**194,288**
of which: interest income on impaired assets	88,681	128,867	-	217,548	134,586
of which: interest income on finance leasing	X	1,345	X	1,345	-

1.2 Interest income and similar income: other information

1.2.1 Interest income on assets denominated in foreign currency

Items/Values	31 December 2022	31 December 2021
Interest income on assets denominated in foreign currency	2,149	377

1.2.2 Interest income on finance leasing operations

There is no interest income on finance leasing operations.

1.3 *Interest expense and similar charges: breakdown*

Items/Technical forms	Amounts due	Securities	Other transactions	Total 31 December 2022	Total 31 December 2021
1. Amounts due to customers	**(47,658)**	**(20,760)**	**X**	**(68,418)**	**(57,433)**
1.1 Amounts due to central banks	(406)	X	X	(406)	(27)
1.2 Amounts due to banks	(5,549)	X	X	(5,549)	(4,386)
1.3 Amounts due to customers	(41,703)	X	X	(41,703)	(37,499)
1.4. Securities issued	X	(20,760)	X	(20,760)	(15,521)
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**	**(4,435)**	**(4,435)**	**-**
6. Financial assets	**X**	**X**	**X**	**(1,705)**	**(3,790)**
Total	**(47,658)**	**(20,760)**	**(4,435)**	**(74,558)**	**(61,223)**
of which: interest expense relative to leasing liabilities	(1,675)	X	X	(1,675)	(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 2022	31 December 2021
Interest expenses on liabilities denominated in foreign currency	(14)	(75)

1.5 *Differentials arising from hedging transactions*

Items	Total 31/12/2022	Total 31/12/2021
A. Positive differentials arising from hedging transactions	4,394	-
B. Negative differentials arising from hedging transactions	(4,435)	-
C. Balance (A-B)	**(41)**	**-**

Section 2 - Commission – Items 40 and 50

2.1 Fee and commission income: breakdown

Type of service/Values	Total 31/12/2022	Total 31/12/2021
a) Financial instruments	1	3
1. Placement of securities	1	3
1.1 With underwriting and/or on the basis of an irrevocable commitment	-	-
1.2 Without an irrevocable commitment	1	3
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	5,419	3,599
1. Consultancy on mergers and acquisitions	-	-
2. Treasury services	-	-
3. Other fees and commissions connected with corporate finance services	5,419	3,599
c) Investment consultancy activities	-	-
d) Netting and settlement	-	-
e) Collective portfolio management	3,697	1,683
f) Custody and administration	1	1
1. Custodian bank	-	-
2. Other fees and commissions related to custody and administration activities	1	1
g) Central administrative services for collective portfolio management	-	-
h) Fiduciary activities	-	-
i) Payment services	1,259	1,131
1. Current accounts	375	405
2. Credit cards	491	323
3. Debit cards and other payment cards	97	81
4. Bank transfers and other payment orders	112	105
5. Other fees and commissions related to payment services	184	217
j) Distribution of third party services	216	133
1. Collective portfolio management	-	-
2. Insurance products	4	5
3. Other products	212	128
of which: individual portfolio management	-	-
k) Structured finance	-	-
l) Servicing activities for securitisation operations	5,811	13
m) Commitments to disburse funds	-	-
n) Financial guarantees issued	250	68
of which: credit derivatives	-	-
o) Loan operations	31,423	15,514
of which: for factoring operations	6,947	3,401
p) Currency trading	60	48
q) Goods	-	-
r) Other fee and commission income	17,564	18,130
of which: for management of multilateral trading systems	-	-
of which: for management of organised trading systems	-	-
Total	**65,701**	**40,283**

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 Abilio Agency and Abilio Group companies – 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

Type of service/Values	Total 31 December 2022	Total 31 December 2021
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	(239)	(156)
e) Collection and payment services	(1,595)	(1,067)
of which: credit cards, debit cards and other payment cards	(1,292)	(764)
f) Servicing activities for securitisation operations	(398)	(1,838)
g) Commitments to receive funds	-	-
h) Financial guarantees received	-	(1)
of which: credit derivatives	-	-
i) Off-site distribution of financial instruments, products and services	-	-
j) Currency trading	-	-
k) Other fee and commission expense	(4,219)	(2,448)
Total	**(6,451)**	**(5,708)**

Section 3 - Dividends and similar income – Item 70

Items/Income	Total 31/12/2022		Total 31/12/2021	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	-	-	-	-
B. Other financial assets mandatorily measured at fair value	-	200	-	-
C. Financial assets measured at fair value through other comprehensive income	-	-	-	-
D. Equity investments	-	-	-	-
Total	**-**	**200**	**-**	**-**

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	**-**	**-**	**(4)**	**-**	**(4)**
1.1 Debt securities	-	-	-	-	-
1.2 Equity instruments	-	-	-	-	-
1.3 UCITS units	-	-	(4)	-	(4)
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**	**143**
4. Derivatives	**50,481**	**9,049**	**(45,786)**	**(8,397)**	**4,590**
4.1 Financial derivatives:	50,481	9,049	(45,786)	(8,397)	4,590
- On debt securities and interest rates	50,481	9,049	(45,786)	(8,397)	5,347
- On equity securities and share indices	X	X	X	X	-
- On currencies and gold	-	-	-	-	(757)
- Others	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedging related to the fair value option	-	-	-	-	-
Total	**50,481**	**9,049**	**(45,790)**	**(8,397)**	**4,729**

Section 5 - Fair value adjustments in hedge accounting – Item 90

5.1 Fair value adjustments in hedge accounting: breakdown

Income items/Amounts	Total 31 December 2022	Total 31 December 2021
A. Income relating to:		
A.1 Fair value hedging derivatives	17,624	-
A.2 Hedged financial assets (fair value)	8,770	-
A.3 Hedged financial liabilities (fair value)	3,266	-
A.4 Cash flow hedge derivatives	-	-
A.5 Assets and liabilities in foreign currency	-	-
Total income from hedging (A)	**29,660**	**-**
B. Charges relating to:		
B.1 Fair value hedging derivatives	(12,036)	-
B.2 Hedged financial assets (fair value)	(16,421)	-
B.3 Hedged financial liabilities (fair value)	(1,203)	-
B.4 Cash flow hedge derivatives	-	-
B.5 Assets and liabilities in foreign currency	-	-
Total hedge accounting expenses (B)	**(29,660)**	**-**
C. Fair value adjustments in hedge accounting (A - B)	**-**	**-**
of which: result of hedges on net positions	-	-

Section 6 - Profits (Losses) on disposal/repurchase – Item 100

6.1 Profits (Losses) on disposal/repurchase: breakdown

Item/Income item	Total 31/12/2022			Total 31/12/2021		
	Profits	Losses	Net profits/ losses	Profits	Losses	Net profits/ losses
Financial assets						
1. Financial assets measured at amortised cost	296	(285)	11	306	(4)	302
1.1 Due from banks	-	-	-	-	-	-
1.2 Loans to customers	296	(285)	11	306	(4)	302
2. Financial assets measured at fair value through other comprehensive income	869	(1,043)	(174)	6,268	(1,177)	5,091
2.1 Debt securities	869	(1,043)	(174)	6,268	(1,177)	5,091
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**1,165**	**(1,328)**	**(163)**	**6,574**	**(1,181)**	**5,393**
Amounts due to customers	**-**	**-**	**-**	**-**	**-**	**-**
1. Due to banks	-	-	-	-	-	-
2. Amounts due to customers	-	-	-	-	-	-
3. Securities issued	-	(304)	(304)	-	-	-
Total liabilities (B)	**-**	**(304)**	**(304)**	**-**	**-**	**-**

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 2022.

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	**6,341**	**3,018**	**(606)**	**-**	**8,753**
1.1 Debt securities	4,621	87	(403)	-	4,305
1.2 Equity instruments	157	7	(3)	-	161
1.3 UCITS units	63	2,924	(200)	-	2,787
1.4 Loans	1,500	-	-	-	1,500
2. Financial assets: foreign exchange differences	X	X	X	X	-
Total	**6,341**	**3,018**	**(606)**	**-**	**8,753**

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 2022	Total 31 December 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	**(14)**	**-**	**-**	**-**	**-**	**-**	**228**		**-**	**-**	**214**	**(92)**
- Loans	(14)	-	-	-	-	-	228	-	-	-	214	(92)
- Debt securities	-	-	-	-	-	-	-	-	-	-	-	-
B. Loans to customers	**(7,459)**	**(2,870)**	**-**	**(4,575)**	**-**	**(118,339)**	**6,537**	**452**	**1,853**	**174,370**	**49,969**	**43,597**
- Loans	(4,624)	(2,573)	-	(4,268)	-	(118,339)	5,863	334	1,853	174,370	52,616	44,528
- Debt securities	(2,835)	(297)	-	(307)	-	-	674	118	-	-	(2,647)	(931)
Total	**(7,473)**	**(2,870)**	**-**	**(4,575)**	**-**	**(118,339)**	**6,765**	**452**	**1,853**	**174,370**	**50,183**	**43,505**

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 2022	Total 31 December 2021
	Stage one	Stage two	Stage three		Purchased or originated impaired			
			Write-offs	Others	Write-offs	Others		
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	-	-	-	29	-	-	**29**	**53**
4. New funding	(1,400)	(644)	-	(162)	-	16	**(2,190)**	**(2,454)**
Total	**(1,400)**	**(644)**	**-**	**(133)**	**-**	**16**	**(2,161)**	**(2,401)**

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 2022	Total 31 December 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. Debt securities	(158)	(295)	-	-	-	-	586	-	-	-	(1,291)	(907)
B. Loans	-	-	-	-	-	-	-	-	-	-	-	537
- to customers	-	-	-	-	-	-	-	-	-	-	-	537
- to banks	-	-	-	-	-	-	-	-	-	-	-	-
Total	**(1,582)**	**(295)**	**-**	**-**	**-**	**-**	**586**	**-**	**-**	**-**	**(1,291)**	**(370)**

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

As of 31 December 2022 no profits or losses on changes in contracts without derecognition had been recognised.

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 December 2022	Total 31 December 2021
1) Employees	(81,807)	(69,427)
a) wages and salaries	(43,609)	(38,709)
b) social security contributions	(12,568)	(10,868)
c) provision for employee severance pay	-	-
d) pension costs	-	-
e) provision for employee severance pay	(1,637)	(1,359)
f) provision for post-employment benefits and similar provisions:	(112)	(78)
- defined contribution	(112)	(78)
- defined benefit	-	-
g) payments to external supplementary pension funds:	(1,349)	(1,085)
- defined contribution	(1,349)	(1,085)
- defined benefit	-	-
h) costs related to share-based payments	(984)	(474)
i) other employee benefits	(21,548)	(16,854)
2) Other personnel in service	(1,580)	(1,962)
3) Directors and statutory auditors	(2,484)	(2,174)
4) Early retirement costs	-	-
Total	**(85,871)**	**(73,563)**

12.2 *Average number of employees per category*

Category	2022
a) senior managers	77
b) middle managers	350
c) other employees	426
Total employees	**853**
Other personnel	**56**

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 remunerated benefits, canteen vouchers and various insurance policies.

12.5 *Other administrative expenses: breakdown*

Type of expense/Amount	31/12/2022
Insurance	(3,236)
Various consulting services	(11,024)
Various contributions	(6,703)
Cost of services	(4,889)
Financial information	(3,315)
Adverts and advertising	(6,206)
Financial statement audit	(802)
IT and software expenses	(25,425)
Legal and notary's fees	(9,177)
Property management expenses	(3,946)
Expenses for professional services	(10,571)
Utilities and services	(1,706)
Other indirect taxes and duties	(9,355)
Others	(4,773)
Total 31/12/2022	**(101,128)**
Total 31/12/2021	**(84,156)**

Section 13 - Net provisions for 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 31/12/2022
	Stage one and Stage two	Stage three	Impaired	Stage one and Stage two	Stage three	Impaired	
Guarantees issued	(76)	-	-	30	5	-	(41)
Irrevocable commitments to disburse funds	(78)	-	(2,746)	163	-	2,033	(629)
Total 31/12/2022	**(154)**	**-**	**(2,746)**	**193**	**5**	**2,033**	**(669)**
Total 31/12/2021	**(232)**	**-**	**(3,213)**	**378**	**1**	**662**	**(2,404)**

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 provisions for other allowances for risks and charges: breakdown*

The Group did not make any net provisions for other allowances for risks and charges in 2022.

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	Amortisation (a)	Write-downs/ write-backs for impairment (b)	Recoveries (c)	Net profit/loss (a + b - c)
A. Property and equipment				
1. Used in the business	(3,426)	(163)	-	(3,589)
- Owned	(655)	(163)	-	(818)
- Rights of use acquired through lease agreements	(2,771)	-	-	(2,771)
2. Held for investment	-	-	-	-
- Owned	-	-	-	-
- Rights of use acquired through lease agreements	-	-	-	-
3. Inventories	X	(612)	-	(612)
Total	**(3,426)**	**(775)**	**-**	**(4,201)**

Section 15 - Net adjustments/recoveries on intangible assets – Item 220

15.1 Net write-downs/write-backs 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	(546)	-	-	(546)
A.1 Owned	(13,070)	-	-	(13,070)
- Generated internally by the company	(3,440)	-	-	(3,440)
- Other	(9,630)	-	-	(9,630)
A.2 Rights of use acquired through lease agreements		-	-	-
B. Assets held for sale	X	-	-	-
Total	**(13,070)**	**-**	**-**	**(13,070)**

Section 16 - Other operating expenses/income – Item 230

16.1 Other operating expenses: breakdown

Items/Technical forms	31 December 2022	31 December 2021
Amortisation of expenses for improvements on third party assets	(155)	(87)
Other operating expenses	(1,087)	(886)
Total	**(1,242)**	**(973)**

16.2 Other operating income: breakdown

Items/Technical forms	31 December 2022	31 December 2021
Recoveries of expenses from other customers	7,785	5,180
Other income	17,966	14,281
Rental income	3,206	2,933
Total	**28,957**	**22,394**

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 December 2022	Total 31 December 2021
1) Jointly controlled companies		
A. Income	-	-
1. Revaluations	-	-
2. Gains on disposal	-	-
3. Recoveries	-	-
4. Other income	-	-
B. Costs	(7,339)	(8,187)
1. Write-downs	(7,339)	(8,187)
2. Write-downs/write-backs for impairment	-	-
3. Losses on disposal	-	-
4. Other charges	-	-
Net profit/loss	**(7,339)**	**(8,187)**
2) Companies in which significant influence is exercised		
A. Income	-	433
1. Revaluations	-	433
2. Gains on disposal	-	-
3. Recoveries	-	-
4. Other income	-	-
B. Costs	(294)	(4)
1. Write-downs	(294)	(4)
2. Write-downs/write-backs for impairment	-	-
3. Losses on disposal	-	-
4. Other charges	-	-
Net profit/loss	**(294)**	**429**
Total	**(7,633)**	**(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 31/12/2022	Total 31/12/2021
A. Property	18	6,066
- Gains on disposal	18	6,066
- Losses on disposal	-	-
B. Other assets	248	2,278
- Gains on disposal	343	2,278
- Losses on disposal	(95)	-
Net profit/loss	**266**	**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 December 2022	Total 31 December 2021
1. Current tax (-)	(35,828)	(20,917)
2. Adjustment to current taxes for prior years (+/-)	(22)	-
3. Reduction of current taxes for the year (+)	-	-
3.bis Reduction of current tax for the year due to tax credits (Italian Law 214/2011 (+))	-	-
4. Change in deferred tax assets (+/-)	10,186	5,901
5. Change in deferred taxes (+/-)	128	(145)
6. Tax expense for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(25,536)	(15,161)

Total income taxes for the year amounted to EUR 25.5 million, broken down as follows: a charge of EUR 35.8 million relating to current taxes and substitute tax, an income of EUR 10.2 million relating to the change in IRES and IRAP prepaid taxes, and an income of EUR 0.1 million relating to the change in IRES deferred taxes.

21.2 Reconciliation of theoretical tax charge with actual tax charge

Items/Components	31/12/2022
Profit (loss) from continuing operations before tax	**100,862**
IRES - theoretical tax charge (27.5%)	(27,737)
– effect of lower rate	231
– effect of non-deductible expenses and other increases - permanent	(2,852)
– effect of non-taxable income and other decreases - permanent	3,017
– non-current IRES	1,730
IRES - actual tax charge	**(25,611)**
– IRAP - theoretical tax charge (5.57%)	(5,618)
– effect of lower rate	(102)
– effect of income/charges that do not contribute to the taxable base	(411)
– non-current IRAP	400
IRAP - actual tax charge	**(5,731)**
Other taxes	**5,806**
Financial statements actual tax charge	**(25,536)**

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 2022 was 25.32%. The effective tax rate was lower than the theoretical tax rate due to the positive effects primarily of the tax relief relating to the acquisition of the equity investment in AREC, the tax benefit resulting from the application of the “Patent Box” regime, and the deduction relating to ACE (Economic Aid Subsidies), as well as the negative effects of the loss generated by the Hype S.p.A. joint venture.

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 December 2022	Total 31 December 2021
1. Income	-	391
2. Costs	-	(121)
3. Net gains/losses on the measurement of the group of assets 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 December 2022	Amount 31 December 2021
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
Year ended 31 December 2022	75,326	81,149,186	0.93
Year ended 31 December 2021	65,591	74,768,897	0.88

Diluted earnings (losses) per share	Net profit/loss for the year	Average number of shares	Diluted earnings (losses) per share
Year ended 31 December 2022	75,326	83,180,280	0.91
Year ended 31 December 2021	65,591	75,377,813	0.87

25.2 Other information

There is no other information as of the reporting date.

Part D – Consolidated comprehensive income

ANALYTICAL STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

		31/12/2022	31/12/2021
10.	**Profit (loss) for the year**	**75,326**	**65,591**
	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 measured 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	1,277	(137)
80.	Non-current assets held for sale and discontinued operations	-	-
90.	Share of valuation reserves for equity investments measured at equity	49	6
100.	Other income components without recycling to the income statement	(328)	36
	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	(63,973)	(8,493)
	a) fair value changes	(65,057)	(9,236)
	b) reclassification through income statement	1,084	743
	- adjustments for credit risk	1,292	907
	- profits/losses on disposals	(208)	(164)
	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	-	-
	- adjustment due to impairment	-	-
	- profits/losses on disposals	-	-
	c) other changes	-	-
180.	Income taxes relating to other income components with recycling to the income statement	21,156	2,808
190.	**Total other income components**	**(41,818)**	**(5,779)**
200.	**Other comprehensive income (Item 10+190)**	**35,508**	**59,812**
210.	Consolidated comprehensive income attributable to minority interests	-	-
220.	**Consolidated comprehensive income attributable to the Parent Company**	**35,508**	**59,812**

PART E – Information on risks and related hedging policies

Introduction

Risk Management Process and Internal Control System

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.

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 Management Control Committee monitors the adequacy and concrete functioning of the company's organisational structure and internal control system, and supports the Board of Directors in defining the guidelines for the internal control and risk management system, in line with the Bank's strategies and in assessing, at least annually, the adequacy of that system with respect to the characteristics of the Bank and the risk profile assumed, as well as the efficacy of the system.

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, governing the process of identification, analysis, modelling, assessment, measuring, controlling and reporting.

The Chief Compliance & AFC Officer, as a function of second-level control, oversees regulatory compliance, with a view to preventing, managing and mitigating the risk of incurring legal or administrative penalties, major financial losses or damage to reputation resulting from violations of mandatory regulations or self-regulation, as well as preventing money laundering and terrorist financing risk and the risk of breach of financial sanctions. The Chief Compliance & AFC Officer is also responsible for overseeing issues relating to the processing of personal data and is identified as the Data Protection Officer, in accordance with the applicable regulations in force.

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, and assesses the completeness, adequacy, functionality and reliability of the organisational structure and the internal control system, notifying the company bodies of possible improvements, with specific regard to the RAF, the risk management process and the risk measurement and monitoring tools.

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 of the RAF, that represents an organic and structured approach which has implications on integrated risk management and governance processes, producing impacts on nearly all company functions. The RAF is structured and set out at an operational level by Company, Business Division and business segment, and covers escalation processes, metrics and quantitative limits, as well as qualitative guidelines, indicated annually in the Risk Appetite Statement (RAS). The formalisation of the risk management process is fundamental to ensure a sound and prudent company management;
- the internal capital adequacy assessment process (ICAAP) and the internal liquidity adequacy assessment process ILAAP), which have the objective of providing an internal assessment of the assets with respect to exposure to the risks that characterise their operations and the operational and structural liquidity profile, under ordinary and stressed conditions, also on a forward-looking basis on achievement of the objectives of the Strategic Plan and the Budget;
- 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 to manage and control risk under normal operating conditions, the Group has implemented a process connected with drawing up the Recovery Plan, which governs the management of crisis situations, and strategies and options for intervention designed to restore ordinary operations, as well as the Contingency Funding Plan procedure (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, 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 Chief Financial Officer (CFO) and with 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, 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 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.

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	624,893	649,973	1,010	79,903	3,030,951	4,386,730
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	391,691	391,691
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	43,850	43,850
5. Financial assets held for sale	-	-	-	-	-	-
Total 31/12/2022	**624,893**	**649,973**	**1,010**	**79,903**	**3,466,492**	**4,822,271**
Total 31/12/2021	**703,761**	**375,522**	**136**	**3,410**	**2,551,534**	**3,634,363**

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	1,296,080	(20,204)	1,275,876	-	3,713,369	(602,515)	3,110,854	4,386,730
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	394,003	(2,312)	391,691	391,691
3. Financial assets designated at fair value	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	X	X	43,850	43,850
5. Financial assets held for sale	-	-	-	-	-	-	-	-
Total 31/12/2022	**1,296,080**	**(20,204)**	**1,275,876**	**-**	**4,107,372**	**(604,827)**	**3,546,395**	**4,822,271**
Total 31/12/2021	**1,097,949**	**(18,530)**	**1,079,419**	**-**	**2,504,846**	**(11,893)**	**2,554,944**	**3,634,363**

(*) Values to be stated for information purposes.

Portfolio/quality	Assets clearly of poor credit quality		Other assets
	Accumulated capital losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	31,117
2. Hedging derivatives	-	-	29,874
Total 31/12/2022	**-**	**-**	**60,991**
Total 31/12/2021	**-**	**-**	**896**

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 origination process;
- 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 enhancing 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 cost of risk and the coverage ratio for performing and non-performing exposures;
- the level of concentration, with regard to exposures to a counterparty or group of connected counterparties (single name exposures), and at sectoral level (with attention to exposures to real estate), including in relation to Own Funds;
- the collections made compared with those forecast with regard to non-performing exposures for which a Business Plan is present;
- the assumption of exposures classified as "Large Risks", the direct purchase of property and the assumption of assets classified as level 3;
- the Group's level of exposure to repossessed property;
- 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 (Italian Decree Law 18/2020, "Cura Italia Decree"), and the disbursement of loans with extensive public guarantees (Italian 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 Italian 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 used since the outbreak of the pandemic were maintained.

In addition, the analysis models and tools used for second level risk management controls and relative reporting processes continued their consolidation in 2022, along with the analysis of main drivers determining the asset quality of the credit portfolio.

Impacts of the Russia - Ukraine conflict

The continuous monitoring of credit exposure makes it possible to promptly identify situations of potential difficulty deriving from the economic and geopolitical context. At the start of the hostilities between Russia and Ukraine, careful analyses were conducted that made it possible to identify the borrowers impacted by sanctions, trade freezes and commodities costs, even indirectly. Following the initial months of the conflict, it can be affirmed that many counterparties have implemented mitigation actions sufficient to preserve their credit risk profiles. Only in a few, limited cases has the continuation of the crisis made it necessary to revise the classifications and allowances, effects which, in any event, are mitigated by the state guarantees on those loans.

2. Credit risk management policies

2.1 Organisational aspects

Refer to the following paragraph.

2.2 Management, measurement and control systems

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 and Unit Claims Solutions Areas, responsible for the origination of the investment opportunities in distressed loans, in the area of litigation (Public Procurement Claims) and in Senior Financing operations, as well as the coordination of the entire negotiation and bidding process, until the final closing phase;
2. The Portfolio & Asset Optimisation Area, which is responsible for optimising portfolio, single name and repossessed property management by identifying market opportunities for their sale (or redevelopment in the case of properties), in accordance with the thresholds set by the Bank, while coordinating the entire process, from the initial analysis phase to post-sales;
3. 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;
4. Monitoring & Analytics Area, responsible for governing and managing the cost monitoring process, the income statement and the portfolios/single names or the trend in performance of the Division;
5. The Operating Model & Servicing Coordination Area, tasked with coordinating and monitoring the Division's activities, overseeing and coordinating the Servicing companies, relations with other Bank units and decision-making bodies and providing legal advice related to individual investment opportunities and initiatives;
6. The Project Area, responsible for identifying and developing strategies to start up the alternative investment business on the Distressed Credit market.

In more detail, the "Investments" perimeter, which includes the organisational units Portfolios, Special Situations – Real Estate, Special Situations – Energy and Claims Solutions, 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"), in addition to Public Procurement Claims). Credits are acquired both in the "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 four organisational units, described below:

1. 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);
2. Special Situations – Real Estate, aimed at investment opportunities in "single name" real estate receivables, meaning exposures to a single borrower or, at most, a cluster of corporate counterparties, both secured and unsecured;
3. Special Situations – Energy, aimed at investment opportunities in single name loans involving corporate counterparties operating in the renewable energy sector;
4. Claims Solutions, aimed at seeking out, assessing, investing in and managing investment opportunities in the area of litigation (Public Procurement Claims) and at intervening in all the phases of the process of investment and management of disputes.

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 structures report to the Head of the Distressed Credit Division and interact with the other areas of the Division (Pricing, Operating Model & Servicing Coordination and Portfolio Monitoring & Analytics) and the Bank's structures (General Counsel, Administration, Accounting & Control, CRO, Chief Compliance & AFC Officer), 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 AREC neprix S.p.A., created through the merger by incorporation of AREC S.p.A. (acquired on 30 June 2022) by neprix S.r.l. with legal effect from 1 January 2023, for the management of distressed loans, which also enters into commercial agreements with servicers selected from time to time on the basis of the characteristics of the assets acquired.

AREC 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.

The Bank is also supported by Abilio S.p.A., a company formed by the proportional partial spin-off of neprix S.r.l. that is wholly owned by the Bank and became operational on 1 April 2022. The company manages and sells 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, Maui SPE, Kenobi SPV, Dagobah SPV and Spicy Green SPV, and with the companies Soperga RE, Friuli LeaseCo, Doria LeaseCo, River LeaseCo, Pitti LeaseCo, Dagobah LeaseCo, River Immobiliare, SpicyCo and SpicyCo 2.

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:

1. 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;
2. 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);
3. Turnaround: the purchase of loans classified as unlikely-to-pay (UTP), 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, provides support to the Business Areas by defining tools and processes, manages the Modena branch and oversees the portfolio of the former Banca Interprovinciale regarding progressive divestment.

Investment Banking Division

The Investment Banking Division is responsible for defining and executing capital markets operations (both in the equity segment and the debt segment for corporate customers), for derivatives trading on own behalf and for third parties, for structuring structured finance transactions for funding and capital optimisation purposes to support the other units of the Bank.

The Division's Value Proposition provides:

- alternative solutions for companies in addition to those already offered by the Bank, exploiting the synergies with the Growth Credit and Distressed Credit Divisions (i.e. Basket Bonds, Basket Loans, Securitisations of secured and unsecured single tranche loans, IPOs, M&A, derivatives);
- structuring funding transactions and capital optimisation (i.e. SRTs), also supporting other Company Divisions and Functions.

The Division is divided into three organisational units, described below:

1. Capital Markets, which provides complementary solutions to companies in relation to the Growth Credit Division's offering;
2. Corporate Solutions, which invests in corporate bonds and alternative debts and offers solutions to SMEs and Mid Caps to hedge market risks;
3. Structuring, which takes care of implementing complex financial transactions for the Bank and for companies.

In order to conduct its Investment Banking business, illimity also works with the vehicle Piedmont SPV.

b-ilty Division

illimity, via the b-ilty Division, offers digital banking and digital lending products and services to Business customers or to small and medium-sized enterprises with turnover of EUR 2 million to EUR 10 million, with the goal of improving their financial management. The Division aims to develop a range of products and services that can fulfil the needs of the market. It is responsible for designing the Value Proposition and its relative commercial and pricing components.

The b-ilty Value Proposition currently extends to the following products and services categories:

- Deposit accounts with competitive rates and a simple, customisable product structure;
- Current accounts, offered through an innovative, digital User Experience, with associated credit, debit and prepaid cards managed in collaboration with nexi;
- Account Aggregator Service, a feature that enables 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;
- Digital credit, which includes factoring and green financing operations;
- Insurance products offered to customers through partnerships with selected market operators.

The Division is divided into the organisational units described below:

1. Digital Lending Product & Management Unit, which focuses primarily on defining the target market for corporate credit customers;
2. Process & Product Factory Unit, which focuses primarily on structuring products and services for the Division and designing the relevant disbursement processes;
3. Business Support & Strategy Unit, which is responsible primarily for the Division's strategic planning and achieving its cost management goals;

4. Business Partnership Area, which is responsible for defining partnership development strategies and managing relations, as well as managing associations and insurance distribution;
5. Business Development Area, which focuses on achieving target results, defining business models and developing the commercial network, including through the Top Network Unit, which reports directly to this Area;

CRM & Commercial Planning Area, which manages and develops the Division's information assets, as well as devising the customer segmentation model.

CIO Division

The Chief Information Officer (CIO) is responsible for managing IT infrastructure as well as managing the funding platform, i.e. the app and web channel for retail customers.

Through ICT Platforms & Data Monetization, which reports to the CIO, illimity offers digital banking products and services to retail customers. The objective of this structure is to manage the technological platforms and initiatives for developing and monetising the platforms.

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

- Current accounts, offered through an innovative, digital User Experience, with associated credit, debit and prepaid cards managed in collaboration with nexi;
- Deposit accounts with competitive rates and a simple, customisable product structure;
- Spending projects, to simply and automatically save to achieve goals;
- 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, making it possible to perform transactions;
- Offer of a complete range of products (*i.e.* personal loans, American Express credit cards and insurance products).

Asset Management Company

illimity SGR S.p.A. is the Asset Management Company ("SGR") 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:

"Business Areas" comprising:

- The UTP & Turnaround Funds Area, focused 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, focused on setting up and managing AIFs with investment strategies and policies targeting asset classes with underlying financial instruments issued by performing companies;
- The NPL Small Medium Tickets Funds Area, focused on setting up and managing AIFs with investment strategies and policies in the granular (typically unsecured) Non-Performing Loans (NPL) market, with potential counterparties both small corporates and retail businesses, and different areas of origination (utilities, consumer, commercial credit, etc.).

A transversal support area named Operations & Administration supports the organisation as a whole in all formal, administrative and operational aspects connected with managing AIFs and the SGR.

Lastly, the SGR's organisation comprises the establishment of Compliance and Anti-Money Laundering, Risk Management and Internal Audit functions, outsourced to the respective central units of the parent company illimity Bank, in order to have a structured system to monitor internal controls. It also appoints a Supervisory Body pursuant to Italian Legislative Decree 231/01, whose composition, in accordance with the approach adopted by the Group, consists of the Company's Board of Statutory Auditors.

Other functions - Corporate Centre

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

- The Chief Financial Officer (CFO), responsible for coordinating the complex process of planning, control and administration, managing strategic planning and relations with the financial community, as well as developing the Corporate Social Responsibility Plan;
- The Chief HR & Organisation Officer, responsible for optimising operating and procurement costs, managing human resources, as well as managing the organisational activities of supervision and transversal coordination for the Bank;
- The General Counsel, responsible for legal and corporate support and managing the corporate secretariat, as well as general affairs and relations with authorities;
- The Chief Risk Officer (CRO), responsible for guaranteeing the strategic oversight and definition of risk management policies;
- The Chief Lending Officer (CLO), who monitors credit analysis and approval activities;
- The Chief Information Officer (CIO), responsible for managing IT infrastructure, Back Office activities and the Contact Centre. The CIO is also responsible – via the Division – for the platforms owned by illimity (illimity.com; ION) and related development opportunities, as well as the customers managed through those platforms;
- The Chief Compliance & AFC Officer, responsible for compliance risk management and oversight of money laundering and terrorist financing risk;
- The Chief Communication & Marketing Officer: responsible for promoting and supporting the development of a single, shared identity of the Bank among the stakeholders and formulating the Bank's communications plan and brand development strategy to ensure positioning, customer acquisition results and optimal customer management.

Chief Risk Officer and Chief Financial Officer

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, reputational and ESG 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 is 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 & Group Controls 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

The estimate of expected losses is carried out in accordance with IFRS 9. 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.

Changesdue 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:

- <u>assessment of the significant increase in risk (SICR):</u> 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;
- <u>financial assets covered by business renegotiations and exposures subject to concessions:</u> 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 complexity of the Group's portfolio. In fact, illimity Bank's credit portfolio is divided between the legacy portfolio originated by the former Banca Interprovinciale, the new exposures originated by illimity and the non-performing loans acquired by the Bank; these latter are further divided between the medium-to-long-term exposures of the GC Division, the factoring exposures of that same division, and the medium-to-long-term exposures of the b-ilty Division. Each of these sub-divisions has very different characteristics in terms of, for example, size, risk profile, management rules.

For this purpose, the illimity Bank Group has maintained 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 originated by illimity, used in credit risk management processes (origination and risk control) to estimate the probability of default/rating of credit exposures of the Growth Credit Division and for the purposes of the financial statements (calculation of the collective write-down);
- application of an external rating to the remaining exposures (former Banca Interprovinciale Portfolio, b-ilty 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, so as to be able 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.

During the course of 2022, the illimity Bank Group further increased the portion of its credit portfolio with state guarantees.

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"**, which 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.
- **"unlikely-to-pay positions**, which, 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.
- **"bad loans"**, which 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

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 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	35,666	5	7	39,060	1,928	2,940	808	157	32,396	8,232	55,281	1,050,709
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-	-	-	-	-	-	-
Total 31/12/2022	35,666	5	7	39,060	1,928	2,940	808	157	32,396	8,232	55,281	1,050,709
Total 31/12/2021	966	105	1,532	103	215	48	284	111	7,420	3,675	3,843	1,011,621

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**

Description/risk stages	Total write-downs/write-backs											
	Assets in stage one						Assets in stage two					
	Due from banks and central banks on demand Financial assets measured at amortised cost	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which individual 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 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	**17**	**9,968**	**1,021**	**-**	**-**	**11,005**	**-**	**568**	**-**	**-**	**-**	**568**
Increases in purchased or originated financial assets	0	7,143	1,465	-	-	8,608	-	81	-	-	-	81
Derecognitions other than write-offs	7	2,850	397	-	-	3,254	-	157	-	-	-	157
Net losses/recoveries for credit risk (+/-)	(2)	(66)	(38)	-	-	(393)	-	78	-	-	-	78
Contractual amendments without derecognitions	-	-	-	-	-	-	-	-	-	-	-	-
Changes in estimate methodology	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs not recognised directly in the income statement	-	-	-	-	-	-	-	-	-	-	-	-
Other changes	-	(2,316)	(33)	-	-	(2,351)	-	2,105	295	-	-	2,400
Final total adjustments	**8**	**11,878**	**2,017**	**-**	**-**	**13,615**	**-**	**2,674**	**295**	**-**	**-**	**2,969**
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

Description/risk stages	Total write-downs/write-backs					
	Assets in stage three					
	Due from banks and central banks on demand Financial assets measured at amortised cost	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which individual write-downs	of which collective write-downs
Opening total adjustments	**-**	**18,530**	**-**	**-**	**18,487**	**43**
Increases in purchased or originated financial assets	-	3,232	-	-	3,144	88
Derecognitions other than write-offs	-	2,573	-	-	2,535	38
Net losses/recoveries for credit risk (+/-)	-	(268)	-	-	(482)	214
Contractual amendments without derecognitions	-	-	-	-	-	-
Changes in estimate methodology	-	-	-	-	-	-
Write-offs not recognised directly in the income statement	-	-	-	-	-	-
Other changes	-	1,284	-	-	1,015	268
Final total adjustments	**-**	**20,204**	**-**	**-**	**19,629**	**575**
Recoveries from receipts on written-off financial assets	-	-	-	-	-	-
Write-offs recognised directly in the income statement	-	-	-	-	-	-

p.3

Description/risk stages	Total write-downs/write-backs									Total
	purchased or originated credit impaired financial assets					Total provisions on commitments to disburse funds and financial guarantees issued				
	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	**337**	**-**	**-**	**-**	**337**	**337**	**10**	**5**	**4,131**	**30,791**
Increases in purchased or originated financial assets	-	-	-	-	-	101	11	-	-	12,032
Derecognitions other than write-offs	9	-	-	-	9	133	-	-	-	6,127
Net losses/recoveries for credit risk (+/-)	604	-	-	-	604	(46)	28	(5)	-	286
Contractual amendments without derecognitions	-	-	-	-	-	-	-	-	-	-
Changes in estimate methodology	-	-	-	-	-	-	-	-	-	-
Write-offs not recognised directly in the income statement	-	-	-	-	-	-	-	-	-	-
Other changes	(273)	-	-	-	(273)	(0)	(0)	-	426	1,061
Final total adjustments	**659**	**-**	**-**	**-**	**659**	**258**	**48**	**-**	**4,556**	**38,043**
Recoveries from receipts on written-off financial assets	-	-	-	-	-	-	-	-	-	-
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 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
1. Financial assets measured at amortised cost	57,602	6,292	6,460	56	18,611	86
2. Financial assets measured at fair value through other comprehensive income	768	-	-	-	-	
3. Financial assets held for sale	-	-	-	-	-	
4. Commitments to disburse funds and financial guarantees issued	133	3	-	1	-	
Total 31/12/2022	**58,503**	**6,295**	**6,460**	**57**	**18,611**	**86**
Total 31/12/2021	**29,368**	**10,204**	**3,447**	**181**	**452**	**10**

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					
	Transfer 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	**-**	**21,760**	**-**	**5,168**	**-**	**14,699**
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	-	-	-	286	-	422
A.4 new loans	-	21,760	-	4,882	-	14,277
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 31/12/2022		**21,760**	**-**	**5,168**	**-**	**14,699**
Total 31/12/2021	**-**	**-**	**-**	**-**	**-**	**-**

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	**680,784**	**680,784**	**-**	**-**	**-**	**8**	**8**	**-**	**-**	**-**	**680,776**	**-**
a) Non-performing	-	X	-	-	-	-	X	-	-	-	-	-
b) Performing	680,784	680,784	-	X	-	8	8	-	X	-	680,776	-
A.2 Other	**135,358**	**135,358**	**-**	**-**	**-**	**181**	**181**	**-**	**-**	**-**	**135,177**	**-**
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	-	-	-	X	-	(1)	(1)	-	X	-	-	-
- of which: forborne exposures	-	-	-	X	-	-	-	-	X	-	-	-
e) Other performing exposures	135,358	135,358	-	X	-	182	182	-	X	-	135,176	-
- of which: forborne exposures	-	-	-	X	-	-	-	-	X	-	-	-
Total (A)	**816,142**	**816,142**	**-**	**-**	**-**	**189**	**189**	**-**	**-**	**-**	**815,953**	**-**
B. Off-balance sheet credit exposures												
a) Non-performing	-	X	-	-	-	-	X	-	-	-	-	-
b) Performing	53,953	53,953	-	X	-	-	-	-	X	-	53,953	-
Total (B)	**53,953**	**53,953**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**53,953**	**-**
Total (A+B)	**870,095**	**870,095**	**-**	**-**	**-**	**189**	**189**	**-**	**-**	**-**	**869,906**	**-**

(*) 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 exposures												
a) bad loans	718,443	X	-	19,609	420,782	14,353	X	-	14,353	-	704,416	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	-
b) Unlikely-to-pay	379,336	X	-	43,992	611,769	5,788	X	-	5,788	-	374,868	-
- of which: forborne exposures	94,562	X	-	6,875	87,687	1,690	X	-	1,690	-	92,872	-
c) Non-performing past due exposures	1,074	X	-	343	730	63	X	-	63	-	1,011	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	-
d) Performing past due exposures	81,511	35,836	45,341	X	335	1,609	158	1,413	X	38	79,902	-
- of which: forborne exposures	33	-	33	X	-	-	-	-	X	-	33	-
e) Other performing exposures	3,934,353	3,867,090	59,028	X	8,235	603,035	600,858	1,556	X	621	3,331,318	-
- of which: forborne exposures	41,373	27,914	13,459	X	-	177	132	45	X	-	41,196	-
Total (A)	**5,311,944**	**3,902,926**	**104,369**	**63,944**	**1,041,851**	**624,848**	**601,016**	**2,969**	**20,204**	**659**	**4,687,096**	**-**
B. Off-balance sheet credit exposures												
a) Non-performing	72,196	X	-	3,021	69,175	4,556	X	-	-	4,556	67,640	-
b) Performing	171,537	114,716	1,434	X	7,821	307	258	48	X	-	171,230	-
Total (B)	**243,733**	**114,716**	**1,434**	**3,021**	**76,996**	**4,863**	**258**	**48**	**-**	**4,556**	**238,870**	**-**
Total (A+B)	**5,555,677**	**4,017,642**	**105,803**	**66,965**	**1,118,847**	**629,711**	**601,274**	**3,017**	**20,204**	**5,215**	**4,925,966**	**-**

(*) 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	**25,726**	**-**	**-**	**25,726**	**-**	**2,208**	**-**	**-**	**2,208**	**-**	**23,517**	**-**
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	709	-	-	709	-	27	-	-	27	-	682	-
d) New loans	25,017	-	-	25,017	-	2,181	-	-	2,181	-	22,836	-
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	**810,924**	**769,374**	**39,398**	**-**	**2,152**	**4,015**	**3,371**	**644**	**-**	**-**	**806,909**	**-**
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	810,924	769,374	39,398	-	2,152	4,015	3,371	644	-	-	806,909	-
TOTAL (A+B+C+D+E)	**836,650**	**769,374**	**39,398**	**25,726**	**2,152**	**6,223**	**3,371**	**644**	**2,208**	**-**	**830,426**	

(*) 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	**718,442**	**379,335**	**170**
- of which: assets sold but not derecognised	-	-	-
B. Increases	**361,752**	**453,640**	**1,554**
B.1 transfers from performing exposures	12	29,580	809
B.2 transfers from purchased or originated credit impaired financial assets	103,275	294,223	-
B.3 transfers from other non-performing exposures	4,595	471	728
B.4 contractual amendments without derecognition	-	-	-
B.5 other increases	253,870	129,366	17
C. Decreases	**440,949**	**177,214**	**650**
C.1 transfers to performing exposures	-	4,548	65
C.2 write-offs	-	-	-
C.3 collections	320,370	111,465	113
C.4 proceeds from disposals	11,006	54,906	-
C.5 losses on disposal	-	-	-
C.6 transfers to other non-performing exposures	-	5,323	471
C.7 contractual amendments without derecognition	-	-	-
C.8 other decreases	109,573	972	-
D. Gross exposure closing balance	**639,245**	**655,761**	**1,074**
- 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	**699,428**	**358,965**	**-**
- of which: assets sold but not derecognised	-	-	-
B. Increases	**359,906**	**418,772**	**730**
B.1 transfers from performing exposures	-	-	-
B.2 transfers from purchased or originated credit impaired financial assets	103,228	294,223	-
B.3 transfers from other non-performing exposures	2,826	-	728
B.4 contractual amendments without derecognition	-	-	-
B.5 other increases	253,852	124,549	2
C. Decreases	**440,594**	**165,967**	**-**
C.1 transfers to performing exposures	-	4,377	-
C.2 write-offs	-	-	-
C.3 collections	319,166	102,158	-
C.4 proceeds from disposals	10,960	54,906	-
C.5 losses on disposal	-	-	-
C.6 transfers to other non-performing exposures	-	3,554	-
C.7 contractual amendments without derecognition	-	-	-
C.8 other decreases	110,468	972	-
D. Gross exposure closing balance	**618,740**	**611,770**	**730**

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	**19,014**	**20,370**	**170**
- of which: assets sold but not derecognised	-	-	-
B. Increases	**2,742**	**34,869**	**824**
B.1 transfers from performing exposures	12	29,580	809
B.2 transfers from purchased or originated credit impaired financial assets	47	-	-
B.3 transfers from other non-performing exposures	1,769	471	-
B.4 contractual amendments without derecognition	-	-	-
B.5 other increases	914	4,818	15
C. Decreases	**1,251**	**11,247**	**650**
C.1 transfers to performing exposures	-	171	66
C.2 write-offs	-	-	-
C.3 collections	1,204	9,307	113
C.4 proceeds from disposals	47	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other non-performing exposures	-	1,769	471
C.7 contractual amendments without derecognition	-	-	-
C.8 other decreases	-	-	-
D. Gross exposure closing balance	**20,505**	**43,992**	**344**

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	**22,266**	**18,777**
- of which: assets sold but not derecognised	-	-
B. Increases	**91,144**	**38,794**
B.1 transfers from performing exposures not forborne	-	67
B.2 transfers from performing forborne exposures	1,410	X
B.3 transfers from non-performing forborne exposures	X	68
B.4 inflows from non-performing, non-forborne exposures	-	-
B.5 other increases	89,734	38,659
C. Decreases	**18,848**	**16,164**
C.1 transfers to performing exposures not forborne	X	-
C.2 transfers to performing forborne exposures	68	X
C.3 outflows towards non-performing forborne exposures	X	1,410
C.4 write-offs	-	-
C.5 collections	15,508	14,754
C.6 proceeds from disposals	-	-
C.7 losses on disposal	-	-
C.8 other decreases	3,272	-
D. Gross exposure closing balance	**94,562**	**41,407**
- 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	**14,027**		**4,468**	**1,269**	**34**	**-**
- of which: assets sold but not derecognised						-
B. Increases	**1,852**		**3,625**	**904**	**67**	**-**
B.1 write-downs/write-backs from purchased or originated credit impaired financial assets						X
B.2 other write-downs/write-backs	993		2,956	898	67	-
B.3 losses on disposal						-
B.4 transfers from other non-performing exposures	859		7			-
B.5 contractual amendments without derecognition						-
B.6 other increases			662	6		-
C. Decreases	**1,526**		**2,305**	**484**	**37**	**-**
C.1 write-backs from measurement	468		859	143	5	-
C.2 write-backs from recoveries	646		541	74	8	-
C.3 gains on disposal						-
C.4 write-offs						-
C.5 transfers to other non-performing exposures			859		7	-
C.6 contractual amendments without derecognition						-
C.7 other decreases	412		46	267	17	-
D. Total closing adjustments	**14,353**		**5,788**	**1,689**	**64**	**-**
- 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	**2,513**	**10,041**	**17,461**	**7,547**	**96**	**-**	**4,971,502**	**5,009,160**
- Stage one	2,513	10,041	17,461	7,547	96	-	3,563,253	3,600,911
- Stage two	-	-	-	-	-	-	103,600	103,600
- Stage three	-	-	-	-	-	-	63,944	63,944
- Purchased or originated impaired	-	-	-	-	-	-	1,240,705	1,240,705
B. Financial assets measured at fair value through comprehensive income	**1,964**	**9,622**	**82,452**	**46,712**	**21,621**	**554**	**231,078**	**394,003**
- Stage one	1,964	9,622	82,452	46,712	21,621	554	230,310	393,235
- Stage two	-	-	-	-	-	-	768	768
- 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)	**4,477**	**19,663**	**99,913**	**54,259**	**21,717**	**554**	**5,202,580**	**5,403,163**
D. Commitments to disburse funds and financial guarantees given	**6,339**	**16,880**	**32,998**	**-**	**-**	**-**	**137,963**	**194,180**
- Stage one	6,339	16,880	32,998	-	-	-	81,143	137,360
- Stage two	-	-	-	-	-	-	1,434	1,434
- Stage three	-	-	-	-	-	-	(15,679)	(15,679)
- Purchased or originated impaired	-	-	-	-	-	-	71,065	71,065
Total (D)	**6,339**	**16,880**	**32,998**	**-**	**-**	**-**	**137,963**	**194,180**
Total (A+B+C+D)	**10,816**	**36,543**	**132,911**	**54,259**	**21,717**	**554**	**5,340,543**	**5,597,343**

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 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						No rating	Total
	Class 9	Class 10	Class 11	Class 12	Class 13	Class 14		
A. Financial assets measured at amortised cost	**-**	**-**	**-**	**-**	**-**	**-**	3,713,864	3,713,864
- Stage one	-	-	-	-	-	-	2,873,009	2,873,009
- Stage two	-	-	-	-	-	-	103,600	103,600
- Stage three	-	-	-	-	-	-	63,944	63,944
- Purchased or originated impaired	-	-	-	-	-	-	673,311	673,311
B. Financial assets measured at fair value through comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	394,003	394,003
- Stage one	-	-	-	-	-	-	393,235	393,235
- Stage two	-	-	-	-	-	-	768	768
- 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)	**-**	**-**	**-**	**-**	**-**	**-**	**4,107,867**	**4,107,867**
D. Commitments to disburse funds and financial guarantees given	**-**	**-**	**-**	**-**	**-**	**-**	194,179	194,179
- Stage one	-	-	-	-	-	-	137,360	137,360
- Stage two	-	-	-	-	-	-	1,434	1,434
- Stage three	-	-	-	-	-	-	725	725
- Purchased or originated impaired	-	-	-	-	-	-	54,660	54,660
Total (D)	**-**	**-**	**-**	**-**	**-**	**-**	**194,179**	**194,179**
Total (A+B+C+D)	**-**	**-**	**-**	**-**	**-**	**-**	**4,302,046**	**4,302,046**

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 (1)			
			Real estate - mortgages	Real estate - Loans for leasing	Securities	Other real guarantees
1. Guaranteed on-balance sheet credit exposures:	**-**	**-**	**-**	**-**	**-**	**-**
1.1 totally secured	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-
1.2 partially secured	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-
2. Guaranteed off-balance sheet credit exposures:	**-**	**-**	**-**	**-**	**-**	**-**
2.1 totally secured	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-
2.2 partially secured	-	-	-	-	-	-
- 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					
1. Guaranteed on-balance sheet credit exposures:	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 totally secured	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-
1.2 partially secured	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-
2. Guaranteed off-balance sheet credit exposures:	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 totally secured	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-
2.2 partially secured	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-

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 - mortgages	Real estate - Loans for leasing	Securities	Other real guarantees	CLN	Other derivatives Central Counterparties
1. Guaranteed on-balance sheet credit exposures:	**2,186,923**	**2,172,631**	**580,922**	**31,176**	**69,403**	**57,070**	**-**	**-**
1.1 totally secured	1,043,693	1,037,493	573,787	31,176	64,294	43,024	-	-
- of which non-performing	683,291	678,892	455,479	31,176	5,114	25,027	-	-
1.2 partially secured	1,143,230	1,135,138	7,135	-	5,109	14,046	-	-
- of which non-performing	128,117	125,209	1,450	-	226	9,598	-	-
2. Guaranteed "Off-Balance Sheet" credit exposures:	**39,241**	**39,166**	**6,085**	**-**	**2,977**	**1,765**	**-**	**-**
2.1 totally secured	19,739	19,729	6,085	-	2,977	733	-	-
- of which non-performing	12,417	12,417	4,612	-	-	-	-	-
2.2 partially secured	19,502	19,437	-	-	-	1,032	-	-
- of which non-performing	7,757	7,757	-	-	-	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:	**-**	**-**	**-**	**171,296**	**38,950**	**25,378**	**885,259**	**1,859,454**
1.1 totally secured	-	-	-	19,781	2,926	24,038	282,165	1,041,191
- of which non-performing	-	-	-	1,875	694	4,319	157,238	680,922
1.2 partially secured	-	-	-	151,515	36,024	1,340	603,094	818,263
- of which non-performing	-	-	-	18,138	21	780	31,171	61,384
2. Guaranteed "Off-Balance Sheet" credit exposures:	**-**	**-**	**-**	**3,902**	**222**	**1,194**	**9,082**	**25,227**
2.1 totally secured	-	-	-	1,026	-	205	6,758	17,784
- of which non-performing	-	-	-	1,026	-	174	4,685	10,497
2.2 partially secured	-	-	-	2,876	222	989	2,324	7,443
- of which non-performing	-	-	-	476	-	-	1,958	2,441

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	**-**	**104,843**	**102**	**104,741**	**49,754**
A.1 For business use	-	-	-	-	-
A.2 For investment purposes	-	-	-	-	-
A.3 Inventory	-	104,843	102	104,741	49,754
B. Equity securities and debt securities	**-**	**-**	**-**	**-**	**-**
C. Other assets	**-**	**1,633**	**-**	**1,633**	**1,633**
D. Non-current assets and asset groups held for sale	**-**	**-**	**-**	**-**	**-**
D.1 Property and equipment	-	-	-	-	-
D.2 Other assets	-	-	-	-	-
Total 31/12/2022	**-**	**106,476**	**102**	**106,374**	**51,387**
Total 31/12/2021	**-**	**53,828**	**-**	**53,828**	**-**

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	-	-	5,321	31	-	-
- of which: forborne exposures	-	-	-	-	-	-
A.2 Unlikely to pay	3,164	-	98,000	190	-	-
- of which: forborne exposures	-	-	-	-	-	-
A.3 Non-performing past-due exposures	-	-	1	-	-	-
- of which: forborne exposures	-	-	-	-	-	-
A.4 Performing exposures	661,386	886	735,478	3,944	468	8
- of which: forborne exposures	-	-	-	-	-	-
Total (A)	**664,550**	**886**	**838,800**	**4,165**	**468**	**8**
B. Off-balance sheet credit exposures						
B.1 Non-performing exposures	-	-	-	-	-	-
B.2 Performing exposures	-	-	60,985	1	-	-
Total (B)	**-**	**-**	**60,985**	**1**	**-**	**-**
Total (A+B) 31/12/2022	**664,550**	**886**	**899,785**	**4,166**	**468**	**8**
Total (A+B) 31/12/2021	**212,304**	**281**	**768,025**	**2,978**	**239**	**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 exposures				
A.1 Bad loans	482,136	12,409	126,865	1,913
- of which: forborne exposures	-	-	-	-
A.2 Unlikely to pay	509,970	5,130	22,293	468
- of which: forborne exposures	91,486	1,526	1,386	164
A.3 Non-performing past due exposures	9,187	24	160	39
- of which: forborne exposures	-	-	-	-
A.4 Performing exposures	1,880,956	12,400	48,147	112
- of which: forborne exposures	40,397	166	965	10
Total (A)	**2,882,249**	**29,963**	**197,465**	**2,532**
B. Off-balance sheet exposures				
B.1 Non-performing exposures	67,016	4,522	624	34
B.2 Performing exposures	134,956	306	1,769	-
Total (B)	**201,972**	**4,828**	**2,393**	**34**
Total (A+B) 31/12/2022	**3,084,221**	**34,791**	**199,858**	**2,566**
Total (A+B) 31/12/2021	**2,325,196**	**28,686**	**175,722**	**2,556**

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 exposures					
A.1 Bad loans	624,472	14,353	418	-	-
A.2 Unlikely to pay	638,335	5,788	11,637	-	-
A.3 Non-performing past due exposures	1,010	63	-	-	-
A.4 Performing exposures	3,084,398	14,652	216,019	2,580	17,909
Total (A)	**4,348,215**	**34,856**	**228,074**	**2,580**	**17,909**
B. Off-balance sheet exposures					
B.1 Non-performing exposures	67,639	4,556	-	-	-
B.2 Performing exposures	185,383	216	12,318	91	9
Total (B)	**253,022**	**4,772**	**12,318**	**91**	**9**
Total (A+B) 31/12/2022	**4,601,237**	**39,628**	**240,392**	**2,671**	**17,918**
Total (A+B) 31/12/2021	**3,288,318**	**32,983**	**179,844**	**1,479**	**5,566**

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 exposures					
A.1 Bad loans	-	-	-	1	-
A.2 Unlikely to pay	-	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-	-
A.4 Performing exposures	62	3,206	29	4,303	19
Total (A)	**62**	**3,206**	**29**	**4,304**	**19**
B. Off-balance sheet exposures					
B.1 Non-performing exposures	-	-	-	1	-
B.2 Performing exposures	-	-	-	-	-
Total (B)	**-**	**-**	**-**	**1**	**-**
Total (A+B) 31/12/2022	**62**	**3,206**	**29**	**4,305**	**19**
Total (A+B) 31/12/2021	**18**	**5,118**	**13**	**2,401**	**8**

B.2 Prudential consolidation – Territorial distribution of on and "off-balance sheet" credit exposures to customers

Exposures/Geographic Areas	Northwest Italy		Northeast 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	124,244	897	94,610	12,528	208,481	652	197,139	276
A.2 Unlikely-to-pay positions	285,545	1,914	127,065	2,552	102,938	1,257	122,788	65
A.3 Non-performing past-due exposures	1	4	1,006	54	2	1	1	4
A.4 Performing exposures	1,628,939	6,855	515,490	4,217	954,824	2,852	128,543	728
Total (A)	**2,038,729**	**9,670**	**738,171**	**19,351**	**1,266,245**	**4,762**	**448,471**	**1,073**
B. Off-balance sheet credit exposures								
B.1 Non-performing exposures	20,122	1,182	28,736	2,497	17,582	754	1,199	123
B.2 Performing exposures	72,488	115	45,924	90	13,618	9	21,950	2
Total (B)	**92,610**	**1,297**	**74,660**	**2,587**	**31,200**	**763**	**23,149**	**125**
Total (A+B) 31/12/2022	**2,131,339**	**10,967**	**812,831**	**21,938**	**1,297,445**	**5,525**	**471,620**	**1,198**
Total (A+B) 31/12/2021	**1,592,747**	**8,395**	**641,120**	**21,550**	**711,060**	**2,361**	**343,392**	**677**

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 exposures					
A.1 Bad loans	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-	-
A.4 Performing exposures	793,372	183	22,571	6	-
Total (A)	**793,372**	**183**	**22,571**	**6**	**-**
B. Off-balance sheet exposures					
B.1 Non-performing exposures	-	-	-	-	-
B.2 Performing exposures	22,677	-	31,276	-	-
Total (B)	**22,677**	**-**	**31,276**	**-**	**-**
Total (A+B) 31/12/2022	**816,049**	**183**	**53,847**	**6**	**-**
Total (A+B) 31/12/2021	**137,618**	**323**	**193,805**	**8**	**-**

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	-	-	-	9	-
Total (A)	**-**	**-**	**-**	**9**	**-**
B. Off-balance sheet exposures					
B.1 Non-performing exposures	-	-	-	-	-
B.2 Performing exposures	-	-	-	-	-
Total (B)	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2022	**-**	**-**	**-**	**9**	**-**
Total (A+B) 31/12/2021	**-**	**-**	**-**	**(1)**	**1**

B.3 Prudential consolidation - Territorial distribution of on and "off-balance sheet" credit exposures to banks

Exposures/Geographical areas	Northwest Italy		Northeast 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	745,023	115	15,311	26	29,069	42	-	-
Total (A)	**745,023**	**115**	**15,311**	**26**	**29,069**	**42**	**-**	**-**
B. Off-balance sheet credit exposures								
B.1 Non-performing exposures	-	-	-	-	-	-	-	-
B.2 Performing exposures	18,052	-	-	-	4,625	-	-	-
Total (B)	**18,052**	**-**	**-**	**-**	**4,625**	**-**	**-**	**-**
Total (A+B) 31/12/2022	**763,075**	**115**	**15,311**	**26**	**33,694**	**42**	**-**	**-**
Total (A+B) 31/12/2021	**92,768**	**263**	**5,050**	**15**	**39,800**	**45**	**-**	**-**

B.4 Large exposures

	31 December 2022
Book value	2,915,607
Weighted value	573,623
Number	7

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 Italian Law 130/99.

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.

Investment Banking Division

For its performing-loan securitisation operations, the Parent Company uses the vehicle Piedmont SPV, comprising Banca Finint, a financial intermediary and securitisation master servicer, in accordance with Italian Law 130/99. Piedmont SPV is consolidated on a line-by-line basis.

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.

Information on "self-securitisation" operations can be found in Part E - Section 2 "Prudential consolidation Risks 1.4 Liquidity risk". These are operations in which the Group fully subscribed the securities issued by the vehicle, with the aim of using them to obtain liquidity, typically through repurchase agreements with market counterparties.

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	91,497	-	267,150	(1,452)	4,698	(25)	4,991	-

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 Italian 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)	259,946	-	43,507	296,830	-	-	-
Aporti S.r.l. - Segment II	Milan	a)	11,478	-	597	11,875	-	-	-
Aporti S.r.l. - Segment III	Milan	a)	33,034	-	3,414	35,810	-	-	-
Aporti S.r.l. - Segment IV	Milan	a)	105,112	-	6,089	110,273	-	-	-
Aporti S.r.l. - Segment VI	Milan	a)	85,386	-	1,071	86,394	-	-	-
Friuli SPV S.r.l.	Milan	a)	4,080	-	4,970	6,868	-	-	-
Doria SPV S.r.l.	Milan	a)	41,715	-	69,334	94,319	-	-	-
River SPV S.r.l.	Milan	a)	3,435	-	7,421	6,933	-	-	-
Pitti SPV S.r.l.	Milan	a)	27,115	-	8,664	30,905	-	-	-
Maui SPE S.r.l.	Milan	a)	-	-	11,008	11,000	-	-	-
Piedmont SPV S.r.l.	Milan	a)	39,491	-	1,097	40,761	-	-	-
Kenobi SPV S.r.l.	Milan	a)	-	-	47,291	46,089	-	-	-
Dagobah SPV S.r.l.	Milan	a)	31,176	-	4,692	34,502	-	-	-
Spicy Green SPV S.r.l.	Milan	a)	66,024	-	32,523	96,198			

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

In addition to the operations described above, which are consolidated on a line-by-line basis, consideration should also be given to the Convivio SPV securitisation, in which illimity subscribed 50% of the single-tranche note as part of a joint venture with Apollo Global Management.

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 and Investment Banking Divisions are the following:

- Aporti SPV (Distressed Credit - NPL);
- Doria SPV (Distressed Credit - NPL);
- River SPV (Distressed Credit - NPL);
- Pitti SPV (Distressed Credit - NPL);
- Friuli SPV (Distressed Credit - NPL);
- Dagobah SPV (Distressed Credit - NPL);
- Kenobi SPV (Distressed Credit – RE);
- MAUI SPE (Distressed Credit – RE);
- Spicy Green SPV (Distressed Credit - NPL);
- Piedmont SPV (Investment Banking – Performing portfolios).

The securitisation operations consist of:

- Securitisations of non-performing loans attributable to the Distressed Credit Division;
- Securitisations of property attributable to the Distressed Credit Division;
- Securitisations of performing loans attributable to the Investment Banking Division.

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 value

	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. Green Loans	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. Other financial assets mandatorily measured at fair value	**1,535**	**-**	**1,535**	**-**	**30,818**	**-**	**30,818**
1. Debt securities	1,535	-	1,535	-	30,818	-	30,818
2. Equity securities	-	-	-	X	-	-	-
3. Green Loans	-	-	-	-	-	-	-
C. Financial assets carried at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Green Loans	-	-	-	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	**94,376**	**-**	**94,376**	**-**	**84,780**	**-**	**84,780**
1. Debt securities	94,376	-	94,376	-	84,780	-	84,780
2. Equity securities	-	-	-	X	-	-	-
3. Green Loans	-	-	-	-	-	-	-
A. Financial assets measured at amortised cost	**779,648**	**513,472**	**266,176**	**-**	**636,217**	**-**	**636,217**
1. Debt securities	266,176	-	266,176	-	636,217	-	636,217
2. Green Loans	513,472	513,472	-	-	-	-	-
Total 31/12/2022	**875,559**	**513,472**	**362,087**	**-**	**751,815**	**-**	**751,815**
Total 31/12/2021	**201,038**	**-**	**201,038**	**-**	**190,650**	**-**	**190,650**

D.2 Partially recognised financial assets sold 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 Disposal transactions 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.

At the end of 2021, ratings supplied by external providers were also introduced 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.

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	**46**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	46	-	-	-	-	-	-	-
2. On-balance sheet liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Repos	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	59
+ Short positions	-	-	-	-	59	-	-	-
- Others								
+ Long positions	-	22,982	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	13,301	40,040	722	5,362	13,323	13	-
+ Short positions	-	13,681	5,740	724	38,485	14,119	12	-
- Other derivatives								
+ Long positions	-	295,282	66,947	27,285	284,885	34,034	17,000	-
+ Short positions	-	240,136	67,336	19,000	313,107	33,057	-	-

2. Regulatory trading portfolio: 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

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).

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 time/temporal mismatch between the maturity and the re-pricing 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 value 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 terms of economic performance 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.

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	**1,357,092**	**1,570,322**	**392,616**	**282,680**	**1,262,394**	**569,581**	**45,446**	**22,884**
1.1 Debt securities	2,430	535,619	224	15,066	360,691	465,854	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	2,430	535,619	224	15,066	360,691	465,854	-	-
1.2 Loans to banks	715,104	-	-	-	-	-	-	22,884
1.3 Loans to customers	639,558	1,034,703	392,392	267,614	901,703	103,727	45,446	-
- current account	15,903	17,728	6,520	53,300	80,061	14,391	3,341	-
- other loans	623,655	1,016,975	385,872	214,314	821,642	89,336	42,105	-
- with early repayment option	10,997	839,735	341,935	724	56,788	10,925	3,502	-
- other	612,658	177,240	43,937	213,590	764,854	78,411	38,603	-
2. On-balance sheet liabilities	**1,484,316**	**764,196**	**135,249**	**1,035,594**	**1,870,666**	**4,130**	-	-
2.1 Amounts due to customers	870,312	241,215	135,249	824,941	1,360,222	4,130	-	-
- current account	752,750	-	-	-	-	-	-	-
- other payables	117,562	241,215	135,249	824,941	1,360,222	4,130	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	117,562	241,215	135,249	824,941	1,360,222	4,130	-	-
2.2 Amounts due to banks	614,004	522,981	-	58,003	10,092	-	-	-
- current account	9,887	-	-	-	-	-	-	-
- other payables	604,117	522,981	-	58,003	10,092	-	-	-
2.3 Debt securities	-	-	-	152,650	500,352	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	152,650	500,352	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	-	**191,487**	**139,419**	**615,666**	**522,100**	**170,000**	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	191,487	139,419	615,666	522,100	170,000	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	191,487	139,419	615,666	522,100	170,000	-	-
+ Long positions	-	110,000	110,000	127,236	472,100	0	-	-
+ Short positions	-	81,487	29,419	488,430	50,000	170,000	-	-
4. Other off-balance sheet transactions	**85,490**	**1**	**51**	**5,006**	**40,608**	**22,119**	**164**	-
+ Long positions	8,771	1	51	5,006	40,608	22,119	164	-
+ Short positions	76,719	-	-	-	-	-	-	-

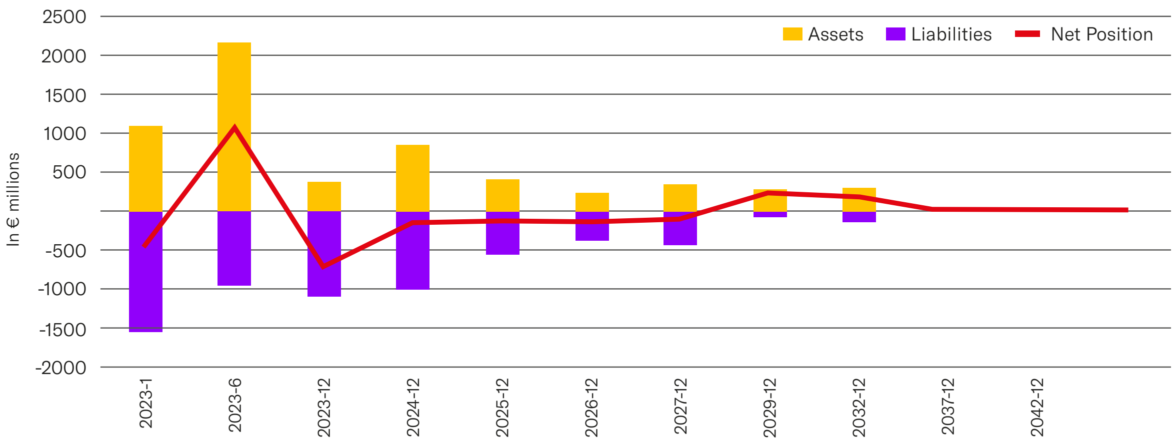
2. Bank portfolio: internal models and other methods of sensitivity analysis

The construction of a series of internal models, even if not validated (which do not consider scenarios of early termination), enables 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 value 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 the1st 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 2022, 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 45.9 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 5.2%.



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 +0.4 million, while in the negative shock scenario of -100 bps, the estimated change would be equal to EUR -0.4 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 rate risk arising from exposures on the banking book is cancelled using systematic balancing with funding/loan operations in the same currency as the original transaction and, to a small extent, through exchange rate derivatives.

Quantitative information

1. Breakdown by currency of assets, liabilities and derivatives

Items	Currencies					
	USD	MXN	GBP	ZAR	CHF	OTHER CURRENCIES
A. Financial assets	53,316	-	100	-	368	511
A.1 Debt instruments	-	-	-	-	-	-
A.2 Equity instruments	7	-	-	-	-	-
A.3 Loans to banks	2,800	-	16	-	368	511
A.4 Loans to customers	50,509	-	84	-	-	-
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	26	-	-	-	-	-
C. Financial liabilities	(635)	-	-	-	-	-
C.1 Amounts due to banks	-	-	-	-	-	-
C.2 Amounts due to customers	(635)	-	-	-	-	-
C.3 Debt instruments	-	-	-	-	-	-
C.4 Other financial assets	-	-	-	-	-	-
D. Other liabilities	(40)	-	-	-	-	-
E. Financial derivatives	(68,830)	-	(12)	-	-	-
- Options	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-
- Other derivatives	(68,830)	-	(12)	-	-	-
+ Long positions	(7,969)	-	-	-	-	-
+ Short positions	(60,861)	-	(12)	-	-	-
Total assets	**61,311**	**-**	**100**	**-**	**368**	**511**
Total liabilities	**(61,536)**	**-**	**(12)**	**-**	**-**	**-**
Difference (+/-)	**(225)**	**-**	**88**	**-**	**368**	**511**

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. There are no internal models and other methods developed for sensitivity analysis.

1.3 Derivative instruments and hedging policies

1.3.1 Trading derivatives

Trading in derivatives was authorised with effect from 2021: the main type of trading 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.

A.1 Financial derivatives held for trading: end-of-period notional values

Underlying assets/ Types of derivatives	Total 31/12/2022				Total 31/12/2021			
	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	**-**	**535,900**	**370,117**	**-**	**-**	**57,600**	**62,302**	**-**
a) Options	-	189,600	22,109	-	-	-	4,000	-
b) Swaps	-	346,300	318,379	-	-	57,600	58,302	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	29,629	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and share indices	**-**	-	-	**-**	**-**	-	-	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	**-**	**60,566**	**-**	**-**	**-**	**177**	-	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	60,566	-	-	-	177	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Goods	**-**	-	-	**-**	**-**	-	-	**-**
5. Other	**-**	-	-	**-**	**-**	-	-	**-**
Total	**-**	**596,466**	**370,117**	**-**	**-**	**57,777**	**62,302**	**-**

A.2 Financial derivatives held for trading: positive and negative gross fair value - distribution by products

Types of derivatives	Total 31/12/2022				Total 31/12/2021			
	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	-	12,950	-	-	-	-	-	-
b) Interest rate swaps	-	17,949	12	-	-	280	614	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	159	-	-	-	2	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-
Total	**-**	31,058	12	**-**	**-**	282	614	**-**
2. Negative fair value								
a) Options	-	10,626	59	-	-	-	52	-
b) Interest rate swaps	-	4,564	11,996	-	-	1	6	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-
Total	**-**	**15,190**	**12,055**	**-**	**-**	**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	29,629	20,248	320,240
- positive fair value	X	-	4	8
- negative fair value	X	-	527	11,528
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	-	477,900	58,000	-
- positive fair value	-	30,220	680	-
- negative fair value	-	14,287	902	-
2) Equity securities and share indices				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currencies and gold				
- notional value	-	60,566	-	-
- positive fair value	-	159	-	-
- 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	84,289	591,593	230,134	906,016
A.2 Financial derivatives on equity securities and share indices	-	-	-	-
A.3 Financial derivatives on currencies and gold	60,566	-	-	60,566
A.4 Financial derivatives on goods	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2022	**144,855**	**591,593**	**230,134**	**966,582**
Total 31/12/2021	**2,186**	**104,425**	**13,468**	**120,079**

1.3.2 Accounting hedges

In 2022 the Illimity Group implemented a Hedge Accounting framework that made it possible to set up specific hedges (Micro Fair Value Hedges) using financial derivatives.

The Group makes use of the possibility, provided for upon the introduction of IFRS 9, to continue to fully apply the provisions of IAS 39 on "hedge accounting" (in the carve-out version approved by the European Commission) for hedges.

Type of hedge

Risk hedging operations are aimed at neutralising potential losses, attributable to a given risk, which can be recognised under a specific element or group of elements, if that particular risk should arise.

The type of hedge used by the Group is the fair value hedge, which aims to hedge exposure to changes in the fair value (attributable to various types of risk) of assets and liabilities recognised in the financial statements (or portions thereof), of groups of assets/liabilities, of irrevocable commitments and of portfolios of financial assets and liabilities, including deposits. There are no generic fair value hedges.

There are no cash flow hedges.

There are no hedges of foreign investments.

Hedged instruments

The main types of hedged elements are:

- Debt securities on the asset side: debt securities on the asset side classified under FVOCI assets are hedged through micro fair value hedges, using Interest Rate Swaps (IRS). The interest rate risk is hedged for the entire duration of the obligation. The Dollar Offset Method is used to verify the effectiveness of the hedge. This method is based on the ratio of the accumulated changes (since the hedge was initiated) in the fair value of the hedging instrument, attributable to the hedged risk, to the past changes in the fair value of the hedged element (the "delta fair value"), net of interest.
- Time deposits: time deposits are hedged in relation to micro fair value hedges, using Interest Rate Swaps (IRS) as hedging instruments. The purpose of this type of hedge is to protect the net interest margin against possible falls in rates that could reduce the spread generated between variable-rate loans and fixed-rate time deposits. The model is continuously monitored and verified by Risk Management in order to establish the effectiveness of the hedge. The Dollar Offset Method is used to verify the effectiveness of the hedge.

Recognition criteria

Hedging derivatives, like all derivatives, are initially recognised and subsequently accounted for at fair value. A position is classified as a hedge, and recognised as such for accounting purposes, only if all the following conditions, in accordance with IAS 39, are met:

- at the outset of the hedge there is formal documentation of the hedging relationship that describes the company's risk management objectives and strategy in implementing the hedge. This documentation includes the identification of the hedging instrument, the hedged element or operation, the nature of the hedged risk and how the Group assesses the effectiveness of the hedging strategy when offsetting the exposure to changes in fair value of the hedged element;
- during measurement the hedge is deemed to be highly effective;
- the effectiveness of the hedge can be measured reliably;
- the hedge is measured on the basis of continuity and is effective for the financial years in which the hedge was designated.

Measurement criteria

Hedging derivatives are measured at fair value: the change in the fair value of the hedged element is offset with the change in the fair value of the hedging instrument. This offsetting is measured through the recognition through profit or loss of the changes in value, of both the hedged element (specifically as regards changes brought about by the risk factor for which the hedge was adopted) and the hedging instrument. Any difference, i.e. the partial ineffectiveness of the hedge, consequently constitutes the effect recognised through profit or loss.

The effectiveness of the hedge depends on the extent to which the changes in fair value of the hedged instrument are offset by those of the hedging instrument; therefore, the effectiveness is measured through a comparison of the aforementioned changes, taking into account the company's objective when the hedge was implemented. The hedge is considered effective when the changes in fair value of the hedging instrument offset, within the the limits of the 80-125% range, the changes in the hedged instrument due to the risk factor being hedged.

Effectiveness is measured on a monthly basis, using:

- prospective tests, which measure the expected effectiveness of the hedge;
- retrospective tests, which measure the degree of effectiveness achieved by the hedge during the reference period.

Fair value hedges cease to be accounted for in the following cases:

- the hedging instrument reaches maturity;
- the hedge no longer meets the above criteria for hedge accounting;
- the Group revokes the designation.

In particular, if checks do not confirm the effectiveness of the hedge, from that moment on the accounting of hedging operations is suspended: the hedging derivative is reclassified under trading instruments and the hedged financial instrument reacquires the measurement criteria corresponding to its classification in the financial statements.

Fair value hedging activities

The hedging activities carried out by the illimity Group are aimed at protecting the banking book against changes in fair value of time deposits and loans pertaining to securities measured at fair value through other comprehensive income caused by changes in the interest rate curve (interest rate risk). The Group adopts specific hedges (micro fair value hedges).

The type of derivative used is Interest Rate Swaps (IRS) with third-party counterparties. The derivatives are not quoted on regulated markets, but traded in the context of over-the-counter circuits.

The main causes of ineffectiveness of the model adopted by the Group for verifying the effectiveness of hedges could be attributed to the following phenomena:

- misalignment between the notional value of the derivative and of the underlying hedged element, recognised upon initial designation or generated subsequently, as in the case of partial repayments of deposits;
- different maturities for hedged instruments and hedging instruments (macro fair value hedges of time deposits).

Any ineffectiveness of the hedge is recognised for the purposes of:

- determining the effects to be recognised in the income statement;
- assessing the possibility of continuing to apply hedge accounting rules.

The Group does not use dynamic hedging, as defined by IFRS 7, paragraph 23C.

Quantitative information

A. Hedging derivatives

A.1 Hedging derivatives: end-of-period notional values

Underlying assets/Types of derivatives	Total 31/12/2022				Total 31/12/2021			
	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	**-**	**819,336**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	819,336	-	-	-	-	-	-
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	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Goods	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**819,336**	**-**	**-**	**-**	**-**	**-**	**-**

A.2 Hedging derivatives: positive and negative gross fair value - distribution by products

Types of derivatives	Positive and negative fair value								Change in the value used to recognise the ineffectiveness of the hedge	
	Total 31/12/2022				Total 31/12/2021				Total 31 December 2022	Total 31 December 2021
	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			
Positive fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	29,874	-	-	-	-	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-	-	-
Total	**-**	**29,874**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Negative fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	32,646	-	-	-	-	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-	-	-
Total	**-**	**32,646**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

A.3 OTC hedging derivatives - 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	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
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	-	604,788	214,548	-
- positive fair value	-	23,491	6,383	-
- negative fair value	-	20,071	12,575	-
2) Equity securities and share indices				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currencies and gold				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- 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 hedging 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	127,236	522,100	170,000	819,336
A.2 Financial derivatives on equity securities and share indices	-	-	-	-
A.3 Financial derivatives on currencies and gold	-	-	-	-
A.4 Financial derivatives on goods	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2022	**127,236**	**522,100**	**170,000**	**819,336**
Total 31/12/2021	**-**	**-**	**-**	**-**

B. Credit derivative hedges

The Group does not hold credit derivatives classified as hedges in its portfolio.

C. Non-derivative hedging instruments

The Group does not hold non-derivative instruments classified as hedges in its portfolio.

D. Hedged instruments

D.1 Fair value hedges

	Specific hedges: book value	Specific hedges - net positions: book value of assets or liabilities (before offsetting)	Specific hedges			Generic hedges: Book value
			Accumulated changes in fair value of the hedged instrument	Termination of the hedge: residual accumulated changes in fair value	Changes in the value used to recognise the ineffectiveness of the hedge	
A. Assets						
1. Financial assets measured at fair value through other comprehensive income - hedging of:	**(193,818)**	**-**	**(8,445)**	**-**	**-**	**-**
1.1 Debt securities and interest rates	(193,818)	-	(8,445)	-	-	X
1.2 Equity securities and share indices	-	-	-	-	-	X
1.3 Currencies and gold	-	-	-	-	-	X
1.4 Loans	-	-	-	-	-	X
1.5 Others	-	-	-	-	-	X
2. Financial assets measured at amortised cost - hedging of:	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities and interest rates	-	-	-	-	-	X
1.2 Equity securities and share indices	-	-	-	-	-	X
1.3 Currencies and gold	-	-	-	-	-	X
1.4 Loans	-	-	-	-	-	X
1.5 Others	-	-	-	-	-	X
Total 31/12/2022	**(193,818)**	**-**	**(8,445)**	**-**	**-**	**-**
Total 31/12/2021	**-**	**-**	**-**	**-**	**-**	**-**
B. Liabilities						
1. Amounts due to customers - hedging of:	**398,150**	**-**	**(3,676)**	**-**	**-**	**-**
1.1 Debt securities and interest rates	398,150	-	(3,676)	-	-	X
1.2 Currencies and gold	-	-	-	-	-	X
1.3 Others	-	-	-	-	-	X
Total 31/12/2022	**398,150**	**-**	**(3,676)**	**-**	**-**	**-**
Total 31/12/2021	**-**	**-**	**-**	**-**	**-**	**-**

D.2 Cash flow and foreign investment hedging

The Group does not hold cash flow or foreign investment hedges in its portfolio.

E. Effect of hedging operations on shareholders' equity

The Group does not hold cash flow or foreign investment hedges in its portfolio.

1.3.3 Other information about (trading and hedging) derivatives

A. Financial and credit derivatives

A.1 Over-the-counter financial and credit derivatives: net fair value by counterparties

There are no offsets in the financial statements for derivatives whose netting agreements meet the criteria provided for by IAS 32, paragraph 42.

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. This is due to the inability to source funds or the risk of sourcing them at above-market costs (funding liquidity risk), or to the risk of mobilising assets on uneconomical terms (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 Strategy & Planning 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. The bank monitors the structural liquidity profile using a long-term maturity ladder, which incorporates behavioural models and assumptions.

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. The indicator establishes the minimum necessary 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.

At the reporting date, the Group had a level of LCR of NSFR in line with the internal limits defined in the RAF.

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.

No changes to the risk management strategy and objectives were recorded, nor changes to risk measurement and control systems, related to the pandemic.

Impacts of the Russia-Ukraine war

Faced with the geopolitical context caused by the war in Ukraine, a communication channel was activated with the Management Committee by the treasury management and ALM units and the risk control function, with updates on market trends and an update on the RAF limits at times of greater financial tension.

The contribution to funding from depositors with exposures to Russia and Ukraine is negligible. No changes to the risk management strategy and objectives were recorded, nor were significant changes made to risk measurement and control systems, related to the pandemic.

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
Cash assets	919,531	43,178	35,511	47,187	274,764	280,575	499,905	2,509,193	1,392,350	
A.1 Government bonds	185	-	215	-	1,389	3,789	5,613	352,000	349,159	
A.2 Other debt instruments	13,000	20	446	2,199	5,978	40,250	60,529	303,343	559,811	
A.3 Units in UCIs	-	-	-	-	-	-	-	-	20,767	
A.4 Loans	885,579	43,158	34,850	44,988	267,397	236,536	433,763	1,853,850	483,381	
- Banks	683,137		-	-	-	-	-	-	-	22,925
- Customers	202,442	20,233	34,850	44,988	267,397	236,536	433,763	1,853,850	483,381	
On-balance sheet liabilities	867,884	32,235	14,874	340,676	196,564	328,659	1,185,994	2,147,156	253,281	
B.1 Deposits and current accounts	867,884	32,235	14,874	218,921	193,488	324,620	860,822	1,344,481	54,887	
- Banks	-	20,000	-	200,000	-	185,210	-	10,000	30,995	
- Customers	867,884	12,235	14,874	18,921	193,488	139,410	860,822	1,334,481	23,892	
B.2 Debt instruments	-	-	-	-	-	-	190,215	298,334	198,394	
B.3 Other liabilities	-	-	-	121,756	3,077	4,038	134,957	504,342	-	
"Off-balance sheet" operations	-	(6)	-	27	-	(129)	-	-	-	
C.1 Financial derivatives with exchange of principal	-	(6)	-	27	-	(129)	-	-	-	
- Long positions	-	8,271	-	19,329	29,629	41,124	-	59	-	
- Short positions	-	8,277	-	19,301	29,629	41,253	-	59	-	
C.2 Financial derivatives without exchange of principal	-	-	-	-	0	0	224	27,575	30,338	
- Long positions	-	-	-	-	0	0	224	16,882	13,805	
- Short positions	-	-	-	-	-	-0	-0	-10,692	-16,533	
C.3 Deposits and loans to be collected	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
- Long positions	16	-	-	0	1	50	5,079	42,529	29,014	
- Short positions	16	-	-	0	1	50	5,079	42,529	29,014	
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. Breakdown of financial assets and liabilities by residual contractual maturity

OTHER CURRENCIES

p.1

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
A. Cash assets	**12,974**	**-**	**-**	**-**	**74**
A.1 Government bonds	-	-	-	-	-
A.2 Other debt instruments	-	-	-	-	-
A.3 Units in UCIs	-	-	-	-	-
A.4 Loans	12,974	-	-	-	74
- Banks	3,651	-	-	-	-
- Customers	9,323	-	-	-	74
B. On-balance sheet liabilities	**636**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	636	-	-	-	-
- Banks	-	-	-	-	-
- Customers	636	-	-	-	-
B.2 Debt instruments	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-
C. "Off-balance sheet" operations					
C.1 Financial derivatives with exchange of principal					
- Long positions	-	4,125	-	3,844	-
- Short positions	-	4,151	-	15,470	41,253
C.2 Financial derivatives without exchange of principal					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.3 Deposits and loans to be collected					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.4 Commitments to disburse funds					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-
C.7 Credit derivatives with exchange of capital					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.8 Credit derivatives without exchange of capital					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-

1. Breakdown of financial assets and liabilities by residual contractual maturity

OTHER CURRENCIES

p.2

Items/Time bands	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	**-**	**3,050**	**24,463**	**13,726**	**-**
A.1 Government bonds	-	-	-	-	-
A.2 Other debt instruments	-	-	-	-	-
A.3 Units in UCIs	-	-	-	-	-
A.4 Loans	-	3,050	24,463	13,726	-
- Banks	-	-	-	-	-
- Customers	-	3,050	24,463	13,726	-
B. On-balance sheet liabilities	**-**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	-	-	-	-	-
- Banks	-	-	-	-	-
- Customers	-	-	-	-	-
B.2 Debt instruments	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-
C. "Off-balance sheet" operations					
C.1 Financial derivatives with exchange of principal					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.2 Financial derivatives without exchange of principal					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.3 Deposits and loans to be collected					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.4 Commitments to disburse funds					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-
C.7 Credit derivatives with exchange of capital					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.8 Credit derivatives without exchange of capital					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-

2. Self-securitisation operations

Below is a brief description of the self-securitisation operations originated by illimity, in place as of 31 December 2022, in which the Bank subscribed all the securities issued by the vehicle in question (self-securitisation).

In December 2022, the Bank concluded an agreement to sell loans to the vehicle COLT SPV, pursuant to which it sold to the latter, in its entirety and without recourse, a portfolio of performing variable-rate loans originated by illimity with SME counterparties. COLT SPV is a vehicle established pursuant to Italian Law 130/1999, not owned by illimity, which, on 19 December 2022, issued senior, mezzanine and junior notes for a total notional value of EUR 570.1 million, which were fully subscribed by illimity. This operation was part of the operations without derecognition aimed at expanding the portfolio of assets that can be allocated to constitute a liquidity reserve activated through loan transactions with the ECB, repos or other operations. The notes subscribed by illimity were used as security for repo operations in order to guarantee the bank's liquidity supply, in line with its funding policies.

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 deriving from ESG (Environmental, Social and Governance) aspects in terms of causal factors, 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), procedures and organisational rules aimed at identifying, analysing, recording and mitigating all operational risks inherent in the current and prospective operations of the various operating 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 culture of risk among personnel
- mitigating the effects of the occurrence 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 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 an integrated operational resilience 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 LDC 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. This activity is launched through the definition of and agreement on possible and plausible future operational risk scenarios, is carried out through a structured process involving the assessment of the frequency, expected impact and worst case scenario for the 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, lastly combined to provide an overall vision of expected and unexpected operational losses at an individual Company or Group level. This is also accompanied by a qualitative assessment of the status of controls (regulatory, checks and systems, resources), with the identification of possible mitigation interventions.

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. 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 2022 benefited from the active contribution of illimity Bank, and from all its subsidiaries.

During the course of the year, some operational loss events were recognised with a minimal impact at individual level and a total financial impact below the risk appetite thresholds.

The most significant events recognised in terms of intrinsic risk relate to the Bank's continuing operations and, in particular, concern the correct execution and set-up of operating or IT procedures managed by suppliers and outsourcers (errors/delays in the execution of operations, data reporting, etc.) and, in some cases, the management of relations with said suppliers and outsources (mistakes in communications/requests for data), with a low overall loss impact. At the end of the year, only one part of said events produced actual losses; the others are being monitored continuously as events of operating risk with potential generation of future losses.

As regards the subsidiaries, no particularly significant risk events were recorded.

Overall, it is worth highlighting that the events recorded mainly fall into the category of events related to the management of products and customer relations (ET 4), followed by more traditional process management or execution errors, (ET 7)), and events related to the malfunction of systems, infrastructure or ICT applications (ET 6).

No internal fraud occurred (ET1) or disputes regarding work practices (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, at the reporting date, 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 2022, analysing 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.).

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.

Impacts of the Russia-Ukraine conflict

The Russia–Ukraine conflict did not generate specific impacts in terms of increase/decrease in the operational risk to which the Group is exposed. No impacts occurred, for example, in terms of unavailability of human or IT resources or cyber attacks connected with the start of the conflict. Also in terms business continuity, no repercussions were observed on the Group's business.

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 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 (HTCS) and Held to Collect (HTC) portfolio categories, 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

Sustainability (or "ESG") risk is defined, in Article 2 of Regulation (EU) 2019/2088, as an environmental, social or governance event or condition that, if it were to occur, could have an actual or potential negative material impact on the value of the investment. 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 2022. 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.

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	**54,517**	**-**	**-**	**-**	**54,517**
2. Share premium reserve	**624,583**	**-**	**-**	**-**	**624,583**
3. Reserves	**135,518**	**-**	**-**	**-**	**135,518**
4. Equity instruments	**-**	**-**	**-**	**-**	**-**
5. (Treasury shares)	**(747)**	**-**	**-**	**-**	**(747)**
6. Valuation reserves:	**(47,875)**	**-**	**-**	**-**	**(47,875)**
- 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	(48,621)	-	-	-	**(48,621)**
- 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	741	-	-	-	**741**
- 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	**75,326**	**-**	**-**	**-**	**75,326**
Total	**841,322**	**-**	**-**	**-**	**841,322**

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	13,173	(61,793)	-	-	-	-	-	-	13,173	(61,793)
2. Equity securities	5	-	-	-	-	-	-	-	5	-
3. Green Loans		-	-	-	-	-	-	-	-	-
Total 31/12/2022	**13,178**	**(61,793)**	**-**	**-**	**-**	**-**	**-**	**-**	**13,178**	**(61,793)**
Total 31/12/2021	**762**	**(6,560)**	**-**	**-**	**-**	**-**	**-**	**-**	**762**	**(6,560)**

B.3 Valuation reserves of the financial assets measured at fair value through comprehensive income: annual changes

	Debt securities	Equity securities	Green Loans
1. Opening balance	**(5,804)**	**5**	**-**
2. Positive changes	**37,497**	**-**	**-**
2.1 Increases in fair value	417	-	-
2.2 Write-downs/write-backs for credit risk	1,479	X	-
2.3 Transfer to income statement of negative reserves following disposal	52	X	-
2.4 Transfers to other items of shareholders' equity (equity instruments)	-	-	-
2.5 Other changes	35,549	-	-
3. Negative changes	**(80,314)**	**-**	**-**
3.1 Decreases in fair value	(73,918)	-	-
3.2 Adjustments in value for credit risk	(187)	-	-
3.3 Reclassification through profit or loss of positive reserves: following disposal	(260)	X	-
3.4 Transfers to other items of shareholders' equity (equity instruments)	-	-	-
3.5 Other changes	(5,949)	-	-
4. Closing balance	**(48,621)**	**5**	**-**

B.4 Revaluation reserves on defined benefit plans: annual changes

	31 December 2022
1. Opening balance	**(259)**
2. Positive changes	**1,355**
2.1 Increases in fair value Actuarial (Gains)/Losses	1,355
2.2 Reclassification through profit or loss of negative reserves	-
2.3 Other changes	-
3. Negative changes	**(355)**
3.1 Decreases in fair value Actuarial (Gains)/Losses	-
3.2 Reclassification through profit or loss of positive reserves	-
3.3 Other changes	(355)
4. Closing balance	**741**

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 2022.

Part G – Business combinations

Section 1 - Transactions completed during the year

1.1 Business combinations

Acquisition of AREC S.p.A.

On 11 May 2022, illimity and the shareholders of Aurora Recovery Capital S.p.A. ("AREC") announced that they had reached an agreement concerning the acquisition by illimity of AREC, a company that specialises in the management of Unlikely to Pay ("UTP") loans with a focus on the corporate real estate segment.

The acquisition was completed on 30 June 2022 through:
- the transfer to illimity of 90% of AREC's shares by means of a capital increase by illimity, with the exclusion of the right of option pursuant to Article 2441, paragraph 4, of the Italian Civil Code, reserved for AREC, to be paid with the aforementioned share transfer, with the issuance of 2,769,230 ordinary shares at an issue price for new illimity shares fixed at EUR 13 per share, for a total amount of EUR 36 million. This capital increase was approved unanimously by attendees of the extraordinary shareholders' meeting of illimity on 21 June 2022;
- the purchase in cash of the remaining 10% of AREC's shares for a total of EUR 4 million. This cash component was appropriately adjusted to reflect the value of AREC's net financial position, as determined on the date on which the operation was completed.

The integration of AREC into the illimity Group is aimed at creating, including through the merger of AREC with the subsidiary neprix (with effect from 1 January 2023), a complete company to act as a leading operator in the area of corporate distressed credit, capable of maximising the value of the various kinds of distressed credit, regardless of their size, with a particular focus on the UTP segment.

Accounting recognition of the business combination and the PPA process

The acquisition of 100% of the share capital of AREC S.p.A. was recognised as a "business combination" based on the provisions of IFRS 3, which stipulates that the acquisition method should be applied.

Pursuant to this method, as of the acquisition date, the acquirer must:
- identify the acquirer and the acquisition date;
- determine the acquisition cost;
- allocate the acquisition cost ("Purchase Price Allocation", or "PPA") by recognising the identifiable assets, liabilities and potential liabilities of the acquired company at the relevant fair values on that date, with the exception of non-current assets (or groups held for sale) classified as held for sale in accordance with IFRS 5. These latter assets were recognised at fair value net of costs to sell. Any intangible assets must also be recorded, even if not yet recognised by the acquired entity.

Determination of the acquirer and the acquisition date

Without prejudice to the identification of illimity as the acquiring entity, with reference to the acquisition of AREC, on 30 June 2022 all the conditions were met for the closing of the acquisition and, therefore, the business combination took effect from that date.

Determination of the acquisition cost

According to IFRS 3.37, the consideration transferred in a business combination shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer to the former owners of the acquiree, the liabilities of the acquiree incurred or assumed by the acquirer and the equity interests issued by the acquirer and used as the consideration for the merger at the acquisition date.

The acquisition cost (or consideration transferred) is thus composed of the financial resources transferred to the acquiree:

- in the event of cash, it is composed of the amount paid. The acquisition cost thus equals the amount of cash transferred to the acquiree;
- in the event that the consideration is represented by financial instruments traded on the market, the acquisition cost is represented by the fair value of those financial instruments at the date of the exchange.

Where the acquisition is carried out through the exchange of shares listed in active markets, the list price provides the most reliable evidence of the fair value and must be used without adjustments to determine the fair value, where available.

As part of the transaction, the consideration transferred by the acquirer is represented by:

- the fair value at the acquisition date of the shares issued for the purpose of the contribution to illimity of 90% of the shares of AREC;
- the fair value at the acquisition date of the cash consideration paid for the remaining 10% of the shares of AREC.

As a result:

- for the portion relating to the cash consideration paid, the fair value is composed of the nominal value of the consideration, adjusted, in accordance with the contractual provisions, based on the net financial position of the acquired company, for an estimated total value of approximately EUR 6.9 million (including a net financial position determined in favour of the sellers at EUR 2.9 million);
- for the part relating to the share issues, the fair value, equal to EUR 28.8 million, is composed of the market price of the illimity shares listed on Borsa Italiana at the acquisition date (EUR 10.4 per share), multiplied by the number of shares issued (2,769,230).

The total consideration transferred, including both the cash and share portions, was therefore valued at EUR 35.7 million.

Purchase Price Allocation

As provided for by IFRS 3, the PPA process involves the recognition of the assets and liabilities of the acquired entity at their respective values. A detailed analysis of the financial statement items of the acquired company revealed that, as of the acquisition date, there were no significant differences between the book values recorded in AREC's IAS/IFRS accounts and the relative fair values.

However, with regard to the identification of specific intangible assets previously not recognised in the company's financial statements, the intangible asset represented by the portfolio management activities in place on the acquisition date was identified and valued, in accordance with AREC's business model and its configuration and operating structure. In line with the applicable valuation practices, that intangible asset was identified and valued based on its expected income, for a total of approximately EUR 8 million.

Since the aforementioned intangible asset represents the capacity of the customer contracts in place at the time of the acquisition to generate revenues throughout the residual useful life of the relations acquired, it was considered an intangible asset with a finite useful life. Based on the estimated useful life of the individual portfolios, assuming amortisation on a straight line basis, estimated according to the specific useful life of each portfolio identified, amortisation was determined at a total of EUR 0.8 million and recognised through profit or loss as of 31 December 2022.

Lastly, in accordance with the provisions of IAS 12, in connection with the recognition of the intangible asset, deferred tax liabilities were recognised for a total of approximately EUR 2.3 million.

Overview of the Purchase Price Allocation process

A comparison between the total acquisition cost and the shareholders' equity of the company, measured at fair value as of 30 June 2022, revealed a residual difference of EUR 29.1 million, which, for the purposes of the Financial Statements as of 31 December 2022, was definitively allocated to goodwill.

Calculation of the effects of the acquisition of AREC S.p.A.		30 June 2022
Total acquisition cost as of the acquisition date	a	35,729
IAS/IFRS shareholders' equity as of the acquisition date	b	893
Effects of PPA:	c = d + e	5,721
1. *Recognition of contract management intangible asset*	d	8,038
2. *Deferred tax liabilities from recognition of contract management intangible asset*	e	(2,317)
Shareholders' equity at fair value as of the acquisition date	f = b + c	6,614
Goodwill recognised	**g = a - f**	**29,115**

Pursuant to IAS 36, the goodwill and the intangible assets recognised in a business combination must, starting from the acquisition date, be allocated to the CGU that is expected to benefit from the synergies of the combination; in the context of the illimity Group, the goodwill and the intangible asset with a finite useful life recognised in the context of the acquisition of AREC were allocated to the Distressed Credit CGU.

1.2 Transactions between subjects under common control

On 1 April 2022, the spin-off to Abilio S.p.A. of the scope of assets and liabilities of the neprix Sales area, previous comprised within neprix, of the equity investment in Abilio agency S.r.l. (formerly Neprix Agency S.r.l.) and of a portion of the Tech area, also previously included within neprix, was approved. The accounting and tax effects of the operation were set for 1 April 2022.

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 2022.

Section 3 - Retrospective adjustments

No retrospective adjustment was made during 2022 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 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 2022 a material related party transaction was carried out involving an agreement to manage the liquidity deposited by said counterparty in current and deposit accounts with illimity Bank S.p.A. (about which adequate information was disclosed to the market, which should be referred to for more details). There were no further material or minor related party transactions in 2022 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 to the extent that they may exercise 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 9th update to Circular no. 263 of 27 December 2006 which introduced prudential supervisory requirements for banks, issued in implementation of Article 53, paragraph 4 et seq., of the Consolidated Law on Banking and in accordance with Resolution of the Interministerial Committee for Credit and Savings no. 277 of 29 July 2008, as well as the regulations set forth by Article 136 of the Consolidated Law on Banking. 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.

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 14,754 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:

(Thousands of euros)

Category	Amount
a) short-term benefits	8,942
b) post-employment benefits	347
c) share-based payments	2,981
d) compensation of members of the Board of Directors and the Management Control Committee/Board of Statutory Auditors	2,484

2. Information on related party transactions

With regard to the financial relations, and remembering that key senior managers also include the directors and Management Control Committee of the bank and the directors and statutory auditors of the companies of the Group, the situation on the reporting date is that shown in the following table, expressed in thousands of euros.

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		Book value	of which with related parties	Impact of related parties
10.	**Cash and cash equivalents**	680,777	2,478	0.36%
	- To other related parties		2,478	
20.	**Financial assets measured at fair value through profit or loss**	105,043	93	0.09%
	c) other financial assets mandatorily measured at fair value	73,897	93	0.13%
	- To other related parties		93	
40.	**Financial assets measured at amortised cost**	4,386,730	137,455	3.13%
	b) loans to customers	4,329,517	137,455	3.17%
	- To companies subject to significant influence		2,767	
	- To key senior managers		2,974	
	- Other related parties		131,714	
70.	**Equity investments**	76,375	76,375	100.00%
	- To companies subject to significant influence		161	
	- In companies subject to joint control		76,214	
120.	**Other assets**	342,540	21,421	6.25%
	- To other related parties		21,421	

STATEMENT OF FINANCIAL POSITION

(Thousands of euros)

Liabilities		Book value	of which with related parties	Impact of related parties
10.	**Amounts due to customers**	5,294,132	97,868	1.85%
	b) due to customers	3,436,082	97,868	2.85%
	- To companies subject to significant influence		231	
	- To key senior managers		3,188	
	- In companies subject to joint control		75,857	
	- To other related parties		18,592	
80.	**Other liabilities**	113,123	6,166	5.45%
	- In companies subject to joint control		12	
	- To key senior managers		3,327	
	- To other related parties		2,827	
90.	**Employee severance pay**	3,575	343	9.59%
	- To key senior managers		314	
	- To other related parties		29	
100.	**Allowances for risks and charges**	6,359	74	1.16%
	a) commitments and guarantees given	4,863	74	1.52%
	- To other related parties		74	
140.	**Reserves**	135,516	3,601	2.66%
	- To key senior managers		3,600	
	- To other related parties		1	

INCOME STATEMENT

(Thousands of euros)

Items		Book value	of which with related parties	Impact of related parties
10.	**Interest income and similar income**	238,693	5,380	2.25%
20.	**Interest expenses and similar charges**	(74,558)	(138)	0.19%
40.	**Fee and commission income**	65,701	1,828	2.78%
50.	**Fee and commission expense**	(6,451)	(18)	0.28%
160.	**Administrative expenses:**	(186,999)	(25,208)	13.48%
	a) personnel expenses	(85,871)	(15,707)	18.29%
	b) other administrative expenses	(101,128)	(9,501)	9.40%
200.	Other operating income/expenses	27,715	17,202	62.07%

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 for the following plans:

- an "Employee Stock Ownership Plan" (ESOP);
- a "Long Term Incentive Plan" (LTIP).

"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 annually in five 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 ESOP was classified, in accordance with IFRS 2, as equity-settled, because it provides for payments based on the Bank's shares.

"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 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 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 2021; 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 LTIP was classified, in accordance with IFRS 2, as equity-settled, because it provides for payments based on the Bank's shares.

Quantitative information

1. Annual changes

Items / Number of options and exercise prices	31 December 2022			31 December 2021		
	Number of options	Average exercise prices	Average expiration date	Number of options	Average exercise prices	Average expiration date
A. Opening balance	**1,882,977**	**-**	**31 December 2024**	**1,771,199**	**7.23**	**30 April 2024**
B. Increases			X			X
B.1 New issues	66,909	-	31 December 2024	1,882,977	-	31 December 2024
B.2 Other changes			X			X
C. Decreases			X			X
C.1 Derecognised	(203,658)	-	X	(1,771,199)	7.23	X
C.2 Exercised	-	-	X	-	-	X
C.3 Past-due	-	-	X	-	-	X
C.4 Other changes	-	-	X	-	-	X
D. Closing balance	**1,746,228**	-	31 December 2024	**1,882,977**	**-**	**31 December 2024**
E. Options exercised as of the end of the financial year	**-**	**-**	**X**	**-**	**-**	**X**

2. Other information

In 2022, in the context of the ESOP, 117,946 illimity shares were assigned to employees of the Group in connection with a capital increase carried out to service the Plan, which was approved by the Board of Directors on 15 June 2022.

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

Economic performance	Distressed Credit	Growth Credit	Investment Banking	b-ilty	SGR	Direct Banking	Corporate Center (*)	Hype	31 December 2022
Net interest margin	113.2	38.9	5.0	0.6	-	4.5	-	-	162.2
Net fee and commission income	21.8	27.4	8.8	0.8	3.7	(0.9)	-	-	61.6
Other economic components	75.0	7.4	1.3	-	0.1	17.0	-	-	100.8
Total net operating income	**210.0**	**73.7**	**15.1**	**1.4**	**3.8**	**20.6**	**-**	**-**	**324.6**
Personnel expenses	(33.7)	(11.4)	(3.8)	(4.2)	(2.5)	(7.4)	(23.1)	-	(86.1)
Other administrative expenses and Net adjustments/ recoveries on property and equipment and intangible assets	(45.7)	(6.5)	(1.9)	(7.1)	(0.5)	(26.2)	(19.6)	-	(107.5)
Operating expenses	**(79.4)**	**(17.9)**	**(5.7)**	**(11.3)**	**(3.0)**	**(33.6)**	**(42.7)**	**-**	**(193.6)**
Operating profit (loss)	**130.6**	**55.8**	**9.4**	**(9.9)**	**0.8**	**(13.0)**	**(42.7)**	**-**	**131.0**
Total net adjustments/ recoveries and other provisions	(11.5)	(2.2)	(1.6)	(0.5)	-	-	-	-	(15.8)
Contributions and other non-recurring expenses	-	-	-	-	-	-	(6.7)	-	(6.7)
Other income (expenses) on investments	(0.3)	-	-	-	-	-	-	(7.3)	(7.6)
Profit (loss) from operations before taxes	**118.8**	**53.6**	**7.8**	**(10.4)**	**0.8**	**(13.0)**	**(49.4)**	**(7.3)**	**100.9**

Economic performance	Distressed Credit	Growth Credit	Investment Banking	b-ilty	SGR	Direct Banking	Corporate Center (*)	Hype	31 December 2022
Financial assets measured at fair value through profit or loss	38.1	54.0	12.7	-	0.2	-	-	-	105.0
Customer loans	1,127.3	2,007.1	39.5	49.6	-	-	-	-	3,223.5
Asset securities at amortised cost	571.1	301.6	97.0	10.7	-	-	-	-	980.4
Property and Equipment	104.7	-	-	-	-	-	23.7	-	128.4
Amounts due to customers and securities issued	-	-	-	15.2	-	2,520.3	1,553.6	-	4,089.1
RWAs	2,100.2	1,532.2	169.0	14.2	5.4	89.0	375.9	44.0	4,329.9

Reported below are the key comparative financial data that illustrate the evolution of the illimity Group's sectors of activity for the 2021 financial year, calculated pro forma based on the new structure in force as of 31 December 2022.

Economic performance	Distressed Credit	Growth Credit	Investment Banking	b-ilty	SGR	Direct Banking	Corporate Center (*)	Hype	31 December 2021
Total net operating income	198.7	49.3	5.3	-	1.8	16.1	-	-	**271.2**
Operating expenses	(66.7)	(18.2)	(3.5)	(6.6)	(2.8)	(26.1)	(36.7)	-	**(160.6)**
Profit (loss) from operations before taxes	**114.1**	**33.2**	**1.1**	**(6.6)**	**(1.0)**	**(10.0)**	**(41.8)**	**(8.2)**	**80.8**

	Distressed Credit	Growth Credit	Investment Banking	b-ilty	SGR	CIO	Corporate Centre	Hype	31 December 2021
Financial assets measured at fair value through profit or loss	62.5	14.1	-	-	0.1	-	-	-	**76.7**
Financial assets measured at amortised cost - customer loans and securities	1,259.1	1,500.2	-	2.7	-	-	-	-	**2,762.0**
Property and Equipment	48.3	-	-	-	-	-	20.4	-	**68.7**
RWAs	**2,017.1**	**976.8**	**43.6**	**1.5**	**2.8**	**75.6**	**260.9**	**33.2**	**3,411.5**

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 2022, there were 145 leasing contracts, of which 28 related to real estate leasing, with a total value of rights of use of EUR 21.5 million, of which 117 related to cars, with a total value of rights of use of EUR 1.1 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 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	21,534	25,678
Long Term Rental Cars	1,090	1,102
Total	**22,624**	**26,780**

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	1,644	2,370
Long Term Rental Cars	31	669
Total	**1,675**	**3,039**

As of 31 December 2022 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.

Morato Pane

A company that has industrialised the soft bread production process

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For more information:
illimity, Morato Pane

Certification of the Consolidated Financial Statements

pursuant to Article 154-bis of Italian Legislative Decree 58/1998

illimity

Certification of the Consolidated Financial Statements pursuant to Article 154-bis of Italian 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 2022.

2. The adequacy of the administrative and accounting procedures used in the formation of the consolidated financial statements as of 31 December 2022 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) a) were drafted in conformity with the applicable international accounting standards endorsed by the European Community under the terms of Regulation (EC) N° 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 and 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, 9 March 2023

Chief Executive Officer
Corrado Passera
Signed

Financial Reporting
Officer
Sergio Fagioli
Signed

Costa Edutainment

The company that makes learning fun through educational entertainment

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For more information:
illimity, Costa Edutainment

Independent Auditors' Report

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(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 2022, 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 2022 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 €4,329.5 million at 31 December 2022, accounting for 68.1% of total assets. These loans and receivables include purchased or originated credit-impaired financial assets of €1,238 million. Net impairment gains on loans and receivables with customers recognised during the year totalled €50 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 guarantees and the impact of macroeconomic variables and risks of the	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 financial effects of the geopolitical situation caused by the conflict in Ukraine and the persisting Covid-19 pandemic. We carried out these procedures with the assistance of experts of the KPMG network;

Key audit matter	Audit procedures addressing the key audit matter
sectors in which the parent's and group companies' customers operate. The complexity of the directors' estimation process has increased as a result of the geopolitical uncertainties caused by the conflict in Ukraine and the persisting Covid-19 emergency in 2022. These uncertainties have severely worsened current economic conditions and the outlook for future macroeconomic scenarios and have had a strong impact on the energy market, supply chains, inflationary pressure and its effect on monetary policies, leading central banks to raise interest rates in the main economies. This required the directors to revisit 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.	• 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 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 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.

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 €65.4 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 using the discounted dividend cash flow model (Dividend Discount Model) that are expected to be generated by the CGUs to calculate its recoverable amount. 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 as a result of the geopolitical uncertainties caused by the conflict in Ukraine and the persisting Covid-19 emergency in 2022. These uncertainties have severely worsened current economic conditions and the outlook for future macroeconomic scenarios and have had a strong impact on the energy market, supply chains, inflationary pressure and its effect on monetary policies, leading central banks to raise interest rates in the main economies. 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 geopolitical situation caused by the conflict in Ukraine and the persisting 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.

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 2022 include an investment in a joint venture of €76.2 million. The parent acquired this investment in Hype S.p.A. during 2022. 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 as a result of the geopolitical uncertainties caused by the conflict in Ukraine and the persisting Covid-19 emergency in 2022. These uncertainties have severely worsened current economic conditions and the outlook for future macroeconomic scenarios and have had a strong impact on the energy market, supply chains, inflationary pressure and its effect on monetary policies, leading central banks to raise interest rates in the main economies. 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 the Audit and Internal Control Committee ("Comitato di Controllo sulla Gestione") 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 *Comitato di Controllo sulla Gestione* 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, the measures taken to eliminate those threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current 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 *Comitato di Controllo sulla Gestione*, 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 as at 31 December 2022 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 as at 31 December 2022 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.

Due to certain technical limitations, when extracted from XHTML to an XBRL instance, some information contained in the notes to the consolidated financial statements may not be formatted in a manner that is exactly the same as the corresponding information presented in the consolidated financial statements in XHTML.

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 2022 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 2022 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 2022 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, 16 March 2023

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 31/12/2022
Property portfolio - Securities at FV	**422,856**
Item 20. a) Financial assets held for trading	31,146
Item 30. Financial assets measured at fair value through other comprehensive income	391,710
To be deducted:	
Loans to customers - HTCS	-
Loans to customers - HTCS	**-**
Financial instruments mandatorily measured at fair value	**37,836**
Item 20. c) Other financial assets mandatorily measured at fair value	73,897
To be deducted:	
Loans mandatorily measured at fair value	(36,061)
Loans mandatorily measured at fair value	**36,061**
Due from banks	**57,213**
Item 40. a) Due from banks	57,213
Loans to financial entities	**125,588**
Loans to financial entities	125,588
Government Bonds	**428,309**
Loans to customers - HTC	**3,223,510**
Item 40. b) Loans to customers	4,329,517
To be deducted:	
Loans to financial entities	(125,588)
Government Bonds	(428,309)
Loans to customers - Securities	(552,110)
Securities at amortised cost - Growth Credit	**95,144**
Item 40. b) Loans to customers	4,329,517
To be deducted:	
Loans to customers	(3,223,510)
Government Bonds	(428,309)
Loans to financial entities	(125,588)
Distressed Credit Business securities	(362,976)
Investment Banking Business Securities	(93,990)
Securities at amortised cost – Distressed Credit	**362,976**
Item 40. b) Loans to customers	4,329,517
To be deducted:	
Loans to customers	(3,223,510)
Government Bonds	(428,309)
Loans to financial entities	(125,588)
Business Growth Credit securities	(95,144)
Investment Banking Business Securities	(93,990)
Securities at amortised cost – Investment Banking	**93,990**
Item 40. b) Loans to customers	4,329,517
To be deducted:	
Loans to customers	(3,223,510)
Government Bonds	(428,309)
Loans to financial entities	(125,588)
Business Growth Credit securities	(95,144)
Distressed Credit Business securities	*(362,976)*

Assets	Values as of 31/12/2022
Investments in equity	**76,375**
Item 70. Equity investments	76,375
Property and equipment and intangible assets	**263,484**
Item 90. Property and equipment	128,383
Item 100. Intangible assets	135,101
Tax assets	**78,592**
Item 110. Tax assets	78,592
Other assets	**1,053,191**
Item 10. Cash and cash equivalents	680,777
Item 50. Hedging derivatives	29,874
Item 120. Non-current assets held for sale and discontinued operations	-
Item 130. Other assets	342,540
Total assets	**6,355,125**

Liabilities and shareholders' equity	Values as of 31/12/2022
Due to banks	**1,205,048**
Item 10. a) Due to banks	1,205,048
Amounts due to customers	**3,409,302**
Item 10. b) Due to customers	3,436,082
To be deducted:	
Lease Liability (IFRS 16)	(26,780)
Securities issued	**653,002**
Item 10. c) Securities issued	653,002
Financial liabilities in own portfolio - instruments at FV	**27,244**
Item 20. Financial liabilities held for trading	27,244
Tax liabilities	**36,724**
Item 60. Tax liabilities	36,724
Other liabilities	**182,483**
Item 80. Other Liabilities	113,123
Increase:	
Lease Liability (IFRS 16)	26,780
Item 40. Hedging derivatives	32,646
Item 90. Employee severance pay	3,575
Item 100. Allowances for risks and charges	6,359
Shareholders' equity	**841,322**
Capital and reserves	
Item 120. Valuation reserves	(47,875)
Item 150. Reserves	135,516
Item 160. Share premium reserves	624,583
Item 170. Share capital	54,514
Item 180. Treasury shares (-)	(747)
Item 190. Equity attributable to minority interests (+/-)	5
Item 200. Profit (loss) for the period	75,326
Total liabilities and shareholders' equity	**6,355,125**

Reclassified income statement

Income Statement items	Values as of 31/12/2022
Net interest margin	**162,225**
Item 10. Interest income and similar income	238,693
Reclassification from Profit (Loss) from discontinued operations	-
Item 140. Profits/losses on changes in contracts without derecognition	-
Item 20. Interest expenses and similar charges	(74,558)
Reclassification of Raisin operating components	*(3,585)*
To be deducted:	
IFRS 16 interest expenses	*1,675*
Net fee and commission income	**61,570**
Item 40. Fee and commission income	65,701
Item 50. Fee and commission expense	(6,451)
Reclassification of fee and commission expense HFS	-
To be deducted:	
Raisin operating components	*2,320*
Profits/losses on financial assets and liabilities	**13,215**
Item 70. Dividends and similar income	200
Item 80. Net trading result	4,729
Item 100. Profits (losses) from disposal or repurchase	(467)
Item 110. Profits (losses) on other financial assets and liabilities measured at fair value through profit or loss	8,753
Net write-downs/write-backs on closed positions	**63,768**
of which: Net write-downs/write-backs on closed positions - Clients - POCI	62,087
of which: Net write-downs/write-backs on closed positions - Clients - PPC	218
of which: Net write-downs/write-backs on closed positions - Clients - Energy performing	1,197
Reclassification from item 130. Losses/recoveries for credit risk associated with: a) financial assets measured at amortised cost - Recoveries on Datio in solutum transactions	510
Reclassification from item 210. Net adjustments/recoveries on property and equipment - Adjustments on Datio in solutum transactions	(510)
Reclassification from item 280. Profits (losses) on disposal of investments	266
Other profits (losses) from the disposal of investments	**-**
Item 280. Profits (losses) on disposal of investments	266
To be deducted:	
Reclassification to Net write-downs/write-backs on closed positions	*(266)*
Other operating expenses and income (excluding taxes)	**23,836**
Item 230. Other operating income/expenses	27,715
To be deducted:	
Reclassification of recovery of other operating expenses/income to Other administrative expenses	*(3,879)*
Total net operating income	**324,614**
Personnel expenses	**(86,126)**
Item 190. Administrative expenses: a) Personnel expenses	(85,871)
To be deducted:	
Reclassification of HR expenses from other administrative expenses	*(255)*
Other administrative expenses	**(90,701)**
Item 190. Administrative expenses: b) Other administrative expenses	(101,128)
Reclassification of IFRS 16 interest expenses	(1,675)
Reclassification of HR expenses to personnel expenses	*255*
Reclassification of recovery of other operating expenses/income to Other administrative expenses	*3,879*
Raisin operating components	*1,265*
Reclassification of contributions and other non-recurring expenses	*6,703*
Net adjustments/recoveries on property and equipment and intangible assets	**(16,761)**
Item 210. Net adjustments/recoveries on property and equipment	(4,201)
Item 220. Net adjustments/recoveries on intangible assets	(13,070)
To be deducted:	
Reclassification from item 210. Net adjustments/recoveries on property and equipment - Adjustments on Datio in solutum transactions	510
Operating expenses	**(193,588)**
Operating profit (loss)	**131,026**

Income Statement items	Values as of 31/12/2022
Net losses/recoveries for credit risk - HTC Banks	**214**
Net losses/recoveries for credit risk - HTC Financial entities	**105**
Net losses/recoveries for credit risk - HTC Clients	**(13,775)**
Item 130. Losses/recoveries for credit risk associated with: a) financial assets measured at amortised cost	50,183
Reclassification of Net write-downs/write-backs on closed positions - HTC&S Clients - POCI to item 130b	-
Reclassification of Net write-downs/write-backs on closed positions - HTC Clients - POCI off-balance to item 200	373
To be deducted:	
Net losses/recoveries for credit risk - HTC Banks	(214)
Net losses/recoveries for credit risk - HTC Financial entities	(105)
Losses/recoveries for credit risk associated with: a) financial assets measured at amortised cost - Recoveries on Datio in solutum transactions	(510)
Net write-downs/write-backs on closed positions - Clients - PPC	(218)
Net write-downs/write-backs on closed positions - Clients - Energy performing	(1,197)
Net write-downs/write-backs on closed positions - Clients - POCI	(62,087)
Net losses/recoveries for credit risk - HTCS	**(1,292)**
Item 130. Losses/recoveries for credit risk associated with: b) financial assets measured at fair value through other comprehensive income	(1,292)
To be deducted:	
Net write-downs/write-backs on closed positions - HTC&S Clients - POCI	-
Net adjustments/recoveries for commitments and guarantees	**(1,042)**
Item 200. Net allowances for risks and charges: a) commitments and guarantees given	(669)
To be deducted:	
Net write-downs/write-backs on closed positions - HTC Clients - POCI off-balance	(373)
Total net adjustments/recoveries	**(15,790)**
Other net provisions	**(38)**
Item 200. Net allowances for risks and charges: b) other net provisions	(38)
Other income (expenses) on investments	**(7,633)**
Item 250. Profits (losses) on equity investments	*(7,633)*
Contributions and other non-recurring expenses	***(6,703)***
of which: Contributions and other non-recurring expenses	*(6,703)*
Other profits (losses) from the disposal of investments	**-**
Item 280. Profits (losses) on disposal of investments	*266*
To be deducted:	
Reclassification to Net write-downs/write-backs on closed positions	(266)
Profit (loss) from operations before taxes	**100,862**
Income tax for the period on continuing operations	**(25,536)**
Item 300. Income tax for the period on continuing operations	(25,536)
Reclassification from Profit (Loss) from discontinued operations	-
Item 320. Net income (loss) from discontinued operations after tax	**-**
Item 320. Net income (loss) from discontinued operations after tax	-
To be deducted:	
Interest income and similar income	-
Fee and commission expense HFS	-
Income tax for the period on continuing operations	-
Profit (loss) for the period	**75,326**

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 and Operating Costs:

In thousands of euro

Type of service	Service provider	Sums due	
		illimity Bank S.p.A.	Group Companies
Accounting Audit	KPMG S.p.A.	377	314
Certification services	KPMG S.p.A.	184	12
Other services	KPMG S.p.A.	65	
Total		**626**	**326**

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Annual Report and Financial Statements for illimity Bank

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For more information:
illimity, The story of Alice Pizza

Report on Individual Operations

as of 31 December 2022

illimity

REPORT ON OPERATIONS AS OF 31 DECEMBER 2022

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 2022

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

(amounts in thousands of euros)

PERFORMANCE MEASURES	31 December 2022	31 December 2021	Chg.	Chg. (%)
Total net operating income	244,272	203,359	40,913	20%
Operating expenses	(138,515)	(117,172)	(21,343)	18%
Operating profit (loss)	105,757	86,187	19,570	23%
Total net adjustments/recoveries	5,684	2,175	3,509	>100%
Profit (loss) from operations before taxes	104,754	82,784	21,970	27%
Profit (loss) for the year	80,715	69,123	11,592	17%

STRUCTURAL RATIOS	31 December 2022	31 December 2021
Shareholders' equity/Total Liability	13.2%	16.3%
Interbank Funding/Total Funding	22.5%	10.6%
Liquidity coverage ratio	>100%	>100%
Net Stable Funding Ratio	>110%	>110%
Net loans with customers/Total assets	66.4%	62.0%
Direct customer funding/Total Liability	64.7%	72.6%

CAPITAL RATIOS	31 December 2022	31 December 2021
Tier I capital ratio (Tier I capital/Total weighted assets)	16.52%	19.32%
Total capital ratio [(Tier I + Tier II)/Total weighted assets]	21.29%	25.29%
Own Funds	895,895	849,773
of which: Tier I capital	695,108	649,341
Risk-weighted assets	4,207,768	3,360,509

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 currently has four Business Divisions, in addition to the Chief Information Officer for the retail customer management component; for more details on the composition and organisational structure, please see the description given in the Report on Consolidated Operations.

Bank branches and offices

The Bank's branches and offices are as follows:

- Milan - Via Soperga, 9 (head office);
- Modena – Via F. Lamborghini 88/90 (branch).

Human resources

On 31 December 2022 the Bank's registered employees were 486 (428 on 31 December 2021). A breakdown of the workforce is given below, divided by job level:

Category	31 December 2022			31 December 2021			Changes	
	Number of employees	in %	Average age	Number of employees	in %	Average age	Number of employees	in %
Senior managers	54	11%	47	54	13%	47	-	0%
Middle managers	258	53%	38	239	56%	37	19	8%
Other employees	174	36%	31	135	32%	31	39	29%
Employees	**486**	**100%**		**428**	**100%**		**58**	**37%**

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%
14. Abilio S.p.A.	Faenza	Faenza	100%	100%
15. AREC S.p.A.	Rome	Rome	100%	100%
16. Dagobah SPV S.r.l.	Milan	Milan	100%	100%
17. Dagobah LeaseCo S.r.l.	Milan	Milan	100%	100%
B. Jointly-owned associates				
18. Hype S.p.A.	Biella	Biella	50%	50%
C. Companies in which significant influence is exercised				
19. SpicyCo S.r.l.	Milan	Milan	49%	49%
20. SpicyCo 2 S.r.l.	**Milan**	**Milan**	**49%**	**49%**

Relations with subsidiaries

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.	8,919	N/A	-
6. illimity SGR S.p.A.	4,036	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	-
14. Abilio S.p.A.	14,450	N/A	-
15. AREC S.p.A.	35,729	N/A	-
16. Dagobah SPV S.r.l.	10	N/A	-
17. Dagobah LeaseCo S.r.l.	64	N/A	-
B. Jointly-owned associates			
18. Hype S.p.A.	91,696	N/A	-
C. Companies in which significant influence is exercised			
19. SpicyCo S.r.l.	5	N/A	-
20. SpicyCo 2 S.r.l.	5	N/A	-
Total	**155,041**	**N/A**	**-**

Macroeconomic scenario

The macroeconomic scenario has been described in the Report on Consolidated Operations, to which reference is made.

Significant events in 2022

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 "one-tier" method of administration and control. The changes to the Articles of Association also entail the explicit inclusion of "sustainable success".

On 1 April 2022, the spin-off to Abilio S.p.A. of the scope of assets and liabilities of the neprix Sales area, previous comprised within neprix, of the equity investment in Abilio agency S.r.l. (formerly Neprix Agency S.r.l.) and of a portion of the Tech area, also previously included within neprix, was approved. The accounting and tax effects of the operation were set for 1 April 2022.

On 28 April 2022, the Shareholders' Meeting approved the financial statements of illimity Bank as of 31 December 2021 and approved the appointment of the Board of Directors, following approval of the move to the "single-tier" governance system previously approved by the Shareholders' Meeting of 21 February 2022.

On 15 June 2022, the illimity Board of Directors approved the capital increases serving the incentive plans and, specifically:

i. the "Employee Stock Ownership Plan – ESOP" (for 2022) for a total of EUR 76,865.41, corresponding to 117,946 ordinary shares, in partial execution of the authority contained in Article 5, paragraph 3 of the Articles of Association; and
ii. the "MBO" Plan (for 2021) for a total of EUR 11,621.11, corresponding to 17,832 ordinary shares, in partial execution of the authority contained in Article 5, paragraph 4 of the Articles of Association, granting a mandate for the purposes of the related execution.

The Board of Directors also approved the use of 10,060 ordinary shares already in the portfolio.

On 21 June 2022, the Extraordinary Shareholders' Meeting of illimity approved, with a unanimous vote of those attending, the share capital increase of illimity reserved for Aurora Recovery Capital S.p.A. ("AREC"), to be freed up through contribution, and without option rights pursuant to Art. 2441, paragraph 4, first line of the Italian Civil Code. That operation, authorised in advance by the Supervisory Authorities pursuant to law, is part of the larger acquisition by the bank of AREC's business unit.

On 30 June 2022, the cash and cash equivalents purchase by illimity of 10% of AREC S.p.A. shares was finalised and the deed regarding the contribution to illimity of the shares representing the remaining equity investment of 90% of the share capital of AREC, for the purpose of the acquiring of the entire company and the subsequent planned merger with the servicer of the illimity group, neprix, was entered into.

On 21 September 2022 illimity Bank announced the new composition of its share capital, following the conversion of 1,440,000 special shares of illimity into an equal number of ordinary shares having the same features of those outstanding, without any modification of the amount of the share capital.

Reclassified financial statements as of 31 December 2022

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.

In this document, the mandatory financial statements have been reclassified according to a managerial approach better suited to representing the Bank's financial performance and financial position. 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 the net interest margin;
- dividends received from financial assets measured at fair value through profit or loss were included in the Profits (losses) on trading and financial assets and liabilities;
- 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 excluded 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 and datio in solutum transactions;
- net credit exposure to customers on closed positions is shown separately from net losses/recoveries for credit risk.

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

- the inclusion of hedging derivative assets, 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 loans to financial entities and securities at amortised cost;
- the reclassification of Leasing agreement liabilities, recognised under payables to customers based on IFRS 16, to other liabilities for operational purposes;
- the inclusion of hedging derivative liabilities, the Provision for Risks and Charges and employee severance pay in residual items of other liabilities;
- the aggregate indication and items comprising shareholders' equity.

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

Components of official items of the Statement of Financial Position	Assets	31 December 2022	31 December 2021	Chg.	Chg. (%)
20 a) + 30	Property portfolio - Securities at FV	422,856	300,436	122,420	41%
20 c)	Financial instruments mandatorily measured at fair value	189,950	75,619	114,331	>100%
20 c)	Loans mandatorily measured at fair value	24,000	-	24,000	N/A
40 a)	Due from banks	57,213	267,969	(210,756)	(79%)
40 b)	Loans to financial entities	125,588	199,857	(74,269)	(37%)
40 b)	Loans to customers HTC	2,535,938	1,893,892	642,046	34%
40 b)	Government Bonds HTC	428,309	-	428,309	N/A
40 b)	Securities at amortised cost - Growth Credit	95,144	34,266	60,878	>100%
40 b)	Securities at amortised cost – Distressed Credit	1,077,459	1,037,071	40,388	4%
40 b)	Securities at amortised cost – Investment Banking	134,471	-	134,471	N/A
70	Investments in equity	155,041	113,895	41,146	36%
80 + 90	Property and equipment and intangible assets	98,038	85,038	13,000	15%
	of which: Goodwill	*21,643*	*21,643*	-	-
100	Tax assets	73,991	41,885	32,106	77%
10 + 50 + 110 + 120	Other assets	1,010,684	734,319	276,365	38%
	of which: Cash and cash equivalents	*676,509*	*506,898*	*169,611*	33%
	Total assets	**6,428,682**	**4,784,247**	**1,644,435**	**34%**

Components of official items of the Statement of Financial Position	Liabilities	31 December 2022	31 December 2021	Chg.	Chg. (%)
10 a)	Due to banks	1,205,039	411,287	793,752	>100%
10 b)	Amounts due to customers	3,506,895	2,975,475	531,420	18%
10 c)	Securities issued	653,002	499,788	153,214	31%
20	Financial liabilities in own portfolio – instruments at FV	27,244	59	27,185	>100%
60	Tax liabilities	33,522	16,677	16,845	>100%
40 + 80 + 90 + 100	Other liabilities	151,562	103,014	48,548	47%
(*)	Shareholders' equity	851,418	777,947	73,471	9%
	Total liabilities and shareholders' equity	**6,428,682**	**4,784,247**	**1,644,435**	**34%**

RECLASSIFIED INCOME STATEMENT

Components of official items of the Income Statement	Income Statement items	31 December 2022	31 December 2021	Chg.	Chg. (%)
10 + 20 + 290 + 140	Net interest margin	151,260	132,874	18,386	14%
40 + 50	Net fee and commission income	40,406	24,659	15,747	64%
70 + 80 + 100 + 110	Profits/losses on financial assets and liabilities	15,777	18,503	(2,726)	(15%)
130 a) + 130 b) + 170 a) + 250	Net write-downs/write-backs on closed positions	18,939	14,972	3,967	26%
250	Other profits (losses) from the disposal of investments	-	2,278	(2,278)	<100%
200	Other operating expenses and income (excluding taxes)	17,890	10,073	7,817	78%
Total net operating income		**244,272**	**203,359**	**40,911**	**20%**
160 a)	Personnel expenses	(57,704)	(51,578)	(6,126)	12%
160 b)	Other administrative expenses	(66,926)	(55,991)	(10,935)	20%
180 + 190	Net adjustments/recoveries on property and equipment and intangible assets	(13,885)	(9,603)	(4,282)	45%
Operating expenses		**(138,515)**	**(117,172)**	**(21,343)**	**18%**
Operating profit (loss)		**105,757**	**86,187**	**19,570**	**23%**
130 a)	Net losses/recoveries for credit risk - HTC Banks	214	(92)	306	<100%
130 a)	Net losses/recoveries for credit risk - HTC financial entities	105	(159)	264	<100%
130 a)	Net losses/recoveries for credit risk - HTC Clients	7,699	6,061	1,638	27%
130 b)	Net losses/recoveries for credit risk - HTCS	(1,292)	(906)	(386)	43%
170 a)	Net adjustments/recoveries for commitments and guarantees	(1,042)	(2,729)	1,687	(62%)
Total net adjustments/recoveries		**5,684**	**2,175**	**3,509**	**>100%**
170 b)	Other net provisions	-	(510)	510	<100%
220	Other income (expenses) on investments	-	-	-	-
160 b)	Contributions and other non-recurring expenses	(6,687)	(5,068)	(1,619)	32%
Profit (loss) from operations before taxes		**104,754**	**82,784**	**21,970**	**27%**
270 + 290	Income tax for the year on continuing operations	(24,038)	(13,661)	(10,377)	76%
Profit (loss) for the period		**80,715**	**69,123**	**11,592**	**17%**

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 CRR) and in Directive 2013/36/EU (Capital Requirements Directive, the 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 Italian 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 17 March 2022 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 2022. 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 communicated the following capital levels, which the illimity Banking Group was invited to maintain on an ongoing basis:

- Common Equity Tier 1 (CET1) ratio of 9.10%;
- Tier 1 ratio of 11.00%;
- Total Capital ratio of 13.50%.

In that regard, it is noted that the Bank continues to substantially comply with the original voluntary commitment to maintain the CET1 ratio at a level above 15% on an ongoing basis.

In determining own funds the profit (loss) for the period was allocated net of all charges and dividends that may be forecast pursuant to the CRR, Article 26, paragraph 2, letter b) and Delegated Regulation (EU) 241/2014, articles 2 and 3. In particular, CET1 capital included 80% of profits for the period, based on a consolidated payout ratio of 20%, in line with the current business plan. That being said, the breakdown of own funds at the reporting date was as follows:

Capital ratios	31 December 2022	31 December 2021
Common Equity Tier 1 (CET1) capital	**695,108**	**649,341**
Additional Tier 1 (AT1) capital	**-**	**-**
Tier 2 (T2) capital	**200,787**	**200,432**
Total own funds	**895,895**	**849,773**
Credit risk	*305,811*	*251,274*
Credit valuation adjustment risk	-	-
Settlement risks	-	-
Market risks	*4,577*	*780*
Operational risk	*26,234*	*16,787*
Other calculation factors	-	-
Total minimum requirements	**336,621**	**268,841**
Risk-weighted assets	**4,207,768**	**3,360,509**
Common Equity Tier 1 ratio	**16.52%**	**19.32%**
(Common Equity Tier 1 capital after filters and deductions/Risk-weighted assets)		
Tier 1 ratio	**16.52%**	**19.32%**
(Tier 1 capital after filters and deductions/Risk-weighted assets)		
Total capital ratio	**21.29%**	**25.29%**
(Total own funds/Risk-weighted assets)		

Changes in shareholders' equity

As of 31 December 2022, shareholders' equity came to approximately EUR 851.4 million, up on the end of 2022 due to the share capital increase destined for the acquisition of the business unit of AREC, the issue of shares as part of the ESOP program and, lastly, the contribution of the profit accrued in the year, net of the negative changes recorded in the valuation reserves.

Items/Technical forms	31 December 2022	31 December 2021
1. Share capital	54,514	52,620
2. Share premium reserve	624,584	597,589
3. Reserves	140,627	65,483
4. Equity instruments	-	-
5. (Treasury shares)	(747)	(832)
6. Valuation reserves	(48,275)	(6,036)
7. Profit (loss) for the year	80,715	69,123
Total shareholders' equity	**851,418**	**777,947**

Share capital and ownership structure

As of 31 December 2022, the Bank's share capital amounted to EUR 54,513,905.72, fully subscribed and paid up, divided into 83,645,108 ordinary shares.

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.

Treasury shares

As of 31 December 2022, the Bank held 88,445 treasury shares for a value of EUR 747 thousand, down on the figures as of 31 December 2021, due to the allocation of 10,060 ordinary shares held to the MBO plan. The Bank's subsidiaries do not hold any shares in it. 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
Year ended 31 December 2022	80,715	81,149,186	0.99
Year ended 31 December 2021	69,123	74,768,897	0.92

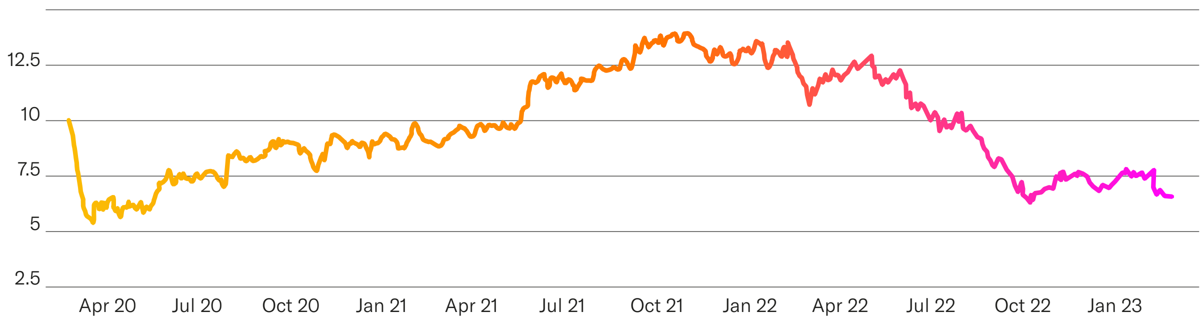
The diluted earnings (loss) per share differs from the basic earnings (loss) per share due to the *potential shares* in service of the Long-Term Incentive (LTI) plan.

(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 2022	80,715	83,180,280	0.97
Year ended 31 December 2021	69,123	75,377,813	0.92

illimity Bank share performance

The ordinary shares of illimity are traded on the Mercato Telematico Azionario Euronext Milan 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. Share performance in the last three years 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 7 March 2023, 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
Banca Sella Holding S.p.A.	Banca Sella Holding S.p.A.	Owned	10.00%	10.00%
LR Trust	Fidim S.r.l.	Owned	8.12%	8.12%
ION Investment Corporation S.à.r.l.	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.a.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' agreement measures. Specifically, this agreement, which governs AMC Metis S.a.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.a.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.

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 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 2022 a material related party transaction was carried out involving an agreement to manage the liquidity deposited by said counterparty in current and deposit accounts with illimity Bank S.p.A. *(about which adequate information was disclosed to the market, which should be referred to for more details).* There were no further material or minor related party transactions in 2022 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 9th update to Circular no. 263 of 27 December 2006 which introduced prudential supervisory requirements for banks, issued in implementation of Article 53, paragraph 4 et seq., of the Consolidated Law on Banking and in accordance with Resolution of the Interministerial Committee for Credit and Savings no. 277 of 29 July 2008, as well as the regulations set forth by Article 136 of the Consolidated Law on Banking. 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 2022 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 led to the realisation of various projects of significance to the Bank. Specifically, during the course of 2022, the Chief Information Officer (“CIO”) Division continued to invest in a single IT infrastructure and in illimitybank.com, completing the digital platform so that all the bank's businesses can fully make use of the new technologies of data and augmented and artificial intelligence.

Events after the reporting date

Taking effect for legal, accounting and tax purposes on 1 January 2023, the merger by incorporation of AREC S.p.A. into neprix S.r.l. (both wholly controlled by the Bank) was completed, resulting in the creation of the legal entity AREC neprix S.p.A.

Through this operation, illimity is strengthening its positioning and innovative approach to servicing distressed corporate loans, confirming its position as a comprehensive market leader capable of covering the entire value chain of the management process, from investment to the remarketing of assets guaranteeing these loans.

Pursuant to the requirements of IAS 10, after 31 December 2022 (the reporting date), no events occurred requiring any rectification of the information presented in the financial statements.

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 identifies 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 Group is overseen by the CRO, together with the Chief Financial Officer and with 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 Bank.

Part E of the individual financial statements of illimity 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, 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.

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 2022, accompanied by the annexes and documentation required by law, and having also examined the consolidated financial statements of the Group as of 31 December 2022;
- having examined the results of the draft financial statements for the year, which closed with a profit for the year of EUR 80,715,289.07, and of the Group's consolidated financial statements, which closed with a profit for the year of EUR 75,326 thousand;
- having regard to the report of the Board of Directors on operations as of 31 December 2022;
- having taken note of the respective reports drawn up by the Management Control Committee and the Company responsible for the statutory audit of the accounts of KPMG S.p.A..

RESOLVES

- to approve the financial statements of illimity Bank S.p.A., accompanied by the Directors' Report on Operations as of 31 December 2022, which show a loss for the year of EUR 80,715,289.07.

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 2022, accompanied by the annexes and documentation required by law, and having also examined the consolidated financial statements of the Group as of 31 December 2022;
- having examined the results of the draft financial statements for the year, which closed with a profit for the year of EUR 80,715,289.07, and of the Group's consolidated financial statements, which closed with a profit for the year of EUR 75,326 thousand;
- having regard to the report of the Board of Directors on operations as of 31 December 2022;
- having taken note of the respective reports drawn up by the Management Control Committee and the Company responsible for the statutory audit of the accounts of KPMG S.p.A.;
- having taken into account the 88,445 treasury shares in the Bank's portfolio.

RESOLVES

- to approve the proposal to allocate to the legal reserve EUR 4,035,764.45, equal to 5% of the profit for the year;
- to distribute to the 83,645,108 ordinary shares issued a dividend per share of EUR 0.1801, i.e. 18.01 cents, for a maximum total of EUR 15,064,483.95;
- to approve the proposal to carry forward profit for EUR 61,615,040.67, in addition to a maximum of EUR 15,928.94 as a dividend to the treasury shares.

Milan, 9 March 2023

On behalf of the Board of Directors
President, Rosalba Casiraghi
Signed

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illimity, The story of Alessi

Financial Statements

STATEMENT OF FINANCIAL POSITION

Assets		31/12/2022	31/12/2021
10.	Cash and cash equivalents	676,509,083	506,897,893
20.	Financial assets measured at fair value through profit or loss	245,096,126	76,547,144
	a) financial assets held for trading	31,145,771	928,384
	b) financial assets at fair value	-	-
	c) other financial assets mandatorily measured at fair value	213,950,355	75,618,760
30.	Financial assets measured at fair value through other comprehensive income	391,709,995	299,507,563
40.	Financial assets measured at amortised cost	4,454,121,852	3,433,055,678
	a) due from banks	57,213,295	267,969,490
	b) loans to customers	4,396,908,557	3,165,086,188
50.	Hedging derivatives	29,874,234	-
60.	Fair value change of financial assets in hedged portfolios (+/-)	-	-
70.	Equity investments	155,041,114	113,894,556
80.	Property and equipment	22,008,522	19,806,392
90.	Intangible assets	76,029,300	65,231,211
	of which:		
	- goodwill	21,643,000	21,643,000
100.	Tax assets	73,991,274	41,884,749
	a) current	6,908,074	4,988,375
	b) deferred	67,083,200	36,896,374
110.	Non-current assets held for sale and discontinued operations	-	43,117,184
120.	Other assets	304,300,710	184,304,853
	Total assets	**6,428,682,210**	**4,784,247,223**

CONTINUED: STATEMENT OF FINANCIAL POSITION

	Liabilities and shareholders' equity	31/12/2022	31/12/2021
10.	Amounts due to customers	5,390,322,545	3,909,121,310
	a) due to banks	1,205,038,846	411,287,166
	b) due to customers	3,532,281,414	2,998,046,369
	c) securities issued	653,002,285	499,787,775
20.	Financial liabilities held for trading	27,244,023	58,854
30.	Financial liabilities designated at fair value	-	-
40.	Hedging derivatives	32,645,901	-
50.	Fair value change of financial liabilities in hedged portfolio (+/-)	-	-
60.	Tax liabilities	33,521,998	16,676,734
	a) current	32,628,528	16,064,204
	b) deferred	893,470	612,530
70.	Liabilities associated with non-current assets held for sale and discontinued operations	-	-
80.	Other liabilities	85,415,902	72,467,167
90.	Employee severance pay	2,048,748	2,335,227
100.	Allowances for risks and charges	6,064,948	5,641,125
	a) commitments and guarantees given	4,862,991	4,482,072
	b) post-employment benefits	-	-
	c) other allowances for risks and charges	1,201,957	1,159,053
110.	Valuation reserves	(48,274,507)	(6,036,300)
120.	Redeemable shares	-	-
130.	Equity instruments	-	-
140.	Reserves	140,626,772	65,482,919
150.	Share premium reserve	624,583,587	597,589,133
160.	Share capital	54,513,906	52,619,881
170.	Treasury shares (-)	(746,902)	(831,857)
180.	Profit (loss) for the period (+/-)	80,715,289	69,123,030
	Total liabilities and shareholders' equity	**6,428,682,210**	**4,784,247,223**

INCOME STATEMENT

Items		31/12/2022	31/12/2021
10.	Interest income and similar income	227,731,496	193,653,028
	of which: interest income calculated according to the effective interest method	218,043,720	187,598,106
20.	Interest expenses and similar charges	(74,526,587)	(60,817,494)
30.	**Net interest margin**	**153,204,909**	**132,835,534**
40.	Fee and commission income	43,659,848	27,196,358
50.	Fee and commission expense	(5,573,495)	(3,518,094)
60.	**Net fee and commission income**	**38,086,353**	**23,678,264**
70.	Dividends and similar income	199,588	-
80.	Profits (losses) on trading	4,728,532	3,166,915
90.	Fair value adjustments in hedge accounting	-	-
100.	Profits (losses) on disposal or repurchase of:	(468,026)	5,392,749
	a) financial assets measured at amortised cost	10,698	301,807
	b) financial assets measured at fair value through other comprehensive income	(174,403)	5,090,942
	c) financial liabilities	(304,321)	-
110.	Profits (losses) on other financial assets and liabilities measured at fair value through profit or loss	11,316,605	9,943,759
	a) financial assets and liabilities designated at fair value	-	-
	b) other financial assets mandatorily measured at fair value	11,316,605	9,943,759
120.	**Total net operating income**	**207,067,961**	**175,017,221**
130.	Net losses/recoveries for credit risks associated with:	25,292,321	19,550,520
	a) financial assets measured at amortised cost	26,583,933	19,921,009
	b) financial assets measured at fair value through other comprehensive income	(1,291,612)	(370,489)
140.	Profits/losses on changes in contracts without derecognition	-	196,160
150.	**Net result from banking activities**	**232,360,282**	**194,763,901**
160.	Administrative expenses:	(137,817,421)	(117,812,319)
	a) personnel expenses	(58,173,533)	(52,122,287)
	b) other administrative expenses	(79,643,888)	(65,690,032)
170.	Net allowances for risks and charges	(669,177)	(2,914,108)
	a) commitments and guarantees given	(669,177)	(2,403,640)
	b) other net provisions	-	(510,468)
180.	Net adjustments/recoveries on property and equipment	(3,147,192)	(2,885,151)
190.	Net adjustments/recoveries on intangible assets	(10,737,652)	(6,718,203)
200.	Other operating income/expenses	24,764,788	15,722,548
210.	**Operating expenses**	**(127,606,654)**	**(114,607,233)**
220.	Profits (losses) on equity investments	-	-
230.	Net gains/losses on the measurement at fair value of property and equipment and intangible assets	-	-
240.	Adjustments/recoveries of goodwill	-	-
250.	Profits (losses) on disposal of investments	-	2,277,976
260.	**Profit (loss) before tax from continuing operations**	**104,753,628**	**82,434,644**
270.	Income tax for the period on continuing operations	(24,038,339)	(13,564,889)
280.	**Profit (loss) after tax from continuing operations**	**80,715,289**	**68,869,755**
290.	Net income (loss) from discontinued operations after tax	-	253,275
300.	**Profit (loss) for the period**	**80,715,289**	**69,123,030**

STATEMENT OF COMPREHENSIVE INCOME

		31/12/2022	31/12/2021
10.	**Profit (loss) for the year**	**80,715,289**	**69,123,030**
	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	286	564
30.	Financial liabilities measured 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	578,419	(73,679)
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	(42,816,912)	(5,684,708)
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)**	**(42,238,207)**	**(5,757,823)**
180.	**Other comprehensive income (Item 10+170)**	**38,477,082**	**63,365,207**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AS OF 31/12/2022

	Balance as of 31/12/2021	Change to opening balances	Balance as of 01/01/2021	Allocation of profit (loss) for the previous year		
				Reserves	Dividends and other allocations	Change in reserves
Share capital:						
a) ordinary shares	51,681,405	–	51,681,405	–	–	–
b) other shares	938,476	–	938,476	–	–	–
Share premium reserve	597,589,133	–	597,589,133	–	–	–
Reserves:						
a) retained earnings	30,577,120	–	30,577,120	69,123,030	–	–
b) other	34,905,799	–	34,905,799	–	–	–
Valuation reserves	(6,036,300)	–	(6,036,300)	–	–	–
Equity instruments	–	–	–	–	–	–
Treasury shares	(831,857)	–	(831,857)	–	–	–
Profit (loss) for the year	**69,123,030**	**–**	**69,123,030**	**(69,123,030)**	**–**	**–**
Shareholders' equity	**777,946,806**	**–**	**777,946,806**	**–**	**–**	**–**

CONTINUED

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AS OF 31/12/2021

	Balance as of 31 /12/2020	Change to opening balances	Balance as of 01/01/2021	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**	**–**	**–**	**–**

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	Comprehensive income for 2022	Shareholders' equity as of 31/12/2022
Share capital:								
a) ordinary shares	1,805,525	–	–	938,489	–	88,487	–	**54,513,906**
b) other shares	13	–	–	(938,489)	–	–	–	**–**
Share premium reserve	26,994,454	–	–	–	–	–	–	**624,583,587**
Reserves:								
a) retained earnings	–	–	–	–	–	4,664,784	–	**104,364,934**
b) other	(99,721)	–	–	–	–	1,455,760	–	**36,261,838**
Valuation reserves	–	–	–	–	–	–	(42,238,207)	**(48,274,507)**
Equity instruments	–	–	–	–	–	–	–	**–**
Treasury shares	–	–	–	–	–	84,955	–	**(746,902)**
Profit (loss) for the year	**–**	**–**	**–**	**–**	–	**–**	**80,715,289**	**80,715,289**
Shareholders' equity	**28,700,271**	**–**	**–**	**–**	**–**	**6,293,986**	**38,477,082**	**851,418,145**

	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	Comprehensive income for the financial year 2021	Shareholders' equity as of 31/12/2021
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**

CASH FLOW STATEMENT (INDIRECT METHOD)

OPERATING ACTIVITIES	Amount	
	31/12/2022	31/12/2021
1. Cash flow from operations	**149,375,206**	**109,588,583**
Net profit/loss for the year (+/-)	80,715,289	69,123,030
Gains/losses on financial assets held for trading and other financial assets/liabilities measured at fair value through profit or loss (-/+)	(7,290,429)	(1,408,213)
Profits/losses on hedging activities (-/+)	-	-
Net losses/recoveries for credit risk (+/-)	6,360,515	1,239,680
Net adjustments/recoveries on property and equipment and intangible assets (+/-)	13,885,247	9,603,354
Net allocations to allowances for risks and charges and other costs/income (+/-)	13,013,620	11,243,073
Taxes, duties and unpaid tax credits (+)	28,804,762	16,358,662
Net adjustments/recoveries on discontinued operations, net of the tax effect (+/-)	-	-
Other adjustments (+/-)	13,886,202	3,428,997
2. Cash flow generated/absorbed by financial assets	**(1,416,877,900)**	**(934,611,815)**
Financial assets held for trading	(25,522,191)	(876,561)
Financial assets designated at fair value	-	-
Other financial assets mandatorily measured at fair value	(134,358,868)	(54,791,535)
Financial assets measured at fair value through other comprehensive income	(161,886,652)	(215,300,770)
Financial assets measured at amortised cost	(977,474,764)	(480,229,989)
Other assets	(117,635,425)	(183,412,960)
3. Cash flow generated/absorbed by financial liabilities	**1,467,076,973**	**360,191,510**
Amounts due to customers	1,440,065,307	360,156,375
Financial liabilities held for trading	27,185,169	58,854
Financial liabilities designated at fair value	-	-
Other liabilities	(173,503)	(23,718)
Net cash generated/absorbed by operating activities	**199,574,279**	**(464,831,722)**

B. INVESTING ACTIVITIES	Amount	
	31/12/2022	31/12/2021
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	**(29,863,367)**	**(53,914,945)**
Purchases of equity investments	(8,158,901)	(33,634,726)
Purchases of property and equipment	(168,725)	(81,182)
Purchases of intangible assets	(21,535,741)	(20,199,037)
Purchases of business units	-	-
Net cash generated/absorbed by investing activities	**(29,863,367)**	**(53,314,945)**

C. FINANCING ACTIVITIES	Amount	
	31/12/2022	31/12/2021
Issues / Purchases of treasury shares	-	-
Issues / Purchases of equity instruments	(99,722)	73,861,560
Distribution of dividends and other purposes	-	-
Net cash generated/absorbed by financing activities	**(99,722)**	**73,861,560**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**169,611,190**	**(444,285,106)**

RECONCILIATION

FINANCIAL STATEMENT ITEMS	Amount	
	31/12/2022	31/12/2021
Cash and cash equivalents at start of year	**506,897,893**	**951,182,999**
Total net cash generated/absorbed during the year	169,611,190	(444,285,106)
Cash and cash equivalents: foreign exchange effect	-	-
Cash and cash equivalents at end of year	**676,509,083**	**506,897,893**

Key:

(+) generated
(–) absorbed

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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 Italian 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 2022 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 Italian Legislative Decree no. 38/05 and Article 43 of Italian Legislative Decree 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.

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 Italian 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:

- going concern basis: 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 of 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 2022, which were approved by the Board of Directors on 9 March 2023, 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.

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. Negative amounts have been stated in parentheses.

3. Statement of changes in 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. 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.

Contents 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.

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 2022, 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;
- measurement of the real estate portfolio;
- determination of the amount of accruals to allowances for risks and charges;
- determination of deferred taxes;
- measurements relating to 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 2022.

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 and IAS 41	May 2020	1 January 2022	28 June 2021	(EU) 2021/1080 2 July 2021
Property, plant and equipment – Proceeds before Intended Use (Amendments to IAS 16)	May 2020	1 January 2022	28 June 2021	(EU) 2021/1080 2 July 2021
Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37)	May 2020	1 January 2022	28 June 2021	(EU) 2021/1080 2 July 2021
Reference to the Conceptual Framework (Amendments to IFRS 3)	May 2020	1 January 2022	28 June 2021	(EU) 2021/1080 2 July 2021

As shown in the above table, the adoption of several amendments to accounting standards endorsed by the European Commission in 2022 is mandatory with effect from 2022.

In more detail, Regulation (EU) no. 2021/1080 of 28 June 2021 incorporates some minor amendments, published by the IASB on 14 May 2020, to IAS 16 Property, plant and equipment, IAS 37 Provisions, contingent liabilities and contingent assets, and IFRS 3 Business combinations.

The amendments concern:

- IAS 16 – Components of cost: the amendments clarify the way companies should account for the proceeds from sale of items produced while the company was preparing the relevant asset for its intended use (e.g. samples produced during checks on the correct functioning of the asset). The company must recognise such proceeds from sale and the relevant costs in the income statement;
- IAS 37 – Onerous contracts: this amendment specifies that an estimate intended to determine whether a contract is onerous must include all costs that relate directly to the contract, not just the incremental costs of fulfilling that contract. Consequently, the assessment of a contract's possible onerousness must include incremental costs (e.g. the cost of the material directly used in the manufacture), but also the costs that the company cannot avoid after signing the contract (e.g. the relevant portion of personnel costs and of the depreciation of the property, plant and equipment used in fulfilling the contract);
- IFRS 3 – References to the Conceptual Framework: updates were made to some references to the new version of the Conceptual Framework of 2018, though no amendments were made to the pre-existing accounting methods. Companies are also explicitly prohibited from recording contingent assets (i.e. assets whose existence will be confirmed only after uncertain future events) in business combinations;
- incorporation of the usual annual improvements - Annual cycle of improvements to IFRS 2018-2020, which clarify statements or correct errors, oversights or conflicts between the requirements of the accounting standards. These minor amendments include changes to IFRS 9 Financial instruments, with certain clarifications concerning the fees to be included in the 10% test for derecognition of financial liabilities; it is specified that only fees paid or received between the parties should be included, not fees that are directly attributable to third parties.

These amendments are not particularly relevant to the Bank.

IAS/IFRS and the relative IFRIC interpretations applicable to financial statements of financial years starting after 1 January 2022

Documents endorsed by the EU as of 31 December 2022

Document title	Issue date	Effective date	Date endorsed	EU regulation and publication date
Amendments to IFRS 1, IFRS 2 Practice statement, and IAS 8	February 2021	1 January 2023	2 March 2022	(EU) 2022/357 3 March 2022
Deferred taxes relating to assets and liabilities arising from a single transaction (Amendments to IAS 12 Income taxes)	May 2021	1 January 2023	11 August 2022	(EU) 2022/1392 12 August 2022
First application of IFRS 17 and IFRS 9 – Comparative information (Amendments to IFRS 17 Insurance contracts)	December 2021	1 January 2023	8 September 2022	(EU) 2022/1491 9 September 2022

In further detail:

- Regulation (EU) no. 2022/357: this regulation approved the document "Amendments to IFRS 1, IFRS 2 Practice statement, and IAS 8", published by the IASB on 12 February 2021, which amended:
  - "IAS 1 – Presentation of financial statements", which was amended by requiring entities to disclose their material accounting policy information, instead of significant accounting policies. In detail, the principle clarifies that accounting policy information is considered material if, together with other information included in the financial statements, it may reasonably influence decisions that the key users of the financial statements, drawn up for general purposes, take based thereon;
  - "IAS 8 - Accounting policies, changes in accounting estimates and errors": the amendments to IAS 8 focused, on the one hand, on drawing up a new definition of "accounting estimates" and, on the other, on clarifying the relationship between "accounting estimates" and "accounting policies". The IASB replaced the definition of "change in accounting estimates" with the new concept of "accounting estimates", i.e. monetary amounts in financial statements that are subject to measurement uncertainty.
- Regulation (EU) no. 2022/1392: this regulation endorsed the document "Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)", published by the IASB on 7 May 2021. With the Amendments to IAS 12, the IASB clarified how to recognise deferred tax in relation to leases and decommissioning obligations;
- Regulation (EU) no. 2022/1491: this regulation endorsed the document "Initial Application of IFRS 17 and IFRS 9 — Comparative Information (Amendment to IFRS 17)", published by the IASB on 9 December 2021.

The amendments, applicable upon the initial application of IFRS 17, are aimed at eliminating accounting mismatches that may arise in the comparative financial statement data as a result of the initial application of IFRS 17 and IFRS 9. In particular, the IASB has added a new transition option to IFRS 17, known as the "classification overlay", which allows insurance entities that apply IFRS 17 and IFRS 9 at the same time to classify and measure financial assets related to insurance activity in the comparative financial statements, pursuant to IFRS 9.

These amendments are not particularly relevant to the Bank.

Documents NOT yet endorsed by the EU as of 31 December 2022

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	1 January 2016	Yet to be defined
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	Yet to be defined
Classification of Liabilities as Current or Non-current (Amendments to IAS 1), including subsequent amendment issued in July 2020	January 2020 July 2020	1 January 2024	Yet to be defined
Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)	September 2022	1 January 2024	Yet to be defined
Non-current Liabilities with Covenants (Amendments to IAS 1)	October 2022	1 January 2024	Yet to be defined

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 2022 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. 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 (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 instruments 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 measurement 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 measurement 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 recognised in 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, 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 carrying amount at the time of the initial 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 valuation 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 valuation, if the credit risk has not increased significantly compared to the initial recognition, based on the changes in the write-downs/write-backs due to expected losses over the following twelve months;
- at the time of subsequent valuation, 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 recognised in the income statement is defined according to a detailed measurement 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. The assessment concerning the substance of the change must be carried out in consideration of both qualitative and quantitative elements. 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

The Bank makes use of the possibility, provided for upon the introduction of IFRS 9, to continue to fully apply the provisions of IAS 39 on "hedge accounting" (in the carve-out version approved by the European Commission) for hedges.

Risk hedging operations are aimed at neutralising potential losses, attributable to a given risk, which can be recognised under a specific element or group of elements, if that particular risk should arise.

The possible types of hedge are as follows:

- fair value hedge: this hedges exposure to changes in the fair value of a recognised asset or liability or an unrecognised irrevocable commitment, or an identified part of said asset, liability or irrevocable commitment, which is attributable to a particular risk and could influence the income statement;
- cash flow hedge: this hedges exposure to the variability of cash flows attributable to a particular risk associated with a recognised asset or liability (such as all or some payments of future interest on a variable-rate debt) or a highly likely planned operation that could influence the income statement;
- foreign currency investment hedge: this hedges the risks relating to an investment in a foreign business expressed in foreign currency, as defined in IAS 21.

Only instruments that involve an external counterparty can be designated as hedging instruments.

Given the decision to make use of the possibility to continue fully applying the rules of IAS 39 for hedging, it is not possible to designate equity instruments classified under Financial assets measured at fair value through other comprehensive income (FVOCI) as instruments hedged for price risk or exchange rate risk, given that those instruments do not impact the income statement, even in the event of sale (except for dividends, which are recognised in the income statement).

With regard to the management of hedging operations, the type of hedge chosen by the Bank (fair value hedge) refers to specific elements (micro-hedges) consisting of debt securities measured at fair value through other comprehensive income and amounts due to customers.

Hedging derivatives, like all derivatives, are initially recognised and subsequently measured at fair value through other comprehensive income.

A position is classified as a hedge, and recognised as such for accounting purposes, only if all the following conditions are met:

- the hedged element and the hedging instrument must be specifically identifiable;
- at the outset of the hedge there is a designation and formal documentation of the hedging relationship, the objectives of the risk management entity and the strategy in implementing the hedge. This documentation must include the identification of the hedging instrument, the hedged element or operation, the nature of the hedged risk and how the entity will assess the effectiveness of the hedging instrument when offsetting the exposure to changes in fair value of the hedged element or the cash flows attributable to the hedged risk;
- it is expected that the hedge will be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk, in line with the risk management strategy originally documented for that particular hedging relationship;
- for cash flow hedges, a planned operation that is the subject of hedging must be highly likely and must present exposure to changes in cash flows that could ultimately impact the income statement;
- the effectiveness of the hedge can be reliably assessed, i.e. the fair value or the cash flows of the hedged element that are attributable to the hedged risk and the fair value of the hedged instrument can be reliably assessed;
- the hedge is measured on the basis of continuity and is considered to be highly effective for all financial years in which the hedge was designated.

With regard to hedge accounting rules:

- in the case of fair value hedging, the change in the fair value of the hedged element is offset with the change in the fair value of the hedging instrument. This offsetting is recognised through the recognition through profit or loss of the changes in value, referring to both the hedged element (as regards changes brought about by the underlying risk factor) and the hedging instrument. Any difference, which represents the partial ineffectiveness of the hedge, consequently constitutes the net economic effect thereof.

  In the case of generic fair value hedging operations (macro-hedges), the changes in fair value with regard to the hedged risk of the assets and liabilities subject to hedging are recognised in the statement of financial position, respectively, under item 60. "Fair value change of financial assets in hedged portfolios" or 50. "Fair value change of financial liabilities in hedged portfolios";
- in the case of cash flow hedges, the changes in fair value of the derivative are recognised in shareholders' equity, for the effective portion of the hedge, and are recognised through profit or loss only when, with regard to the hedged item, there is a change in cash flows to be offset or if the hedge is ineffective;
- foreign currency investment hedges are recognised in the same way as cash flow hedges.

A hedge is considered highly effective only if both the following conditions are met:

- at the outset of the hedge and in subsequent periods, the hedge is expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk, during the period for which the hedge is designated. This expectation may be demonstrated in various ways, including a comparison between the previous changes in fair value or cash flows of the hedged element that are attributable to the hedged risk and the previous changes in fair value or cash flows of the hedging instrument, or by demonstrating a high statistical correlation between the fair value or cash flows of the hedged element and those of the hedging instrument;
- when the changes in fair value (or cash flows) of the hedging instrument almost entirely offset, i.e. within the limits of the 80-125% range, the changes in the hedged instrument, for the element of risk being hedged.

An entity must prospectively discontinue fair value hedge accounting if:

- the hedging instrument expires or is sold, terminated or exercised (for that purpose, the replacement or carrying forward of a hedging instrument with another hedging instrument is not a conclusion or termination if that replacement or carrying forward is part of the entity's documented hedging strategy);
- the hedge no longer meets the criteria for hedge accounting; or
- the entity revokes the designation.

If checks do not confirm the effectiveness of the hedge, from that moment on the accounting of hedging operations, as set out above, is suspended, the hedging derivative is reclassified under trading instruments, and the hedged financial instrument reacquires the measurement criteria corresponding to its classification in the financial statements. If the hedged asset or liability is measured at amortised cost, the greater or lesser value arising from the measurement thereof at fair value as a result of the now-ineffective hedge is recognised through profit or loss according to the effective interest rate method.

Lastly, in each of the following circumstances a company must prospectively discontinue cash flow hedge accounting:

- the hedging instrument expires or is sold, terminated or exercised (for that purpose, the replacement or carrying forward of a hedging instrument with another hedging instrument is not a conclusion or termination if that replacement or carrying forward is part of the company's documented hedging strategy). In that case, the total profit (or loss) of the hedging instrument is recognised directly in shareholders' equity until the financial year in which the hedge was effective and is separately recognised until the planned operation subject to hedging occurs;
- the hedge no longer meets the criteria for hedge accounting. In that case, the total profit (or loss) of the hedging instrument recognised directly in shareholders' equity starting from the financial year in which the hedge was effective is separately recognised in shareholders' equity until the planned operation occurs;

- it is no longer believed that the planned operation will take place, in which case any related total profit or loss on the hedging instrument recognised directly in shareholders' equity starting from the financial year in which the hedge was effective is recognised through profit or loss;
- the company revokes the designation. For hedges of a planned operation, the total profit (or loss) of the hedging instrument recognised directly in shareholders' equity starting from the financial year in which the hedge was effective is separately recognised in shareholders' equity until the planned operation occurs or it is expected that it will not take place.

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 manage the investee company's significant assets;
- 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 entities consolidated on a line-by-line basis.
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 cash flows derived from the assets in question expire, or when the equity 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.

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, and deferred tax assets and liabilities.
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 a contra entry in 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 in relation to the charges for which it was originally recognised.
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 amounts due to customers.

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 2022 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 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);
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 Italian 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 Italian 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 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 measurement 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, measurement 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

Italian 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 deemed the following approach to be applicable:

a. *Initial recognition*: the tax credit is recognised at the time of purchase, for a value corresponding to its fair value, within 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 2022.

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

This section provides a summary, divided by type of instrument, of the measurement techniques used for instruments classified as having a level 2 and level 3 fair value.

Measurement of structured loan products

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 models used to measure loan transactions that evaluate the subject’s capacity to repay the entire liability, including equity instruments and shares.

Measurement of loans

The characteristics of loans measured at fair value result in their failing the SPPI test. illimity does not hold loans for trading. Loans are mainly measured using the discounted cash flow method. That technique is supplemented with the enterprise value measurement method of the debtor (e.g. multiples and comparable transactions) when the loan characteristics mean that its value depends on the value of the company. That dependence is normally due to the convertibility of the loan into equity or its degree of subordination.

Measurement of structured loan products

Structured loan products are attributable to two groups. The first relates to the subordinate tranches of securitisations of NPL portfolios, the second, to securitisations of performing underlying portfolios structured by illimity and held for disposal, in line with an HTCS business model.

In the first case the exposures are part of an investment strategy that involves the bank’s subscription of the senior quota and, as the originator, also of part of the subordinate tranches (mezzanine or junior).

The starting point for valuation is the acquisition, in which the price is determined by analysing the debtor's capacity to repay firstly the senior quota and, subsequently, the subordinate tranches, pursuant to the payment 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, since it involves the securitisation of variable-rate senior notes, periodic checks are carried out on the performance of the collateral and the soundness of the structure in order to confirm the initially recognised price or perform a write-down where necessary.

The measurement includes prudent assumptions on the capacity of the underlying to generate cash flows, preferring an inclusion of expected cash flows when there is a high probability of their occurrence.

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 primarily, 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.

Valuation of closed-end funds

Closed-end funds are valued using the latest net asset value (NAV) approved by the SGR, adjusted only to take into account events that occurred after the date the NAV was published (e.g. recalls by the fund and relevant distributions).

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	(8)	1 bp
FVTPL securities	Recovery rate	(240)	(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).

Quantitative 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 2022			31 December 2021		
	L1	L2	L3	L1	L2	L3
1. Financial assets measured at fair value through profit or loss	2,078	31,117	211,901	98	896	75,553
a) financial assets held for trading	-	31,117	29	-	896	32
b) financial assets at fair value	-	-	-	-	-	-
c) other financial assets mandatorily measured at fair value	2,078	-	211,872	98	-	75,521
2. Financial assets measured at fair value through other comprehensive income	373,950	-	17,760	299,489	-	19
3. Hedging derivatives	-	29,874	-	-	-	-
4. Property and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	**376,028**	**60,990**	**229,661**	**299,587**	**896**	**75,572**
1. Financial liabilities held for trading	-	27,244	-	-	59	-
2. Financial liabilities designated at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	32,646	-	-	-	-
Total	**-**	**59,890**	**-**	**-**	**59**	**-**

Legend:

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 34.4% 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	**75,553**	**32**	**-**	**75,521**	**19**	**-**	**-**	**-**
2. Increases	**138,679**	**-**	**-**	**138,679**	**17,809**	**-**	**-**	**-**
2.1 Purchases	128,315	-	-	128,315	17,717	-	-	-
2.2 Gains recognised in:	5,071	-	-	5,071	-	-	-	-
2.2.1 Income Statement	5,071	-	-	5,071	-	-	-	-
- of which capital gains	4,928	-	-	4,928	-	-	-	-
2.2.2 Shareholders' equity	-	X	X	X	-	-	-	-
2.3 Transfers from other levels	-	-	-	-	-	-	-	-
2.4 Other increases	5,295	-	-	5,295	92	-	-	-
3. Decreases	**2,333**	**3**	**-**	**2,330**	**68**	**-**	**-**	**-**
3.1 Sales	960	-	-	960	-	-	-	-
3.2 Repayments	188	-	-	188	-	-	-	-
3.3 Losses charged to:	1,185	3	-	1,182	68	-	-	-
3.3.1 Income Statement	1,185	3	-	1,182	-	-	-	-
- of which capital losses	1,185	3	-	1,182	-	-	-	-
3.3.2 Shareholders' equity	-	X	X	X	68	-	-	-
3.4 Transfers from other levels	-	-	-	-	-	-	-	-
3.5 Other decreases	-	-	-	-	-	-	-	-
4. Closing balance	**211,901**	**29**	**-**	**211,872**	**17,760**	**-**	**-**	**-**

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 2022				31 December 2021			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets measured at amortised cost	4,454,122	451,776	2,993	3,928,573	3,433,056	21,496	2,993	3,458,501
2. Property and equipment held for investment								
3. Non-current assets and groups of assets held for disposal					43,117			
Total	**4,454,122**	**451,776**	**2,993**	**3,928,573**	**3,476,173**	**21,496**	**2,993**	**3,458,501**
1. Amounts due to customers	5,390,323	630,404		4,737,298	3,909,121	516,329		3,409,334
2. Liabilities associated with non-current assets held for sale and discontinued operations								
Total	**5,390,323**	**630,404**	**-**	**4,737,298**	**3,909,121**	**516,329**	**-**	**3,409,334**

Legend:

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 in 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 31/12/2022	Total 31/12/2021
a) Cash and cash equivalents	1	308
b) Current accounts and on-demand deposits with central banks	670,373	492,599
c) Current accounts and on-demand deposits with banks	6,135	13,991
Total	**676,509**	**506,898**

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 31/12/2022			Total 31/12/2021		
	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	-	-	29	-	-	32
4. Green Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Others	-	-	-	-	-	-
Total (A)	**-**	**-**	**29**	**-**	**-**	**32**
B. Derivatives						
1. Financial derivatives	-	31,117	-	-	896	-
1.1 held for trading	-	31,117	-	-	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)	**-**	**31,117**	**-**	**-**	**896**	**-**
Total (A+B)	**-**	**31,117**	**29**	**-**	**896**	**32**

Key:

L 1 = Level 1
L 2 = Level 2
L 3 = Level 3

2.2 Financial assets held for trading: borrower/issuer/counterparty breakdown

Items/Values	Total 31/12/2022	Total 31/12/2021
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	29	32
4. Green 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)	**29**	**32**
B. DERIVATIVE		
a) Central counterparties	-	-
b) Others	31,117	896
Total (B)	**31,117**	**896**
Total (A+B)	**31,146**	**928**

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 31/12/2022			Total 31/12/2021		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**1,980**	**-**	**158,117**	**-**	**-**	**61,992**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	1,980	-	158,117	-	-	61,992
2. Equity securities	**-**	**-**	**9,115**	**-**	**-**	**9,875**
3. Units of UCIs	**98**	**-**	**20,640**	**98**	**-**	**3,654**
4. Green Loans	**-**	**-**	**24,000**	**-**	**-**	**-**
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Others	-	-	24,000	-	-	-
Total	**2,078**	**-**	**211,872**	**98**	**-**	**75,521**

Key:

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

Financial instruments mandatorily measured at fair value through profit and loss as of 31 December 2022 with level 3 fair value amounted to EUR 211.9 million, and primarily include the notes subscribed by the Bank with regard to the Kenobi SPV, Maui SPV and Spicy Green SPV securitisation operations.

This item also includes investments in financial instruments/earnouts attributable to the Growth Credit Division for EUR 9.2 million, quotas of an illimity SGR investment fund for EUR 20.6 million attributable to the Distressed Credit Division, and a loan relating to a transaction attributable to the Growth Credit Division for EUR 24 million.

2.6 Other financial assets mandatorily measured at fair value: breakdown by borrower/issuer

	Total 31/12/2022	Total 31/12/2021
1. Equity securities	**9,115**	**9,875**
of which: banks	-	-
of which: other financial companies	-	-
of which: other non-financial companies	9,115	9,875
2. Debt securities	**160,097**	**61,992**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	477	32
d) Other financial companies	158,017	61,483
of which: insurance companies	-	-
e) Non-financial companies	1,603	477
3. Units of UCIs	**20,738**	**3,752**
4. Green Loans	**24,000**	**-**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	24,000	-
f) Households	-	-
Total	**213,950**	**75,619**

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 31/12/2022			Total 31/12/2021		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**373,950**	**-**	**17,741**	**299,489**	**-**	**-**
1.1 Structured securities	4,673	-	-	2,986	-	-
1.2 Other debt securities	369,277	-	17,741	296,503	-	-
2. Equity securities	**-**	**-**	**19**	**-**	**-**	**19**
3. Green Loans	**-**	**-**	**-**	**-**	**-**	**-**
Total	**373,950**	**-**	**17,760**	**299,489**	**-**	**19**

Key:

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

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.

The debt securities in the financial statement item were issued by governments (EUR 222 million), credit institutions (EUR 77.5 million), financial companies (EUR 44.6 million) and non-financial companies (EUR 47.6 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 31/12/2022	Total 31/12/2021
1. Debt securities	**391,691**	**299,489**
a) Central banks	-	-
b) Public administrations	222,047	199,177
c) Banks	77,485	61,375
d) Other financial companies	44,546	10,837
of which: insurance companies	-	-
e) Non-financial companies	47,613	28,100
2. Equity securities	**19**	**19**
a) Banks	-	-
b) Other issuers:	19	19
- other financial companies	11	11
of which: insurance companies	-	-
- non-financial companies	8	8
- other	-	-
3. Green Loans	**-**	**-**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**391,710**	**299,508**

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	393,235	241,955	768	-	-	2,017	295	-	-
Green Loans	-	-	-	-	-	-	-	-	-
Total 31/12/2022	**393,235**	**241,955**	**768**	**-**	**-**	**2,017**	**295**	**-**	**-**
Total 31/12/2021	**300,510**	**181,300**	**-**	**-**	**-**	**1,021**	**-**	**-**	**-**

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 31/12/2022						Total 31/12/2021					
	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	**57,213**	**-**	**-**	**-**	**-**	**50,675**	**267,969**	**-**	**-**	**-**	**-**	**268,029**
1. Green Loans	57,213	-	-	-	-	50,675	267,969	-	-	-	-	268,029
1.1 Current accounts	-	-	-	X	X	X	-	-	-	X	X	X
1.2. Time deposits	22,884	-	-	X	X	X	69,792	-	-	X	X	X
1.3. Other loans:	34,329	-	-	X	X	X	198,177	-	-	X	X	X
- Reverse repurchase agreements	-	-	-	X	X	X	191,292	-	-	X	X	X
- Loans for leasing	-	-	-	X	X	X	-	-	-	X	X	X
- Others	34,329	-	-	X	X	X	6,885	-	-	X	X	X
2. Debt securities	-	-	-	-	-	-	-	-	-	-	-	-
2.1 Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt securities	-	-	-	-	-	-	-	-	-	-	-	-
Total	**57,213**	**-**	**-**	**-**	**-**	**50,675**	**267,969**	**-**	**-**	**-**	**-**	**268,029**

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”.

4.2 Financial assets measured at amortised cost: breakdown of loans to customers

Type of operations/ Values	Total 31/12/2022						Total 31/12/2021					
	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. Green Loans	**2,049,933**	**41,047**	**570,545**	**-**	**-**	**2,694,084**	**1,655,298**	**21,024**	**417,427**	**-**	**-**	**2,233,415**
1.1 Current accounts	17,388	5,076	39,572	X	X	X	16,966	5,492	44,765	X	X	X
1.2 Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
1.3 Mortgages	214,634	7,379	364,916	X	X	X	211,066	5,335	251,737	X	X	X
1.4 Credit cards and personal loans, including wage assignment loans	940	53	-	X	X	X	683	143	-	X	X	X
1.5 Loans for leases	-	-	-	X	X	X	-	-	-	X	X	X
1.6 Factoring	467,067	2,859	-	X	X	X	350,659	4,868	-	X	X	X
1.7 Other loans	1,349,904	25,680	166,057	X	X	X	1,075,924	5,186	120,925	X	X	X
2. Debt securities	**1,002,493**	**2,693**	**730,198**	**451,776**	**2,993**	**1,183,814**	**242,019**	**-**	**829,318**	**21,496**	**2,993**	**957,058**
1. Structured securities	-	2,693	-	-	2,993	-	-	-	-	-	-	-
2. Other debt securities	1,002,493	-	730,198	451,776	-	1,183,814	242,019	-	829,318	21,496	2,993	957,058
Total	**3,052,426**	**43,740**	**1,300,743**	**451,776**	**2,993**	**3,877,898**	**1,897,317**	**21,024**	**1,246,745**	**21,496**	**2,993**	**3,190,473**

Key:

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

The sub-item "Other performing debt securities" primarily includes securities connected to securitisation operations for a total of EUR 271.5 million referring to the Distressed Credit division, as well as high-yield bonds for EUR 50.4 million referring to the Growth Credit division. The "Impaired financial assets" item under "Debt securities" also includes EUR 10.6 million of securities classified as "unlikely-to-pay" relating to the Growth Credit Division, EUR 91.5 million of securities classified as "unlikely-to-pay" relating to the Distressed Credit Division, and EUR 628.1 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 31/12/2022			Total 31/12/2021		
	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	**1,002,493**	**2,693**	**730,198**	**242,019**	**-**	**829,318**
a) Public administrations	428,309	-	-	-	-	-
b) Other financial companies	530,092	-	719,587	227,612	-	819,281
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	44,092	2,693	10,611	14,407	-	10,037
2. Loans to:	**2,049,933**	**41,047**	**570,545**	**1,655,298**	**21,024**	**417,427**
a) Public administrations	11,030	3,099	-	13,085	35	-
b) Other financial companies	282,006	13	7,025	393,453	25	16,367
of which: insurance companies	468	-	-	239	-	-
c) Non-financial companies	1,708,925	35,922	507,948	1,211,308	18,646	361,805
d) Households	47,972	2,013	55,572	37,452	2,318	39,255
Total	**3,052,426**	**43,740**	**1,300,743**	**1,897,317**	**21,024**	**126,745**

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	1,004,493	375,959	1,920	3,000	731,674	3,622	297	307	1,476	-
Green Loans	2,016,090	503,109	101,679	60,944	571,204	8,247	2,377	19,897	659	-
Total 31/12/2022	**3,020,583**	**879,068**	**103,599**	**63,944**	**1,302,878**	**11,869**	**2,674**	**20,204**	**2,135**	**-**
Total 31/12/2021	**2,110,716**	**384,143**	**65,106**	**39,554**	**1,249,190**	**9,968**	**568**	**18,530**	**2,445**	**-**

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 adjustments/recoveries

	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				709				27	-	-
4. New funding	769,374	-	39,398	25,017	2,152	3,371	644	2,181	-	-
Total 31/12/2022	**769,374**	**-**	**39,398**	**25,726**	**2,152**	**3,371**	**644**	**2,208**	**-**	**-**
Total 31/12/2021	**499,745**	**-**	**28,569**	**5,589**	**-**	**2,488**	**223**	**820**	**-**	**-**

(*) Values to be stated for information purposes.

Section 5 - Hedging derivatives - Item 50

5.1 Hedging derivatives: breakdown by hedge type and level

	Fair Value 31/12/2022			Nominal Value 31/12/2022	Fair Value 31/12/2021			Nominal Value 31 /12/2021
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives								
1) Fair value	-	29,874	-	195,000	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
3) Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives								
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**29,874**	**-**	**195,000**	**-**	**-**	**-**	**-**

Key:

NV = Nominal Value
L 1 = Level 1
L 2 = Level 2
L 3 = Level 3

5.2 Hedging derivatives: breakdown by hedged portfolios and hedge type

Hedging operations/ type	Fair Value							Cash flows		Foreign investments
	Specific						Generic	Specific	Generic	
	debt securities and interest rates	equity securities and share indices	currencies and gold	credit	goods	other				
1. Financial assets measured at fair value through other comprehensive income	29,874	-	-	-	X	X	X	-	X	X
2. Financial assets measured at amortised cost	-	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	-	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**29,874**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Financial liabilities	-	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	-	X	-	-

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%
14. Abilio S.p.A.	Faenza	Faenza	100%	100%
15. AREC S.p.A.	Rome	Rome	100%	100%
16. Dagobah SPV S.r.l.	Milan	Milan	100%	100%
17. Dagobah LeaseCo S.r.l.	Milan	Milan	100%	100%
B. Jointly-owned associates				
18. Hype S.p.A.	Biella	Biella	50%	50%
C. Companies in which significant influence is exercised				
19. SpicyCo S.r.l.	Milan	Milan	49%	49%
20. SpicyCo 2 S.r.l.	Milan	Milan	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 defined by the parties based on the shared growth and development targets 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.

As required by IAS/IFRS, the equity investment was tested for impairment to check for objective evidence that its recognition value may not be fully recoverable.

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.

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 impairment test as of 31 December 2022, the prospective financial information used to determine the value in use was inferred from the financial position as of 31 December 2022 and the 2023-2027 prospective data relating to the equity investment.

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.

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 2022 (consistent with the methodology adopted in the previous financial year), in order to determine the terminal value, the cash flows for 2027, 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 2%. In line with the methodology adopted as of 31 December 2021, consideration was also given to a 3-year phase of growth rate convergence (observed in the last year of explicit planning) towards the long-term sustainable rate, assumed to be equal to the expected inflation for the Italian market.

The projections for the key economic, financial and regulatory data and KPIs of Hype have taken into account the factors and assumptions that form the basis of the 2023-2027 Projections drawn up by the Group's management. Cash flows were defined by considering fulfilment of the minimum capital requirements, according to the specific applicable regulations. Specifically, from a prudential perspective, a capital requirement equal to 130% of the regulatory minimum was taken into consideration, with a buffer of 30%.

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 6 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 2022 was 13.87% (11.02% as of 31 December 2021).

Results of the impairment tests

The results of the impairment testing showed that the value in use of the equity investment is considerably higher than the carrying amount. Therefore, it was not necessary to perform any write-downs for the purposes of preparing the financial statements as of 31 December 2022.

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.

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.	8,919	n.a	-
6. illimity SGR S.p.A.	4,036	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	-
14. Abilio S.p.A.	14,450	n.a	-
15. AREC S.p.A.	35,729	n.a	-
16. Dagobah SPV S.r.l.	10	n.a	-
17. Dagobah LeaseCo S.r.l.	64	n.a	-
B. Jointly-owned associates			
18. Hype S.p.A.	91,696	n.a	-
C. Companies in which significant influence is exercised			
19. SpicyCo S.r.l.	5	n.a	-
20. SpicyCo 2 S.r.l.	5	n.a	-
Total	**155,041**	**n.a**	**-**

In December 2022, the Bank concluded an agreement to sell loans to the vehicle COLT SPV, pursuant to which it sold to the latter, in its entirety and without recourse, a portfolio of performing loans originated by illimity with corporate counterparties. COLT SPV is a vehicle established pursuant to Law 130/1999, which, on 19 December 2022, issued senior, mezzanine and junior notes for a total value of EUR 570.1 million. All three tranches were fully subscribed by illimity. This operation was part of the operations without derecognition ("self-securitisations") typically aimed at expanding the portfolio of assets that can be allocated to constitute a liquidity reserve activated through loan transactions, repos or other operations. For more details, please refer to the information on self-securitisations included in Part E of these financial statements.

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 31/12/2022	Total 31/12/2021
A. Opening balances	**113,895**	**23,512**
B. Increases	**54,946**	**90,383**
B.1 Purchases	39,729	87,773
- from business combinations	35,729	-
B.2 Write-backs	-	-
B.3 Revaluations	-	-
B.4 Other changes	15,217	2,610
C. Decreases	**13,800**	**-**
C.1 Sales	-	-
- from business combinations	-	-
C.2 Write-downs/write-backs	-	-
C.3 Depreciation	-	-
C.4 Other changes	13,800	-
D. Closing balance	**155,041**	**113,895**
E. Total revaluations	**-**	**-**
F. Total write-downs	**-**	**-**

The sub-item B.4 Other positive changes and the sub-item C.4 Other negative changes include the effects of the spin-off to Abilio S.p.A. of the scope of assets and liabilities of the neprix Sales area, previously incorporated within neprix, of the equity investment in Abilio agency S.r.l. (formerly Neprix Agency S.r.l.) and of a portion of the Tech area, also previously included within neprix, was approved.

Section 8 - Property and equipment – Item 80

8.1 Property and equipment with functional use: breakdown of assets measured at cost

Assets/Values	Total 31/12/2022	Total 31/12/2021
1. Proprietary assets	**747**	**1,025**
a) land	-	-
b) buildings	-	-
c) furniture	435	546
d) electronic systems	293	454
e) others	19	25
2. Rights of use acquired through lease agreements	**21,261**	**18,781**
a) land	-	-
b) buildings	20,472	17,783
c) furniture	-	-
d) electronic systems	-	-
e) others	789	998
Total	**22,008**	**19,806**
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	**-**	**22,360**	**1,696**	**2,014**	**2,160**	**28,230**
A.1 Total net write-downs	-	4,577	1,150	1,560	1,137	8,424
A.2 Opening net balance	**-**	**17,783**	**546**	**454**	**1,023**	**19,806**
B. Increases:	**-**	**5,992**	**77**	**91**	**396**	**6,556**
B.1 Purchases	-	-	77	91	-	168
- 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 Gains on foreign exchange differences	-	-	-	-	-	-
B.6 Transfers from properties held for investment purposes	-	-	X	X	X	-
B.7 Other changes	-	5,992	-	-	396	6,388
C. Decreases:	**-**	**3,302**	**188**	**253**	**612**	**4,355**
C.1 Sales	-	-	-	-	-	-
- from business combinations	-	-	-	-	-	-
C.2 Depreciation	-	2,161	133	151	539	2,984
C.3 Write-downs/write-backs from impairment charged to	-	-	55	102	7	163
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	55	102	7	163
C.4 Negative changes in fair value charged to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Losses on 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	-	1,141	-	-	67	1,207
D. Closing net balance	**-**	**20,472**	**435**	**293**	**808**	**22,008**
D.1 Total net write-downs	-	6,016	987	1,207	1,444	9,654
D.2 Gross closing balance	**-**	**26,488**	**1,422**	**1,500**	**2,252**	**31,662**
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 31/12/2022		Total 31/12/2021	
	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	**54,386**	**-**	**43,588**	**-**
of which: software	53,024	-	40,417	-
A.2.1 Assets measured at cost:	54,386	-	43,588	-
a) Intangible assets generated internally	5,481	-	4,791	-
b) Other assets	48,905	-	38,797	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
Total	**54,386**	**21,643**	**43,588**	**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 at consolidation level is also relevant for the separate financial statements, in order to verify the recognition value of the 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. If a write-down of the goodwill relating to a specific CGU is recognised in the Consolidated Financial Statements, this write-down must be attributed in the Separate Financial Statements to the assets relating to said CGU that were not previously listed individually, i.e. the goodwill and 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**	**(6,004)**	**-**	**(50,387)**	**-**	**(78,034)**
A.1 Total net write-downs	-	1213	-	11,590	-	12,803
A.2 Opening net balance	**21,643**	**(4,791)**	**-**	**(38,797)**	**-**	**(65,231)**
B. Increases	**-**	**(3,925)**	**-**	**(17,610)**	**-**	**(21,535)**
B.1 Purchases	-	-	-	(16,418)	-	(16,418)
- from business combinations	-	-	-	-	-	-
B.2 Increases in internal intangible assets	X	(3,755)	-	-	-	(3,755)
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	-	(170)	-	(1,192)	-	(1,362)
C. Decreases	**-**	**3,235**	**-**	**7,502**	**-**	**10,737**
C.1 Sales	-	-	-	-	-	-
- from business combinations	-	-	-	-	-	-
C.2 Write-downs/write-backs	-	3,235	-	7,502	-	10,737
- Amortisation	X	3,235	-	7,502	-	10,737
- 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	-	-	-	-	-	-
D. Net closing balance	**21,643**	**(5,481)**	**-**	**(48,905)**	**-**	**(76,029)**
D.1 Total net write-downs/write-backs	-	2,242	-	17,106	-	19,348
E. Gross closing balance	**21,643**	**(7,723)**	**-**	**(66,011)**	**-**	**(95,377)**
F. Measurement 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 67 million as of 31 December 2022, up from the EUR 37 million recognised as of 31 December 2021. Details of the breakdown of tax assets are shown below.

10.1 Deferred tax assets: breakdown

	Total 31/12/2022	Total 31/12/2021
– As a contra entry to the income statement	42,185	32,170
– As a contra entry to shareholders' equity	24,898	4,726
Total	**67,083**	**36,896**

Main deductible temporary differences: IRES	31/12/2022	31/12/2021
Depreciation of loans and receivables with customers	1,150	1,324
Tax losses	-	560
Write-down of securities HTCS	20,619	2,696
Goodwill	31,851	5,357
Others	2,139	20,885
Total	**55,759**	**30,822**

Main deductible temporary differences: IRAP	31/12/2022	31/12/2021
Depreciation of loans and receivables with customers	142	163
Write-down of securities HTCS	4,176	546
Goodwill	6,451	1,085
Others	555	4,280
Total	**11,324**	**6,074**

10.2 Deferred tax liabilities: breakdown

As regards tax liabilities, relating to deferred taxes, as of 31 December 2022 they amounted to Euro 0.9 million, compared to Euro 0.6 million as of 31 December 2021.

Main taxable temporary differences: IRES	31/12/2022	31/12/2021
Revaluation of securities HTCS - FVOCI	8	32
Others	755	517
Total	**763**	**549**

Main taxable temporary differences: IRAP	31/12/2022	31/12/2021
Revaluation of securities HTCS - FVOCI	2	7
Others	129	57
Total	**131**	**64**

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 31/12/2022	Total 31/12/2021
1. Initial amount	**32,170**	**26,403**
2. Increases	**16,024**	**24,548**
2.1 Deferred tax assets recognised during the year	16,024	24,548
a) related to previous years	2,989	-
b) due to changes in accounting criteria	-	-
c) write-backs	-	-
d) others	13,035	24,548
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
- from business combinations	-	-
3. Decreases	**6,009**	**18,781**
3.1 Deferred tax assets cancelled during the year	5,961	18,781
a) reversals	5,961	18,781
b) write-downs of non-recoverable items	-	-
c) changes in accounting criteria	-	-
d) others	-	-
3.2 Reductions in tax rates	-	-
3.3 Other reductions:	48	-
a) conversion into tax credits pursuant to Italian Law no. 214/2011	-	-
b) other	48	-
- from business combinations	**-**	**-**
4. Final amount	**42,185**	**32,170**

Deferred tax assets other than those convertible into tax credits (Article 2, paragraph 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. 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 carried out, which consists of simulating the ability to recover the deductible temporary differences and tax losses accrued at the reporting date using future taxable income. This test yielded a positive outcome.

The rates used for advance taxes for IRES and IRAP purposes are 27.50% (including the IRES supplement) and 5.57% respectively.

10.3 bis Changes in deferred tax assets pursuant to Italian Law no. 214/2011

	Total 31/12/2022	Total 31/12/2021
1. Initial amount	**1,488**	**1,767**
2. Increases	**-**	**-**
- from business combinations	-	-
3. Decreases	**196**	**279**
3.1 Reversals	196	279
3.2 Conversion into tax credits	-	-
a) arising from losses for the year	-	-
b) arising from tax losses	-	-
3.3 Other reductions	-	-
4. Final amount	**1,292**	**1,488**

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

	Total 31/12/2022	Total 31/12/2021
1. Initial amount	**236**	**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	234	**-**
3.1 Deferred taxes derecognised during the year	234	-
a) reversals	234	-
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	**2**	**236**

10.5 Changes in deferred tax assets (recognised in shareholders' equity)

	Total 31/12/2022	Total 31/12/2021
1. Initial amount	**4,726**	**1,704**
2. Increases	**21,554**	**3,717**
2.1 Deferred tax assets recognised during the year	21,554	3,717
a) related to previous years	-	-
b) due to changes in accounting criteria	-	-
c) other	21,554	3,717
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
- from business combinations	-	-
3. Decreases	**1,382**	**695**
3.1 Deferred tax assets cancelled during the year	1,382	695
a) reversals	791	695
b) write-downs of non-recoverable items	-	-
c) due to changes in accounting criteria	-	-
d) others	591	-
3.2 Reductions in tax rates	-	-
3.3 Other reductions	-	-
- from business combinations	-	-
4. Final amount	**24,898**	**4,726**

10.6 Changes in deferred taxes (recognised in shareholders' equity)

	Total 31/12/2022	Total 31/12/2021
1. Initial amount	**377**	**104**
2. Increases	**544**	**300**
2.1 Deferred tax liabilities recognised during the year	544	300
a) related to previous years	-	-
b) due to changes in accounting criteria	-	-
c) other	544	300
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
- from business combinations	-	-
3. Decreases	**30**	**27**
3.1 Deferred taxes derecognised during the year	30	27
a) reversals	-	-
b) due to changes in accounting criteria	-	-
c) other	30	27
3.2 Reductions in tax rates	-	-
3.3 Other reductions	-	-
- from business combinations	-	-
4. Final amount	**891**	**377**

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	31/12/2022	31/12/2021
Deferred taxes paid to tax authority	6,613	4,546
Withholding taxes	74	1
Other receivables from the Treasury	222	441
Total	**6,908**	**4,988**

Current fiscal liabilities: breakdown

Type of operations/Values	31/12/2022	31/12/2021
Balance for the previous year	16,064	2,930
Provision for taxes	32,629	16,064
Withdrawals to pay taxes	(16,064)	(2,930)
Other changes	-	-
Total	**32,629**	**16,064**

Section 11 - Non-current assets and groups of assets held for disposal and associated liabilities – Item 110 of assets and Item 70 of liabilities

	Total 31/12/2022	Total 31/12/2021
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	31/12/2022
Ecobonus tax credits	99,390
Various borrowers	96,840
Miscellaneous items	60,984
Items being processed	45,107
Leasehold improvements	1,980
Total 31/12/2022	**304,301**
Total 31/12/2021	**184,305**

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 31/12/2022				Total 31/12/2021			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Due to central banks	**382,290**	X	X	X	**182,355**	X	X	X
2. Due to banks	**822,749**	X	X	X	**228,932**	X	X	X
2.1 Current accounts and on-demand deposits	9,847	X	X	X	-	X	X	X
2.2 Time deposits	30,092	X	X	X	37,843	X	X	X
2.3 Loans	751,815	X	X	X	190,649	X	X	X
2.3.1 Repurchase agreements - payable	751,815	X	X	X	190,649	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	30,995	X	X	X	440	X	X	X
Total	**1,205,039**	**-**	**-**	**1,205,039**	**411,287**	**-**	**-**	**411,287**

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 2022 amounted to EUR 181.6 million.

1.2 Amounts due to customers: breakdown of loans to customers

Type of operations/Values	Total 31/12/2022				Total 31/12/2021			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and on-demand deposits	956,052	X	X	X	1,076,440	X	X	X
2. Time deposits	2,542,884	X	X	X	1,888,702	X	X	X
3. Green Loans	7,125	X	X	X	7,636	X	X	X
3.1 Repurchase agreements - payable	-	X	X	X	-	X	X	X
3.2 Others	7,125	X	X	X	7,636	X	X	X
4. Debt for commitments to repurchase equity instruments	-	X	X	X	-	X	X	X
5. Payables for leasing	25,386	X	X	X	22,571	X	X	X
6. Other payables	834	X	X	X	2,697	X	X	X
Total	**3,532,281**	**-**	**-**	**3,532,259**	**2,998,046**	**-**	**-**	**2,998,046**

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 31/12/2022				Total 31/12/2021			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. bonds	653,002	630,404	-	-	499,788	516,329	-	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 others	653,002	630,404	-	-	499,788	516,329	-	-
2. other securities	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 others	-	-	-	-	-	-	-	-
Total	**653,002**	**630,404**	**-**	**-**	**499,788**	**516,329**	**-**	**-**

Key:

BV = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

Securities issued were equal to EUR 653 million, up on the previous year, due to the issue of the senior bond during the fourth quarter of 2022.

1.4 Breakdown of subordinated payables/securities

	31/12/2022	31/12/2021
B.1 Subordinated securities	**200,787**	**200,432**
- banks	-	-
- customers	200,787	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 25.4 million, divided between EUR 24.6 million relating to the rental component of Properties for personal and business use, and EUR 0.8. 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 31/12/2022					Total 31/12/2021				
	Nominal Value	Fair Value			Fair Value (*)	Nominal Value	Fair Value			Fair Value (*)
		L1	L2	L3			L1	L2	L3	
A. Cash and cash equivalents liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Amounts due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Others	-	-	-	-	X	-	-	-	-	X
Total (A)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivatives										
1. Financial derivatives	-	-	27,244	-	-	-	-	59	-	-
1.1 Held for trading	X	-	27,244	-	X	X	-	59	-	X
1.2 Connected to the fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Others	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	-	-	-	-	-	-	-	-	-	-
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**	**-**	**27,244**	**-**	**X**	**X**	**-**	**59**	**-**	**X**
Total (A+B)	**X**	**-**	**27,244**	**-**	**X**	**X**	**-**	**59**	**-**	**X**

Key:

NV = Nominal 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

4.1 Hedging derivatives: breakdown by hedge type and level

	Fair Value 31/12/2022			Nominal Value 31/12/2022	Fair Value 31/12/2021			Nominal Value 31/12/2021
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives								
1) Fair value	-	32,646	-	624,336	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
3) Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives								
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**32,646**	**-**	**624,336**	**-**	**-**	**-**	**-**

Key:

NV = Nominal Value
L1 = Level 1
L2 = Level 2
L3 = Level 3

4.2 Hedging derivatives: breakdown by hedged portfolios and hedge type

Hedging operations/type	Fair Value							Cash flows		Foreign investments
	Specific						Generic	Specific	Generic	
	debt securities and interest rates	equity securities and share indices	currencies and gold	credit	goods	other				
1. Financial assets measured at fair value through other comprehensive income	1,125	-	-	-	X	X	X	-	X	X
2. Financial assets measured at amortised cost	-	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	-	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**1,125**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Financial liabilities	31,521	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	**31,521**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	-	X	-	-

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	31/12/2022
Miscellaneous items	34,740
Due to suppliers	21,296
Due to the Treasury	14,328
Due to employees	10,187
Due to social security and welfare bodies	2,805
Various borrowers	2,060
Total 31/12/2022	**85,416**
Total 31/12/2021	**72,467**

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 Italian 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 31/12/2022	Total 31/12/2021
A. Opening balance	**2,335**	**1,682**
B. Increases	**732**	**788**
B.1 Provision for the year	732	686
B.2 Other changes	-	102
- from business combinations	-	-
C. Decreases	**1,018**	**(135)**
C.1 Payments made	223	(81)
C.2 Other changes	795	(54)
- from business combinations	-	-
D. Closing balance	**2,049**	**2,335**
Total	**2,049**	**2,335**

The following criteria were used to calculate the TFR for IAS purposes:

SUMMARY OF TECHNICAL ECONOMIC ASSUMPTIONS

	31/12/2022	31/12/2021
Annual discount rate	4.17%	1.09%
Annual inflation rate	2.30%	1.75%
Annual rate of TFR increase	3.23%	2.81%
Annual rate of salary increase	1.00%	1.00%

In particular, 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 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 IAS 19 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	31/12/2022
Turnover rate +1.00%	2,082,811.24
Turnover rate -1.00%	2,008,445.64
Inflation rate +0.25%	2,101,047.95
Inflation rate -0.25%	1,998,461.00
Discount rate +0.25%	1,985,292.78
Discount rate -0.25%	2,115,642.12

Estimated future payments	31/12/2022
Payments scheduled for 1st year	131,099.42
Payments scheduled for 2nd year	137,963.86
Payments scheduled for 3rd year	232,950.81
Payments scheduled for 4th year	181,608.54
Payments scheduled for 5th year	204,365.74

Reconciliation of IAS 19 valuations for the period	31/12/2022
Defined Benefit Obligation as of 01/01/22	2,336,391
Service Cost	667,376
Interest Cost	64,776
Benefits paid	(223,167)
Transfers in/(out)	(23,163)
Expected DBO as of 31/12/2022	2,822,212
Actuarial (Gains)/ Losses from experience	54,569
Actuarial (Gains) or Losses due to change in financial assumptions	(828,033)
Defined Benefit Obligation as of 31/12/22	2,048,748

Reconciliation of TFR IAS 19 and statutory TFR	31/12/2022
Defined Benefit Obligation as of 31/12/22	2,048,748
Statutory TFR as of 31/12/2022	2,348,921
Surplus/(Deficit)	300,173

Service Cost and Duration	31/12/2022
Service Cost per future year	532,104
Duration of plan (years)	21.4

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 31/12/2022	Total 31/12/2021
1. Allowances for credit risk relating to commitments and financial guarantees given	4,863	4,482
2. Provisions for other commitments and guarantees issued	-	-
3. Post-employment benefits and similar commitments	-	-
4. Other allowances for risks and charges	1,202	1,159
4.1 legal and tax disputes	510	510
4.2 personnel cost	652	609
4.3 others	40	40
Total	**6,065**	**5,641**

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	**-**	**-**	**1,159**	**1,159**
B. Increases	**-**	**-**	**779**	**779**
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	-	-	779	779
- from business combinations	-	-	-	-
C. Decreases	**-**	**-**	**736**	**736**
C.1 Utilisations for the year	-	-	-	-
C.2 Changes due to variations in the discount rate	-	-	-	-
C.3 Other changes	-	-	736	736
- from business combinations	-	-	-	-
D. Closing balance	**-**	**-**	**1,202**	**1,202**

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	195	-	-	4,556	4,751
Financial guarantees	64	48	-	-	112
Total	**259**	**48**	**-**	**4,556**	**4,863**

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

As of 31 December 2022, the Bank's share capital amounted to EUR 54,513,905.72, fully subscribed and paid up, divided into 83,645,108 ordinary shares, without indication of the par value.

12.2 Capital - Number of parent company shares: annual changes

Items/Type	Ordinary	Others
A. Shares as of the beginning of the year	**79,103,090**	**1,440,000**
- fully paid-up	79,201,595	1,440,000
- not fully paid-up	-	-
A.1 Treasury shares (-)	(98,505)	-
A.2 Shares outstanding: initial balance	**79,103,090**	**1,440,000**
B. Increases	**4,453,573**	**-**
B.1 New issues	-	-
- against payment:	-	-
- bonds converted	-	-
- warrants exercised	-	-
- other	-	-
- free:	-	-
- for employees	-	-
- for directors	-	-
- other	-	-
B.2 Sales of treasury shares	-	-
B.3 Other changes	4,453,573	-
C. Decreases	**-**	**(1,440,000)**
C.1 Cancellation	-	-
C.2 Purchase of treasury shares	-	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	(1,440,000)
D. Shares outstanding: closing balance	**83,556,663**	**-**
D.1 Treasury shares (+)	88,445	-
D.2 Shares existing at the end of the year	83,645,108	-
- fully paid-up	83,645,108	-
- not fully paid-up	-	-

12.3 Capital - other information

On 15 June 2022, the illimity Board of Directors approved the capital increases serving the incentive plans and, specifically:

i. the "Employee Stock Ownership Plan – ESOP" (for 2022) for a total of EUR 76,865.41, corresponding to 117,946 ordinary shares, in partial execution of the authority contained in Article 5, paragraph 3 of the Articles of Association; and
ii. the "MBO" Plan (for 2021) for a total of EUR 11,621.11, corresponding to 17,832 ordinary shares, in partial execution of the authority contained in Article 5, paragraph 4 of the Articles of Association, granting a mandate for the purposes of the related execution.

The Board of Directors also approved the use of 10,060 ordinary shares already in the portfolio.

- On 21 June 2022, the Extraordinary Shareholders' Meeting of illimity approved, with a unanimous vote of those attending, the share capital increase of illimity reserved for Aurora Recovery Capital S.p.A. ("AREC"), to be freed up through contribution, and without option rights pursuant to Art. 2441, paragraph 4, first line of the Italian Civil Code. That operation, authorised in advance by the Supervisory Authorities pursuant to law, is part of the larger acquisition by the bank of AREC's business unit.
- On 21 September 2022 illimity Bank announced the new composition of its share capital, following the conversion of 1,440,000 special shares of illimity into an equal number of ordinary shares having the same features of those outstanding, without any modification of the amount of the share capital.

12.4 Profit reserves: other information

Items/Values	31/12/2022	31/12/2021
A. Profit reserves	**104,365**	**30,577**
1. Legal reserve	5,046	1,590
2. Reserve for purchase of treasury shares	-	-
3. Extraordinary reserve	10,444	10,521
4. Profits (losses) carried forward	80,602	14,935
5. First-time reserves	508	508
6. Other reserves	7,765	3,023
B. Capital reserves	**36,262**	**34,906**
1. Reserve on account of future capital increase	-	-
2. Other reserves	36,262	34,906
Total	**140,627**	**65,483**

The profit reserves as of 31 December 2022 amount to a positive EUR 104,365 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	Possibility of use	Available share	Summary of the amounts used in the last three years	
				to cover losses	for other reasons
Share capital	**54,514**		**-**		
Share premium reserve	**624,584**	**ABC (1)**	**624,584**	**(29,124)**	
Valuation reserves	**(48,275)**	**-**	**-**		
Financial instruments measured at fair value	(48,616)	-	-		
through other comprehensive income					
Actuarial gains (losses) relating	341	-	-		
to defined benefit plans					
Reserves	**140,627**		**135,580**	**(16,840)**	
Legal reserve	5,046	B (2)	-		
Reserve for purchase		ABC	-		
treasury shares					
Extraordinary reserve	10,444	ABC	10,444		
Other reserves	125,137	ABC	125,137	(16,840)	
Treasury shares	**(747)**		**-**		
Profit (loss) for the year	**80,715**		**-**		
Total	**851,418**		**760,164**	**(45,964)**	

Key:

A = for capital increases

B = to cover losses

C = for distribution to shareholders

(1) According to Article 2431 of the 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 Italian 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
Year ended 31 December 2022	80,715	81,149,186	0.99
Year ended 31 December 2021	69,123	74,768,897	0.92

The diluted earnings (loss) per share differs from the basic earnings (loss) per share due to the potential shares in service of the Long-Term Incentive (LTI) plan.

(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 2022	80,715	83,180,280	0.97
Year ended 31 December 2021	69,123	75,377,813	0.92

Other information

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

	Nominal value on commitments and financial guarantees given				Total 31/12/2022	Total 31/12/2021
	Stage one	Stage two	Stage three	Purchased or originated impaired		
1. Commitments to disburse funds	102,196	139	40,434	-	**142,770**	**126,125**
a) Central banks	-	-	-	-	**-**	-
b) Public administrations	-	-	-	-	**-**	-
c) Banks	-	-	-	-	**-**	1,766
d) Other financial companies	37,782	-	16,404	-	54,186	28,410
e) Non-financial companies	62,675	128	24,030	69,983	156,816	93,513
f) Households	1,739	11	-	658	2,409	2,436
2. Financial guarantees	5,900	1,295	75	-	**7,270**	**6,431**
a) Central banks	-	-	-	-	**-**	-
b) Public administrations	-	-	-	-	**-**	-
c) Banks	84	-	-	-	84	-
d) Other financial companies	-	-	-	-	-	12
e) Non-financial companies	5,797	1,295	75	6,355	13,522	6,377
f) Households	19	-	-	-	19	42

2. Other commitments and guarantees issued

	Nominal value Total 31/12/2022	Nominal value Total 31/12/2021
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	2,295	2,447
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	8,843	11,159
e) Non-financial companies	37,742	67,068
f) Households	-	-

3. Assets given as collateral for own liabilities and commitments

Portfolios	Amount 31/12/2022	Amount 31/12/2021
1. Financial assets measured at fair value through profit or loss	1,634	98
2. Financial assets measured at fair value through other comprehensive income	217,196	107,121
3. Financial assets measured at amortised cost	419,684	69,300
4. Property and equipment	**-**	**-**
of which: Property and Equipment held as inventories	-	-

4. 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. Individual portfolio management	**-**
3. Custody and administration of securities	**6,697,193**
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	6,223
1. securities issued by the reporting bank	-
2. other securities	6,223
c) third party securities deposited with third parties	2,152
d) proprietary securities deposited with third parties	6,688,818
4. Other transactions	**-**

5. Assets subject to offsetting in financial statement, 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) 31/12/2022	Net amount 31/12/2021
				Financial instruments (d)	Cash deposits received as guarantees (e)		
1. Derivatives	60,788	-	60,788	-	60,788	-	-
2. Repurchase agreements	-	-	-	-	-	-	191,292
3. Loan of securities	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-
Total 31/12/2022	**60,788**	**-**	**60,788**	**-**	**60,788**	**-**	**X**
Total 31/12/2021	**191,292**	**-**	**191,292**	**191,292**	**-**	**X**	**191,292**

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) 31/12/2022	Net amount 31/12/2021
				Financial instruments (d)	Cash deposits as guarantees (e)		
1. Derivatives	47,835	-	47,835	-	47,835	-	-
2. Repurchase agreements	751,815	-	751,815	751,815	-	-	-
3. Loan of securities	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total 31/12/2022	**799,650**	**-**	**799,650**	**751,815**	**47.835**	**-**	**X**
Total 31/12/2021	**190,649**	**-**	**190,649**	**190,649**	**-**	**X**	**-**

Since 1 January 2013, the changes to IFRS 7 concerning disclosures on set-off agreements, as approved with Regulation no. 1256 of 13 December 2012, came into mandatory application. IFRS 7 requires specific disclosures to be given about financial instruments that have been offset in the statement of financial position under IAS 32, and which can potentially be offset under certain conditions, but presented in the statement of financial position with opening balances as they are regulated by “master netting agreements or similar” which do not however meet the criteria of IAS 32 to make the set off in the financial statements.

In providing disclosures of these agreements, the standard also requires that consideration be given to the effects of the real financial guarantees (including guarantees in cash) received and given.

7. Securities lending transactions

There are no securities lending transactions at the reference date.

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	Green Loans	Other transactions	Total 31 December 2022	Total 31 December 2021
1. Financial assets measured at fair value through profit or loss:	**1,904**	**-**	**-**	**1,904**	**1,329**
1.1 Financial assets held for trading	-	-	-	-	80
1.2 Financial assets at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	1,904	-	-	1,904	1,249
2. Financial assets measured at fair value through other comprehensive income	**8,135**	**-**	**X**	**8,135**	**4,191**
3. Financial assets measured at amortised cost	**105,768**	**104,094**	**-**	**209,862**	**184,747**
3.1 Due from banks	-	1,284	X	1,284	591
3.2 Loans to customers	105,768	102,810	X	208,578	184,156
4. Hedging derivatives	**X**	**X**	4,394	**4,394**	**-**
5. Other assets	**X**	**X**	2,223	**2,223**	**580**
6. Financial liabilities	**X**	**X**	**X**	**1,213**	**2,806**
Total	**115,807**	**104,094**	**6,617**	**227,731**	**193,653**
of which: interest income on impaired assets	88,681	41,460	-	130,141	141,688
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 2022	31 December 2021
Interest income on assets denominated in foreign currency	2,149	377

1.3 Interest expense and similar charges: breakdown

Items/Technical forms	Amounts due	Securities	Other transactions	Total 31 December 2022	Total 31 December 2021
1. Amounts due to customers	(47,637)	(20,760)	X	(68,397)	(57,026)
1.1 Amounts due to central banks	(406)	X	X	(406)	(27)
1.2 Amounts due to banks	(5,548)	X	X	(5,548)	(4,385)
1.3 Amounts due to customers	(41,683)	X	X	(41,683)	(37,471)
1.4. Securities issued	X	(20,760)	X	(20,760)	(15,143)
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	(4,435)	(4,435)	-
6. Financial assets	X	X	X	(1,695)	(3,791)
Total	**(47,637)**	**(20,760)**	**(4,435)**	**(74,527)**	**(60,817)**
of which: interest expense relative to leasing liabilities	(1,640)	X	X	(1,640)	(1,460)

1.4 Interest expense and similar charges: other information

1.4.1 Interest expense on liabilities denominated in foreign currency

Items/Values	31 December 2022	31 December 2021
Interest expenses on liabilities denominated in foreign currency	**(14)**	**(75)**

1.5 Differentials arising from hedging transactions

Items	Total 31 December 2022	Total 31 December 2021
A. Positive differentials arising from hedging transactions	4,394	-
B. Negative differentials arising from hedging transactions	(4,435)	-
C. Balance (A-B)	**(41)**	**-**

Section 2 - Commission – Items 40 and 50

2.1 Fee and commission income: breakdown

Type of service/Values	Total 31 December 2022	Total 31 December 2021
a) Financial instruments	1	3
1. Placement of securities	1	3
1.1 With underwriting and/or on the basis of an irrevocable commitment	-	-
1.2 Without an irrevocable commitment	1	3
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	5,419	3,559
1. Consultancy on mergers and acquisitions	-	-
2. Treasury services	-	-
3. Other fees and commissions connected with corporate finance services	5,419	3,559
c) Investment consultancy activities	-	-
d) Netting and settlement	-	-
e) Custody and administration	1	1
1. Custodian bank	-	-
2. Other fees and commissions related to custody and administration activities	1	1
f) Central administrative services for collective portfolio management	-	-
g) Fiduciary activities	-	-
h) Payment services	1,259	1,131
1. Current accounts	375	405
2. Credit cards	491	323
3. Debit cards and other payment cards	97	81
4. Bank transfers and other payment orders	112	105
5. Other fees and commissions related to payment services	184	217
i) Distribution of third party services	216	132
1. Collective portfolio management	-	-
2. Insurance products	4	5
3. Other products	212	128
of which: individual portfolio management	-	-
j) Structured finance	-	-
k) Servicing activities for securitisation operations	3	13
l) Commitments to disburse funds	-	-
m) Financial guarantees	250	68
of which: credit derivatives	-	-
n) Loan operations	31,423	15,514
of which: for factoring operations	6,947	3,401
o) Currency trading	60	48
p) Goods	-	-
q) Other fee and commission income	5,027	6,726
of which: for management of multilateral trading systems	-	-
of which: for management of organised trading systems	-	-
Total	**43,660**	**27,196**

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 2022	Total 31 December 2021
a) at own branches:	**1**	3
1. portfolio management	-	-
2. placement of securities	1	3
3. third-party services and products	-	-
b) off-site:	**-**	**-**
1. portfolio management	-	-
2. placement of securities	-	-
3. third-party services and products	-	-
c) other distribution channels:	**216**	**132**
1. portfolio management	-	-
2. placement of securities	-	-
3. third-party services and products	216	132

2.3 Fee and commission expenses: breakdown

Type of service/Values	Total 31 December 2022	Total 31 December 2021
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	(239)	(156)
d) Collection and payment services	(1,572)	(995)
of which: credit cards, debit cards and other payment cards	(1,292)	(764)
e) Servicing activities for securitisation operations	-	-
f) Commitments to receive funds	-	-
g) Financial guarantees received	-	(1)
of which: credit derivatives	-	-
h) Off-site distribution of financial instruments, products and services	-	-
i) Currency trading	-	-
j) Other fee and commission expense	(3,762)	(2,168)
Total	**(5,573)**	**(3,518)**

Section 3 - Dividends and similar income – Item 70

Items/Income	Total 31/12/2022		Total 31/12/2021	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	-	-	-	-
B. Other financial assets mandatorily measured at fair value	-	200	-	-
C. Financial assets measured at fair value through other comprehensive income	-	-	-	-
D. Equity investments	-	-	-	-
Total	**-**	**200**	**-**	**-**

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	**-**	**-**	**(4)**	**-**	**(4)**
1.1 Debt securities	-	-	-	-	-
1.2 Equity instruments	-	-	-	-	-
1.3 UCITS units	-	-	(4)	-	(4)
1.4 Loans	-	-	-	-	-
1.5 Others	-	-	-	-	-
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Amounts due	-	-	-	-	-
2.3 Others	-	-	-	-	-
3. Financial assets and liabilities: foreign exchange differences	**X**	**X**	**X**	**X**	**144**
4. Derivatives	**50,481**	**9,049**	**(45,786)**	**(8,398)**	**4,589**
4.1 Financial derivatives:	50,481	9,049	(45,786)	(8,398)	4,589
- On debt securities and interest rates	50,481	9,049	(45,786)	(8,398)	5,346
- On equity securities and share indices	-	-	-	-	-
- On currencies and gold	X	X	X	X	(757)
- Others	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedging related to the fair value option	X	X	X	X	-
Total	**50,481**	**9,049**	**(45,790)**	**(8,398)**	**4,729**

Section 5 - Fair value adjustments in hedge accounting – Item 90

5.1 Fair value adjustments in hedge accounting: breakdown

Income items/Amounts	Total 31 December 2022	Total 31 December 2021
A. Income relating to:		
A.1 Fair value hedging derivatives	17,624	-
A.2 Hedged financial assets (fair value)	8,770	-
A.3 Hedged financial liabilities (fair value)	3,266	-
A.4 Cash flow hedge derivatives	-	-
A.5 Assets and liabilities in foreign currency	-	-
Total income from hedging (A)	**29,660**	**-**
B: Charges relating to:		
B.1 Fair value hedging derivatives	(12,036)	-
B.2 Hedged financial assets (fair value)	(16,421)	-
B.3 Hedged financial liabilities (fair value)	(1,203)	-
B.4 Cash flow hedge derivatives	-	-
B.5 Assets and liabilities in foreign currency	-	-
Total hedge accounting expenses (B)	**(29,660)**	**-**
C. Fair value adjustments in hedge accounting (A - B)	**-**	**-**
of which: result of hedges on net positions	-	-

Section 6 - Profits (Losses) on disposal/repurchase – Item 100

6.1 Profits (Losses) on disposal/repurchase: breakdown

Item/Income item	Total 31/12/2022			Total 31/12/2021		
	Profits	Losses	Net profits/ losses	Profits	Losses	Net profits/ losses
A. Financial assets						
1. Financial assets measured at amortised cost	296	(285)	11	306	(4)	302
1.1 Due from banks	-	-	-	-	-	-
1.2 Loans to customers	296	(285)	11	306	(4)	302
2. Financial assets measured at fair value through other comprehensive income	869	(1,043)	(174)	6,268	(1,177)	5,091
2.1 Debt securities	869	(1,043)	(174)	6,268	(1,177)	5,091
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**1,165**	**(1,328)**	**(163)**	**6,574**	**(1,181)**	**5,393**
B. Amounts due to customers				**-**	**-**	**-**
1. Due to banks	-	-	-	-	-	-
2. Amounts due to customers	-	-	-	-	-	-
3. Securities issued	-	(304)	(304)	-	-	-
Total liabilities (B)	**-**	**(304)**	**(304)**	**-**	**-**	**-**

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 2022.

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	**9,884**	**3,018**	**(1,585)**	**-**	**11,317**
1.1 Debt securities	8,227	87	(1,382)	-	6,932
1.2 Equity instruments	157	7	(3)	-	161
1.3 UCITS units	-	2,924	(200)	-	2,724
1.4 Loans	1,500	-	-	-	1,500
2. Financial assets in foreign currency: exchange rate differences	**X**	**X**	**X**	**X**	**-**
Total	**9,884**	**3,018**	**(1,585)**	**-**	**11,317**

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 2022	Total 31 December 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	**(14)**	**-**	**-**	**-**	**-**	**-**	**228**	**-**	**-**	**-**	**214**	**(92)**
- Loans	(14)	-	-	-	-	-	228	-	-	-	214	(92)
- Debt securities	-	-	-	-	-	-	-	-	-	-	-	-
B. Loans to customers	**(7,451)**	**(2,870)**	**-**	**(4,575)**	**-**	**(24,323)**	**5,340**	**452**	**1,853**	**57,944**	**26,370**	**20,013**
- Loans	(4,335)	(2,573)	-	(4,268)	-	(24,098)	4,666	334	1,853	57,087	28,666	20,504
- Debt securities	(3,116)	(297)	-	(307)	-	(225)	674	118	-	857	(2,296)	(491)
Total	**(7,465)**	**(2,870)**	**-**	**(4,575)**	**-**	**(24,323)**	**5,568**	**452**	**1,853**	**57,944**	**26,584**	**19,921**

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 2022	Total 31 December 2021
	Stage one	Stage two	Stage three		Purchased or originated impaired			
			Write-offs	Others	Write-offs	Others		
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	-	-	-	29	-	-	**29**	**53**
4. New funding	(1,400)	(644)	-	(162)	-	16	**(2,190)**	**(2,454)**
Total	**(1,400)**	**(644)**	**-**	**(133)**	**-**	**16**	**(2,161)**	**(2,401)**

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 2022	Total 31 December 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. Debt securities	(1,582)	(295)	-	-	-	-	585	-	-	-	(1,292)	(907)
B. Loans	-	-	-	-	-	-	-	-	-	-	-	536
- to customers	-	-	-	-	-	-	-	-	-	-	-	536
- to banks	-	-	-	-	-	-	-	-	-	-	-	-
Total	**(1,582)**	**(295)**	**-**	**-**	**-**	**-**	**585**	**-**	**-**	**-**	**(1,292)**	**(371)**

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

As of 31 December 2022, no profits (losses) on changes in contracts without derecognition had been recognised.

Section 10 - Administrative expenses – Item 160

10.1 Personnel expenses: breakdown

Type of expense/Amount	Total 31 December 2022	Total 31 December 2021
1) Employees	(56,055)	(49,941)
a) wages and salaries	(28,122)	(25,636)
b) social security contributions	(8,500)	(7,614)
c) provision for employee severance pay	-	-
d) pension costs	-	-
e) provision for employee severance pay	(764)	(684)
f) provision for post-employment benefits and similar provisions:	-	-
- defined contribution	-	-
- defined benefit	-	-
g) payments to external supplementary pension funds:	(1,208)	(1,085)
- defined contribution	(1,208)	(1,085)
- defined benefit	-	-
h) costs related to share-based payments	-	-
i) other employee benefits	(17,461)	(14,922)
2) Other personnel in service	(1,077)	(1,329)
3) Directors and statutory auditors	(1,832)	(1,566)
4) Early retirement costs	-	-
5) Recoveries of costs of employees seconded to other companies	790	714
6) Reimbursement of costs of third-party employees seconded to the company	-	-
Total	**(58,174)**	**(52,122)**

10.2 Average number of employees per category

Category	2022
a) senior managers	54
b) middle managers	258
c) other employees	174
Total employees	**486**
Other personnel	**43**

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 2022
Insurance	(2,393)
Various consulting services	(7,635)
Various contributions	(6,687)
Cost of services	(2,665)
Financial information	(3,239)
Adverts and advertising	(2,614)
Financial statement audit	(454)
IT and software expenses	(24,934)
Legal and notary's fees	(1,963)
Property management expenses	(1,306)
Expenses for professional services	(15,203)
Utilities and services	(1,531)
Other indirect taxes and duties	(5,867)
Others	(3,153)
Total 31/12/2022	**(79,644)**
Total 31/12/2021	**(65,690)**

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

Items / values	Adjustments (1)			Recoveries (2)			Total
	Stage one and Stage two	Stage three	Impaired	Stage one and Stage two	Stage three	Impaired	
Guarantees issued	(76)	-	-	30	5	-	(41)
Irrevocable commitments to disburse funds	(77)	-	(2,747)	163	-	2,033	(628)
Total 31/12/2022	**(153)**	**-**	**(2,747)**	**193**	**5**	**2,033**	**(669)**

11.2 Net provisions relating to other commitments and guarantees issued: breakdown

In 2022 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

In 2022 the Bank did not make any net provisions to other allowances for risks and charges.

Section 12 - Net adjustments/recoveries on property and equipment - Item 180

12.1. Net adjustments/recoveries on property and equipment: breakdown

Asset/Income items	Depreciation (a)	Write-downs/ write-backs for impairment (b)	Recoveries (c)	Net profit/loss (a + b - c)
A. Property and equipment				
1. Used in the business	(2,984)	(163)	-	(3,148)
- Owned	(283)	(163)	-	(447)
- Rights of use acquired through lease agreements	(2,701)	-	-	(2,701)
2. Held for investment	-	-	-	-
- Owned	-	-	-	-
- Rights of use acquired through lease agreements	-	-	-	-
3. Inventories	X	-	-	-
Total	**(2,984)**	**(163)**	**-**	**(3,147)**

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	(10,738)	-	-	(10,738)
- Generated internally by the company	(3,236)	-	-	(3,236)
- Other	(7,502)	-	-	(7,502)
A.2 Rights of use acquired through lease agreements	-	-	-	-
B. Assets held for sale	X	-	-	-
Total	**(10,738)**	**-**	**-**	**(10,738)**

Section 14 - Other operating expenses/income – Item 200

14.1 Other operating expenses: breakdown

Items/Technical forms	31 December 2022
Amortisation of expenses for improvements on third party assets	(142)
Other operating expenses	(372)
Total Other operating expenses 31/12/2022	**(514)**
Total Other operating expenses 31/12/2021	**(544)**

14.2 Other operating income: breakdown

Items/Technical forms	31 December 2022
Recoveries of expenses from other customers	7,333
Other income	17,946
Total Other operating income 31/12/2022	**25,279**
Total Other operating income 31/12/2021	**16,267**

Section 15 - Profits (losses) on equity investments – Item 220

15.1 Profits (losses) on equity investments: breakdown

The Bank did not recognise any profits (losses) on equity investments during the course of the year.

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

There are no profits (losses) from disposals of investments during 2022.

Section 19 - Income tax for the year on continuing operations – Item 270

19.1 Income tax for the year on continuing operations: breakdown

Income items/Sectors	Total 31 December 2022	Total 31 December 2021
1. Current tax (-)	(34,287)	(19,098)
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 (+/-)	10,015	5,767
5. Change in deferred taxes (+/-)	234	(234)
6. Tax expense for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(24,038)	(13,565)

Total income taxes for the year amounted to EUR 24,038 thousand, broken down as follows: a charge of EUR 34,287 thousand relating to current taxes and substitute tax, an income of EUR 10,015 thousand relating to the change in IRES and IRAP prepaid taxes, and an income of EUR 234 thousand relating to the change in IRES deferred taxes.

19.2 Reconciliation of theoretical tax charge with actual tax charge

Items/Components	31/12/2022
Profit (loss) from continuing operations before tax	**104,754**
IRES - theoretical tax charge (27.5%)	(28,806)
effect of lower rate	-
effect of non-deductible expenses and other increases - permanent	(704)
effect of non-taxable income and other decreases - permanent	2,932
Non-current IRES	2,784
IRES - actual tax charge	**(23,794)**
IRAP - theoretical tax charge (5.57%)	(5,835)
effect of lower rate	-
effect of income/charges that to not contribute to the taxable base	(801)
Non-current IRAP	564
IRAP - actual tax charge	**(6,071)**
Other taxes	**5,827**
Financial statements actual tax charge	**(24,038)**

The theoretical tax charge considered on an individual basis was equal to 33.07% (24% ordinary IRES, 3.5% additional IRES and 5.57% IRAP). The effective tax rate in 2022 was 22.95%. The effective tax rate was lower than the theoretical tax rate due to the positive effects primarily of the tax relief relating to the acquisition of the equity investment in AREC S.p.A., the tax benefit resulting from the application of the “Patent Box” regime, and the deduction relating to ACE (Economic Aid Subsidies).

Section 20 - Profit (loss) from discontinued operations after tax – Item 290

20.1 Profit (loss) from discontinued operations - breakdown

Income items/Sectors	Total 31 December 2022	Total 31 December 2021
1. Income	-	391
2. Costs	-	(121)
3. Net gains/losses on the measurement of the group of assets 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 2022	Amount 31 December 2021
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
Year ended 31 December 2022	80,715	81,149,186	0.99
Year ended 31 December 2021	69,123	74,768,897	0.92

Diluted earnings (losses) per share	Net profit/loss for the year	Average number of shares	Diluted earnings (losses) per share
Year ended 31 December 2022	80,715	83,180,280	0.97
Year ended 31 December 2021	69,123	75,377,813	0.92

Part D – Comprehensive income

ANALYTICAL STATEMENT OF COMPREHENSIVE INCOME

		31/12/2022	31/12/2021
10.	**Profit (loss) for the year**	**80,715**	**69,123**
	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 measured 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	773	(102)
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	(195)	28
	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	(63,973)	(8,493)
	a) fair value changes	(65,057)	(9,236)
	b) reclassification through income statement	1,084	743
	- adjustments for credit risk	1,292	907
	- profits/losses on disposals	(208)	(164)
	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	-	-
	- adjustment due to impairment	-	-
	- profits/losses on disposals	-	-
	c) other changes	-	-
180.	Income taxes relating to other income components with recycling to the income statement	21,156	2,808
190.	**Total other income components**	**(42,238)**	**(5,758)**
200.	**Other comprehensive income (Item 10+190)**	**38,477**	**63,365**

Part E – Information on risks and related hedging policies

Introduction

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.

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	738,405	597,155	1,010	79,903	3,037,649	4,454,122
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	391,691	391,691
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	184,097	184,097
5. Financial assets held for sale	-	-	-	-	-	-
Total 31/12/2022	**738,405**	**597,155**	**1,010**	**79,903**	**3,613,437**	**5,029,910**
Total 31/12/2021	**908,533**	**359,100**	**136**	**3,410**	**2,566,474**	**3,837,653**

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	1,358,250	(21,680)	1,336,570	-	3,132,754	(15,202)	3,117,552	4,454,122
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	394,003	(2,312)	391,691	391,691
3. Financial assets designated at fair value	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	X	X	184,097	184,097
5. Financial assets held for sale	-	-	-	-	-	-	-	-
Total 31/12/2022	**1,358,250**	**(21,680)**	**1,336,570**	**-**	**3,526,757**	**(17,514)**	**3,693,340**	**5,029,910**
Total 31/12/2021	**1,288,407**	**(20,638)**	**1,267,769**	**-**	**2,519,786**	**(11,893)**	**2,569,884**	**3,837,653**

(*) Values to be stated for information purposes.

Portfolio/quality	Assets clearly of poor credit quality		Other assets
	Accumulated capital losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	31,117
2. Hedging derivatives	-	-	29,874
Total 31/12/2022	**-**	**-**	**60,991**
Total 31/12/2021	**-**	**-**	**896**

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	35,666	5	7	39,060	1,928	2,940	808	157	32,396	8,232	55,281	1,111,405
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-	-	-	-	-	-	-
Total 31/12/2022	**35,666**	**5**	**7**	**39,060**	**1,928**	**2,940**	**808**	**157**	**32,396**	**8,232**	**55,281**	**1,111,405**
Total 31/12/2021	**966**	**105**	**1,532**	**103**	**215**	**48**	**284**	**111**	**7,420**	**3,675**	**3,843**	**1,011,621**

A.1.4 Financial assets, commitments to disburse funds and financial guarantees issued: trend in the total write-downs/write-backs and total provisions

*p.*1

Description/risk stages	Total write-downs/write-backs											
	Assets in stage one						Assets in stage two					
	Due from banks and central banks on demand Financial assets measured at amortised cost	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which individual 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 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	17	9,968	1,021	-	-	11,005	-	568	-	-	-	568
Increases in purchased or originated financial assets	-	7,423	1,465	-	-	8,888	-	81	-	-	-	81
Derecognitions other than write-offs	7	2,850	397	-	-	3,254	-	157	-	-	-	157
Net losses/recoveries for credit risk (+/-)	(2)	(355)	(38)	-	-	(393)	-	78	-	-	-	78
Contractual amendments without derecognitions	-	-	-	-	-	-	-	-	-	-	-	-
Changes in estimate methodology	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs not recognised directly in the income statement	-	-	-	-	-	-	-	-	-	-	-	-
Other changes	-	(2,316)	(33)	-	-	(2,351)	-	2,105	295	-	-	2,400
Final total adjustments	**8**	**11,870**	**2,017**	**-**	**-**	**13,896**	**-**	**2,674**	**295**	**-**	**-**	**2,969**
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

p.2

Description/risk stages	Total write-downs/write-backs					
	Assets in stage three					
	Due from banks and central banks on demand Financial assets measured at amortised cost	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which individual write-downs	of which collective write-downs
Opening total adjustments	-	18,530	-	-	18,487	43
Increases in purchased or originated financial assets	-	3,232	-	-	3,144	88
Derecognitions other than write-offs	-	2,573	-	-	2,535	38
Net losses/recoveries for credit risk (+/-)	-	(268)	-	-	(482)	214
Contractual amendments without derecognitions	-	-	-	-	-	-
Changes in estimate methodology	-	-	-	-	-	-
Write-offs not recognised directly in the income statement	-	-	-	-	-	-
Other changes	-	1,284	-	-	1,015	268
Final total adjustments	**-**	**20,204**	**-**	**-**	**19,629**	**575**
Recoveries from receipts on written-off financial assets	-	-	-	-	-	-
Write-offs recognised directly in the income statement	-	-	-	-	-	-

p.3

Description/risk stages	Total write-downs/write-backs									Total
	purchased or originated credit impaired financial assets					Total provisions on commitments to disburse funds and financial guarantees issued				
	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	2,445	-	-	2,108	337	337	10	5	4,131	**32,899**
Increases in purchased or originated financial assets	0	-	-	-	0	101	11	-	-	**12,313**
Derecognitions other than write-offs	9	-	-	-	9	133	0	-	-	**6,127**
Net losses/recoveries for credit risk (+/-)	829	-	-	225	604	(46)	28	(5)	-	**222**
Contractual amendments without derecognitions	-	-	-	-	-	-	-	-	-	**-**
Changes in estimate methodology	-	-	-	-	-	-	-	-	-	**-**
Write-offs not recognised directly in the income statement	-	-	-	-	-	-	-	-	-	**-**
Other changes	(1,130)	-	-	(857)	(273)	(0)	(0)	-	426	**204**
Final total adjustments	**2,135**	**-**	**-**	**1,476**	**659**	**258**	**48**	**0**	**4,556**	**39,511**
Recoveries from receipts on written-off financial assets	-	-	-	-	-	-	-	-	-	**-**
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 values / nominal value					
	Transfer 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	57,602	6,292	6,460	56	18,611	86
2. Financial assets measured at fair value through other comprehensive income	768	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-
4. Commitments to disburse funds and financial guarantees issued	133	3	-	1	-	-
Total 31/12/2022	**58,503**	**6,295**	**6,460**	**57**	**18,611**	**86**
Total 31/12/2021	**29,368**	**10,204**	**3,447**	**181**	**452**	**10**

A.1.5a Loans subject to Covid-19 support measures: transfers between the various credit risk stages (gross values)

Portfolios/risk stages	Gross values					
	Transfer 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	-	**21,760**	**-**	**5,168**	**-**	**14,699**
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	-	-	-	286	-	422
A.4 new loans	-	21,760	-	4,882	-	14,277
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 31/12/2022	**-**	**21,760**	**-**	**5,168**	**-**	**14,699**
Total 31/12/2021	**-**	**-**	**-**	**-**	**-**	**-**

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.1 On demand	**676,517**	**676,517**	**-**	**-**	**-**	**8**	**8**	**-**	**-**	**-**	**676,509**	**-**
a) Non-performing	-	X	-	-	-	-	X	-	-	-	-	-
b) Performing	676,517	676,517	-	X	-	8	8	-	X	-	676,509	-
A.2 Other	**135,358**	**135,358**	**-**	**-**	**-**	**182**	**182**	**-**	**-**	**-**	**135,176**	**-**
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	-	-	-	X	-	-	-	-	X	-	-	-
- of which: forborne exposures	-	-	-	X	-	-	-	-	X	-	-	-
e) Other performing exposures	135,358	135,358	-	X	-	182	182	-	X	-	135,176	-
- of which: forborne exposures	-	-	-	X	-	-	-	-	X	-	-	-
Total (A)	**811,875**	**811,875**	**-**	**-**	**-**	**190**	**190**	**-**	**-**	**-**	**811,685**	**-**
B. Off-balance sheet credit exposures	-	-	-	-	-	-	-	-	-	-	-	-
a) Non-performing	-	X	-	-	-	-	X	-	-	-	-	-
b) Performing	53,953	53,953	-	X	-	-	-	-	X	-	53,953	-
Total (B)	**53,953**	**53,953**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**53,953**	**-**
Total (A+B)	**865,828**	**865,828**	**-**	**-**	**-**	**190**	**190**	**-**	**-**	**-**	**865,638**	**-**

(*) 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	754,234	X	-	19,609	734,625	15,829	X	-	14,353	1,476	738,405	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	-
b) Unlikely-to-pay	602,943	X	-	43,992	558,951	5,788	X	-	5,788	0	597,155	-
- of which: forborne exposures	94,562	X	-	6,875	87,687	1,690	X	-	1,690	-	92,872	-
c) Non-performing past due exposures	1,073	X	-	343	730	63	X	-	63	-	1,010	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	-
d) Performing past due exposures	81,512	35,836	45,341	X	335	1,609	158	1,413	X	38	79,903	-
- of which: forborne exposures	33	-	33	X	-	0	-	0	X	-	33	-
e) Other performing exposures	3,493,986	3,426,723	59,028	X	8,235	15,724	13,547	1,556	X	621	3,478,262	-
- of which: forborne exposures	13,459	-	13,459	X	-	45	-	45	X	-	13,414	-
Total (A)	**4,933,748**	**3,462,559**	**104,369**	**63,944**	**1,302,876**	**39,013**	**13,705**	**2,969**	**20,204**	**2,135**	**4,894,735**	**-**
B. Off-balance sheet credit exposures	-	-	-	-	-	-	-	-	-	-	-	
a) Non-performing	72,196	X	-	3,021	69,175	4,556	X	-	-	4,556	67,640	-
b) Performing	213,460	140,235	1,434	X	7,821	306	258	48	X	-	213,154	-
Total (B)	**285,656**	**140,235**	**1,434**	**3,021**	**76,996**	**4,862**	**258**	**48**	**-**	**4,556**	**280,794**	**-**
Total (A+B)	**5,219,404**	**3,602,794**	**105,802**	**66,965**	**1,379,872**	**43,875**	**13,963**	**3,017**	**20,204**	**6,691**	**5,175,529**	**-**

(*) 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:	**25,726**	**-**	**-**	**25,726**	**-**	**2,208**	**-**	**-**	**2,208**	**-**	**23,518**	**-**
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	709	-	-	709	-	27	-	-	27	-	682	-
d) New loans	25,017	-	-	25,017	-	2,181	-	-	2,181	-	22,836	-
C. Past-due non-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	-	-	-	-	-	-	-	-	-	-	-	-
D. Past due 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:	**810,924**	**769,374**	**39,398**	**-**	**2,152**	**4,015**	**3,371**	**644**	**-**	**-**	**806,909**	**-**
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	810,924	769,374	39,398	-	2,152	4,015	3,371	644	-	-	806,909	-
Total (A+B+C+D+E)	**836,650**	**769,374**	**39,398**	**25,726**	**2,152**	**6,223**	**3,371**	**644**	**2,208**	**-**	**830,427**	

(*) Values to be stated for information purposes.

A.1.8 On-balance sheet credit exposure 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 exposure 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.

A.1.9 On-balance sheet credit exposure to customers: trend of the gross non-performing exposures

Descriptions/Categories	Bad loans	Unlikely-to-pay	Non-performing past due exposures
A. Opening balance - gross exposure	**924,669**	**363,568**	**170**
- of which: assets sold but not derecognised	-	-	-
B. Increases	**93,456**	**390,059**	**1,554**
B.1 transfers from performing exposures	12	29,580	809
B.2 transfers from purchased or originated credit impaired financial assets	61,209	269,970	-
B.3 transfers from other non-performing exposures	4,595	471	728
B.4 contractual amendments without derecognition	-	-	-
B.5 other increases	27,640	90,038	17
C. Decreases	**263,891**	**150,684**	**651**
C.1 transfers to performing exposures	-	4,548	66
C.2 write-offs	-	-	-
C.3 collections	252,884	85,907	113
C.4 proceeds from disposals	11,007	54,906	-
C.5 losses on disposal	-	-	-
C.6 transfers to other non-performing exposures	-	5,323	472
C.7 contractual amendments without derecognition	-	-	-
C.8 other decreases	-	-	-
D. Gross exposure closing balance	**754,234**	**602,943**	**1,073**
- of which: assets sold but not derecognised	-	-	-

A.1.9 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	**905,655**	**343,198**	**-**
- of which: assets sold but not derecognised	-	-	-
B. Increases	**90,716**	**355,190**	**730**
B.1 transfers from performing exposures	-	-	-
B.2 transfers from purchased or originated credit impaired financial assets	61,164	269,970	-
B.3 transfers from other non-performing exposures	2,826	-	728
B.4 contractual amendments without derecognition	-	-	-
B.5 other increases	26,726	85,220	2
C. Decreases	**262,641**	**139,438**	**-**
C.1 transfers to performing exposures	-	4,377	-
C.2 write-offs	-	-	-
C.3 collections	251,680	76,600	-
C.4 proceeds from disposals	10,960	54,906	-
C.5 losses on disposal	-	-	-
C.6 transfers to other non-performing exposures	-	3,554	-
C.7 contractual amendments without derecognition	-	-	-
C.8 other decreases	-	-	-
D. Gross exposure closing balance	**733,730**	**558,950**	**730**
- 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	**19,014**	**20,370**	**170**
- of which: assets sold but not derecognised	-	-	-
B. Increases	**2,742**	**34,869**	**824**
B.1 transfers from performing exposures	12	29,580	809
B.2 transfers from purchased or originated credit impaired financial assets	47	-	-
B.3 transfers from other non-performing exposures	1,769	471	-
B.4 contractual amendments without derecognition	-	-	-
B.5 other increases	914	4,818	15
C. Decreases	**1,251**	**11,247**	**651**
C.1 transfers to performing exposures	-	171	66
C.2 write-offs	-	-	-
C.3 collections	1,204	9,307	113
C.4 proceeds from disposals	47	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other non-performing exposures	-	1,769	472
C.7 contractual amendments without derecognition	-	-	-
C.8 other decreases	-	-	-
D. Gross exposure closing balance	**20,505**	**43,992**	**343**
- 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	**22,266**	**18,777**
- of which: assets sold but not derecognised	-	-
B. Increases	**91,144**	**10,880**
B.1 transfers from performing exposures not forborne	-	67
B.2 transfers from performing forborne exposures	1,410	X
B.3 transfers from non-performing forborne exposures	X	68
B.4 inflows from non-performing, non-forborne exposures	-	-
B.4 other increases	89,734	10,745
C. Decreases	**18,848**	**16,164**
C.1 transfers to performing exposures not forborne	X	-
C.2 transfers to performing forborne exposures	68	X
C.3 outflows towards non-performing forborne exposures	X	1,410
C.4 write-offs	-	-
C.5 collections	15,508	14,754
C.6 proceeds from disposals	-	-
C.7 losses on disposal	-	-
C.8 other decreases	3,272	-
D. Gross exposure closing balance	**94,562**	**13,493**
- of which: assets sold but not derecognised	-	-

A1.10 On-balance sheet non-performing credit exposure 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	**16,135**	**-**	**4,468**	**1,269**	**34**	**-**
- of which: assets sold but not derecognised	**-**	**-**	**-**	**-**	**-**	**-**
B. Increases	**2,077**	**-**	**3,625**	**905**	**67**	**-**
B.1 write-downs/write-backs from purchased or originated credit impaired financial assets	225	-	-	-	-	-
B.2 other write-downs/write-backs	993	-	2,956	898	67	-
B.3 losses on disposal	-	-	-	-	-	-
B.4 transfers from other non-performing exposures	859	-	7	-	-	-
B.5 contractual amendments without derecognition	-	-	-	-	-	-
B.6 other increases	-	-	662	7	-	-
C. Decreases	**2,383**	**-**	**2,305**	**484**	**38**	**-**
C.1 write-backs from measurement	468	-	859	143	5	-
C.2 write-backs from recoveries	646	-	541	74	8	-
C.3 gains on disposal	-	-	-	-	-	-
C.4 write-offs	-	-	-	-	-	-
C.5 transfers to other non-performing exposures	-	-	859	-	7	-
C.6 contractual amendments without derecognition	-	-	-	-	-	-
C.7 other decreases	1,269	-	46	267	18	-
D. Total closing adjustments	**15,829**	**-**	**5,788**	**1,690**	**63**	-
- 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.

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	**2,513**	**10,041**	**17,461**	**7,547**	**96**	**-**	**4,453,347**	**4,491,005**
- Stage one	2,513	10,041	17,461	7,547	96	-	2,982,926	3,020,584
- Stage two	-	-	-	-	-	-	103,600	103,600
- Stage three	-	-	-	-	-	-	63,944	63,944
- Purchased or originated impaired	-	-	-	-	-	-	1,302,877	1,302,877
B. Financial assets measured at fair value through other comprehensive income	**1,964**	**9,622**	**82,452**	**46,712**	**21,621**	**554**	**231,078**	**394,003**
- Stage one	1,964	9,622	82,452	46,712	21,621	554	230,310	393,235
- Stage two	-	-	-	-	-	-	768	768
- 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)	**4,477**	**19,663**	**99,913**	**54,259**	**21,717**	**554**	**4,684,425**	**4,885,008**
D. Commitments to disburse funds and financial guarantees given	**6,339**	**16,880**	**32,998**	**-**	**-**	**-**	**164,888**	**221,105**
- Stage one	6,339	16,880	32,998	-	-	-	91,664	147,881
- Stage two	-	-	-	-	-	-	1,434	1,434
- Stage three	-	-	-	-	-	-	725	725
- Purchased or originated impaired	-	-	-	-	-	-	71,065	71,065
Total (D)	**6,339**	**16,880**	**32,998**	**-**	**-**	**-**	**164,888**	**221,105**
Total (A+B+C+D)	**10,816**	**36,543**	**132,911**	**54,259**	**21,717**	**554**	**4,849,313**	**5,106,113**

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 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	(A+B+C+D)	
A. Financial assets measured at amortised cost	**-**	**-**	**-**	**-**	**-**	**-**	**4,491,005**	**4,491,005**
- Stage one	-	-	-	-	-	-	3,020,586	3,020,584
- Stage two	-	-	-	-	-	-	103,600	103,600
- Stage three	-	-	-	-	-	-	63,944	63,944
- Purchased or originated impaired	-	-	-	-	-	-	1,302,876	1,302,876
B. Financial assets measured at fair value through comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**394,003**	**394,003**
- Stage one	-	-	-	-	-	-	393,235	393,235
- Stage two	-	-	-	-	-	-	768	768
- 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)	**-**	**-**	**-**	**-**	**-**	**-**	**4,885,008**	**4,885,008**
D. Commitments to disburse funds and financial guarantees given	**-**	**-**	**-**	**-**	**-**	**-**	**221,105**	**221,105**
- Stage one	-	-	-	-	-	-	147,881	147,881
- Stage two	-	-	-	-	-	-	1,434	1,434
- Stage three	-	-	-	-	-	-	725	725
- Purchased or originated impaired	-	-	-	-	-	-	71,065	71,065
Total (D)	**-**	**-**	**-**	**-**	**-**	**-**	**221,105**	**221,105**
Total (A+B+C)	**-**	**-**	**-**	**-**	**-**	**-**	**5,106,113**	**5,106,113**

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:	**-**	**-**	**-**	**-**	**-**	**-**
1.1 totally secured	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-
1.2 partially secured	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-
2. Guaranteed off-balance sheet credit exposures:	**-**	**-**	**-**	**-**	**-**	**-**
2.1 totally secured	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-
2.2 partially secured	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-

	Personal guarantees (2)									Total (1)+(2)
	Credit derivatives					Endorsement credits				
	CLN	Other derivatives								
		Central Counterparties	Banks	Other financial companies	Other entities	Public administrations	Banks	Other financial companies	Other entities	
1. Guaranteed on-balance sheet credit exposures:	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 totally secured	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-
1.2 partially secured	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-
2. Guaranteed off-balance sheet credit exposures:	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 totally secured	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-
2.2 partially secured	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-

A.3.2 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:	**1,742,244**	**1,728,109**	**318,002**	**-**	**67,304**	**24,941**	**-**	**-**
1.1 totally secured	649,339	643,139	311,077	-	62,201	14,250	-	-
- of which non-performing	290,792	286,393	192,769	-	3,021	49	-	-
1.2 partially secured	1,092,905	1,084,970	6,925	-	5,103	10,691	-	-
- of which non-performing	117,440	114,532	1,240	-	220	9,544	-	-
2. Guaranteed "Off-Balance Sheet" credit exposures:	**39,241**	**39,166**	**6,085**	**-**	**2,977**	**1,765**	**-**	**-**
2.1 totally secured	19,739	19,729	6,085	-	2,977	733	-	-
- of which non-performing	12,417	12,417	4,612	-	-	-	-	-
2.2 partially secured	19,502	19,437	-	-	-	1,032	-	-
- of which non-performing	7,757	7,757	-	-	-	7	-	-

A.3.2 Guaranteed on- and off-balance sheet credit exposures to customers

p.2

	Personal guarantees (2)							Total (1)+(2)
	Credit derivatives			Endorsement credits				
	Other derivatives			Public administrations	Banks	Other financial companies	Other entities	
	Banks	Other financial companies	Other entities					
1. Guaranteed on-balance sheet credit exposures:	**-**	**-**	**-**	**171,296**	**2,968**	**22,480**	**797,563**	**1,404,554**
1.1 totally secured	-	-	-	19,781	2,627	21,236	199,369	630,541
- of which non-performing	-	-	-	1,875	395	1,517	74,442	274,068
1.2 partially secured	-	-	-	151,515	341	1,244	598,194	774,013
- of which non-performing	-	-	-	18,138	21	684	26,271	56,118
2. Guaranteed "Off-Balance Sheet" credit exposures:	**-**	**-**	**-**	**3,902**	**222**	**1,194**	**9,082**	**25,227**
2.1 totally secured	-	-	-	1,026	-	205	6,758	17,784
- of which non-performing	-	-	-	1,026	-	174	4,685	10,497
2.2 partially secured	-	-	-	2,876	222	989	2,324	7,443
- of which non-performing	-	-	-	476	-	-	1,958	2,441

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. Breakdown and concentration of credit exposures

B.1 Sector breakdown of on- and off-balance sheet credit exposures to customers (book value)

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	-	-	628,628	1,507	-	-
- of which: forborne exposures	-	-	-	-	-	-
A.2 Unlikely to pay	3,099	-	97,995	190	-	-
- of which: forborne exposures	-	-	-	-	-	-
A.3 Non-performing past-due exposures	-	-	1	-	-	-
- of which: forborne exposures	-	-	-	-	-	-
A.4 Performing exposures	661,386	886	1,014,662	4,224	468	8
- of which: forborne exposures	-	-	-	-	-	-
Total (A)	**664,485**	**886**	**1,741,286**	**5,921**	**468**	**8**
B. Off-balance sheet credit exposures						
B.1 Non-performing exposures	-	-	-	-	-	-
B.2 Performing exposures	-	-	61,288	1	-	-
Total (B)	**-**	**-**	**61,288**	**1**	**-**	**-**
Total (A+B) 31/12/2022	**664,485**	**886**	**1,802,574**	**5,922**	**468**	**8**
Total (A+B) 31/12/2021	**212,298**	**281**	**1,604,527**	**5,086**	**239**	**2**

B.1 Sector breakdown of on- and off-balance sheet credit exposures to customers (book value)

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	72,919	12,409	36,859	1,913
- of which: forborne exposures	-	-	-	-
A.2 Unlikely to pay	475,670	5,130	20,391	468
- of which: forborne exposures	91,486	1,526	1,386	164
A.3 Non-performing past due exposures	849	24	160	39
- of which: forborne exposures	-	-	-	-
A.4 Performing exposures	1,833,969	12,111	48,147	112
- of which: forborne exposures	12,483	34	965	10
Total (A)	**2,383,407**	**29,674**	**105,557**	**2,532**
B. Off-balance sheet exposures				
B.1 Non-performing exposures	67,016	4,522	624	34
B.2 Performing exposures	145,174	231	1,769	-
Total (B)	**212,190**	**4,753**	**2,393**	**34**
Total (A+B) 31/12/2022	**2,595,597**	**34,427**	**107,950**	**2,566**
Total (A+B) 31/12/2021	**1,815,173**	**28,686**	**81,503**	**2,555**

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	737,988	15,829	418	-	-
A.2 Unlikely to pay	585,518	5,788	11,637	-	-
A.3 Non-performing past due exposures	1,010	63	-	-	-
A.4 Performing exposures	3,316,726	14,643	216,019	2,580	17,909
Total (A)	**4,641,242**	**36,323**	**228,074**	**2,580**	**17,909**
B. Off-balance sheet exposures					
B.1 Non-performing exposures	67,639	4,556	-	-	-
B.2 Performing exposures	195,904	216	12,318	91	9
Total (B)	**263,543**	**4,772**	**12,318**	**91**	**9**
Total (A+B) 31/12/2022	**4,904,785**	**41,095**	**240,392**	**2,671**	**17,918**
Total (A+B) 31/12/2021	**3,520,571**	**35,091**	**179,844**	**1,479**	**5,566**

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	62	3,206	29	4,303	19
Total (A)	**62**	**3,206**	**29**	**4,303**	**19**
B. Off-balance sheet exposures					
B.1 Non-performing exposures	-	-	-	1	-
B.2 Performing exposures	-	-	-	-	-
Total (B)	**-**	**-**	**-**	**1**	**-**
Total (A+B) 31/12/2022	**62**	**3,206**	**29**	**4,304**	**19**
Total (A+B) 31/12/2021	**18**	**5,118**	**13**	**2,400**	**8**

B.2 Territorial distribution of on- and off-balance sheet credit exposures to customers

Exposures/Geographic Areas	Northwest Italy		Northeast 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	623,504	2,373	44,610	12,528	47,120	652	22,754	276
A.2 Unlikely-to-pay positions	276,665	1,914	112,954	2,552	94,736	1,257	101,164	65
A.3 Non-performing past-due exposures	1	4	1,006	54	2	1	1	4
A.4 Performing exposures	1,722,567	6,897	515,072	4,205	950,544	2,813	128,543	728
Total (A)	**2,622,737**	**11,188**	**673,642**	**19,339**	**1,092,402**	**4,723**	**252,462**	**1,073**
B. Off-balance sheet credit exposures								
B.1 Non-performing exposures	20,122	1,182	28,736	2,497	17,582	754	1,199	123
B.2 Performing exposures	112,399	115	47,937	90	13,618	9	21,950	2
Total (B)	**132,521**	**1,297**	**76,673**	**2,587**	**31,200**	**763**	**23,149**	**125**
Total (A+B) 31/12/2022	**2,755,258**	**12,485**	**750,315**	**21,926**	**1,123,602**	**5,486**	**275,611**	**1,198**
Total (A+B) 31/12/2021	**2,337,898**	**10,503**	**517,487**	**21,550**	**509,951**	**2,361**	**155,235**	**677**

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	789,115	183	22,571	6	-
Total (A)	**789,115**	**183**	**22,571**	**6**	**-**
B. Off-balance sheet exposures					
B.1 Non-performing exposures	-	-	-	-	-
B.2 Performing exposures	22,677	-	31,276	-	-
Total (B)	**22,677**	**-**	**31,276**	**-**	**-**
Total (A+B) 31/12/2022	**811,792**	**183**	**53,847**	**6**	**-**
Total (A+B) 31/12/2021	**137,618**	**323**	**193,805**	**8**	**-**

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	-	-	-	(1)	1
A.2 Unlikely to pay	-	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-	-
A.4 Performing exposures	-	-	-	10	-
Total (A)	**-**	**-**	**-**	**9**	**1**
B. Off-balance sheet exposures					
B.1 Non-performing exposures	-	-	-	-	-
B.2 Performing exposures	-	-	-	-	-
Total (B)	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2022	**-**	**-**	**-**	**9**	**1**
Total (A+B) 31/12/2021	**-**	**-**	**-**	**(1)**	**1**

B.3 Territorial distribution of on- and "off-balance sheet" credit exposures to banks

Exposures/Geographic Areas	Northwest Italy		Northeast Italy		Central Italy
	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	744,739	115	15,307	26	29,069
Total (A)	**744,739**	**115**	**15,307**	**26**	**29,069**
B. Off-balance sheet exposures					
B.1 Non-performing exposures	-	-	-	-	-
B.2 Performing exposures	18,052	-	-	-	4,625
Total (B)	**18,052**	**-**	**-**	**-**	**4,625**
Total (A+B) 31/12/2022	**762,791**	**115**	**15,307**	**26**	**33,694**
Total (A+B) 31/12/2021	**92,768**	**263**	**5,050**	**15**	**39,800**

B.4 Large exposures

	31 December 2022
Book value	2,955,255
Weighted value	412,675
Number	**7**

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 Italian Law 130/99.

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.

Investment Banking Division

For its performing-loan securitisation operations, the Parent Company uses the vehicle Piedmont SPV, comprising Banca Finint, a financial intermediary and securitisation master servicer, in accordance with Italian Law 130/99. Piedmont SPV is consolidated on a line-by-line basis.

Quantitative information

C.1 Exposures resulting from the main originated securitisation transactions broken down by type of securitisations and by type of exposures

The Group has no exposures in proprietary securitisations.

Information on "self-securitisation" operations can be found in Part E - Section 4 - Liquidity risk. These are operations in which the Bank fully subscribed the securities issued by the vehicle, with the aim of using them to obtain liquidity, typically through repurchase agreements with market counterparties.

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	958,288	(1,476)	267,150	(1,452)	4,698	(25)	4,991	-
2 Investment Banking Division	40,481	(281)	-	-	-	-	-	-

C.3 Securitisation vehicles

As described above, in order to carry out the activities of the DCIS and SME Divisions, the Bank utilises securitisation vehicles pursuant to Italian 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

In addition to the operations described above, which are consolidated on a line-by-line basis, consideration should also be given to the Convivio SPV securitisation, in which illimity subscribed 50% of the single-tranche note as part of a joint venture with Apollo Global Management.

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 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. Green Loans	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. Other financial assets mandatorily measured at fair value	**1,535**	**-**	**1,535**	**-**	**30,818**	**-**	**30,818**
1. Debt securities	1,535	-	1,535	-	30,818	-	30,818
2. Equity securities	-	-	-	X	-	-	-
3. Green Loans	-	-	-	-	-	-	-
C. Financial assets carried at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Green Loans	-	-	-	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	**94,376**	**-**	**94,376**	**-**	**84,780**	**-**	**84,780**
1. Debt securities	94,376	-	94,376	-	84,780	-	84,780
2. Equity securities	-	-	-	X	-	-	-
3. Green Loans	-	-	-	-	-	-	-
A. Financial assets measured at amortised cost	**779,648**	**513,472**	**266,176**	**-**	**636,217**	**-**	**636,217**
1. Debt securities	266,176	-	266,176	-	636,217	-	636,217
2. Green Loans	513,472	513,472	-	-	-	-	-
Total 31/12/2022	**875,559**	**513,472**	**362,087**	**-**	**751,815**	**-**	**751,815**
Total 31/12/2021	**201,038**	**-**	**201,038**	**-**	**190,650**	**-**	**190,650**

E.2 Partially recognised financial assets sold and associated financial liabilities: book values

As of the reporting date of 31 December 2022, 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 indicated financial assets may be considered a proxy of the same fair value.

B. Financial assets sold and fully derecognised with recognition of continuing involvement

Qualitative information

The Bank has no such operations.

Quantitative information

E.4 Covered bond transactions

The Bank has no such operations.

F. CREDIT RISK MEASUREMENT MODELS

For information on credit risk measurement models, please refer to Part E of the Explanatory Notes to the Consolidated Financial Statements.

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

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	**46**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	46	-	-	-	-	-	-	-
2. On-balance sheet liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Repos	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	59
+ Short positions	-	-	-	-	59	-	-	-
- Other derivatives								
+ Long positions	-	22,982	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	13,301	40,040	722	5,362	13,323	13	-
+ Short positions	-	13,681	5,740	724	38,485	14,119	12	-
- Other derivatives								
+ Long positions	-	295,282	66,947	27,285	284,885	34,034	17,000	-
+ Short positions	-	240,136	67,336	19,000	313,107	33,057	-	-

2. Regulatory trading portfolio: 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	**1,470,427**	**1,572,780**	**437,547**	**234,687**	**1,257,445**	**677,982**	**32,665**	**22,884**
1.1 Debt securities	110,200	610,537	70,982	152,257	717,534	624,977	684	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	110,200	610,537	70,982	152,257	717,534	624,977	684	-
1.2 Loans to banks	710,837	-	-	-	-	-	-	22,884
1.3 Loans to customers	649,390	962,243	366,565	82,430	539,911	53,005	31,981	-
- current account	25,735	2,334	716	17,707	14,292	344	-	-
- other loans	623,655	959,909	365,849	64,723	525,619	52,661	31,981	-
- with early repayment option	10,997	839,735	341,935	724	56,788	10,925	3,502	-
- other	612,658	120,174	23,914	63,999	468,831	41,736	28,479	-
2. On-balance sheet liabilities	**1,581,244**	**764,196**	**135,249**	**1,035,594**	**1,870,666**	**3,373**	**-**	**-**
2.1 Amounts due to customers	967,280	241,215	135,249	824,941	1,360,222	3,373	-	-
- current account	850,354	-	-	-	-	-	-	-
- other payables	116,926	241,215	135,249	824,941	1,360,222	3,373	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	116,926	241,215	135,249	824,941	1,360,222	3,373	-	-
2.2 Amounts due to banks	613,964	522,981	-	58,003	10,092	-	-	-
- current account	9,847	-	-	-	-	-	-	-
- other payables	604,117	522,981	-	58,003	10,092	-	-	-
2.3 Debt securities	-	-	-	152,650	500,352	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	152,650	500,352	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**191,487**	**139,419**	**615,666**	**522,100**	**170,000**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	191,487	139,419	615,666	522,100	170,000	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	191,487	139,419	615,666	522,100	170,000	-	-
+ Long positions	-	110,000	110,000	127,236	472,100	-	-	-
+ Short positions	-	81,487	29,419	488,430	50,000	170,000	-	-
4. Other off-balance sheet transactions	**95,793**	**1**	**51**	**5,006**	**50,608**	**22,119**	**467**	**-**
+ Long positions	8,771	1	51	5,006	50,608	22,119	467	-
+ Short positions	87,022	-	-	-	-	-	-	-

2. Banking book: internal models and other methods of sensitivity analysis

Refer to Part E of the Explanatory Notes to the consolidated financial statements.

2.3 EXCHANGE RATE 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. Breakdown by currency of assets, liabilities and derivatives

Items	Currencies					
	USD	GBP	CHF	NOK	CAD	OTHER CURRENCIES
A. Financial assets	**53,316**	**100**	**368**	**6**	**33**	**436**
A.1 Debt instruments						
A.2 Equity instruments	7					
A.3 Loans to banks	2,800	16	368	6	33	436
A.4 Loans to customers	50,509	84				
A.5 Other financial assets						
B. Other assets	**26**					
C. Financial liabilities	**635**	**-**	-	-	-	-
C.1 Amounts due to banks						
C.2 Deposits from customers	635					
C.3 Debt instruments						
C.4 Other financial assets						
D. Other liabilities	**40**					
E. Financial derivatives						
- Options						
+ Long positions						
+ Short positions						
- Other derivatives						
+ Long positions	7,969					
+ Short positions	60,861	12				
Total assets	**61,311**	**100**	**368**	**6**	**33**	**436**
Total liabilities	**61,536**	**12**	**-**	**-**	**-**	**-**
Difference (+/-)	**(225)**	**88**	**368**	**6**	**33**	**436**

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 financial 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.

A.1 Financial derivatives held for trading: end-of-period notional values

Underlying assets/ Types of derivatives	Total 31/12/2022				Total 31/12/2021			
	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								
a) Options	-	189,600	19,109	-	-	-	4,000	-
b) Swaps	-	346,300	228,315	-	-	57,600	58,302	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	29,629	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and share indices								
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold								
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	60,566	-	-	-	177	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Goods	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**596,466**	**277,053**	**-**	**-**	**57,777**	**62,302**	**-**

A.2 Financial derivatives held for trading: positive and negative gross fair value - distribution by products

Types of derivatives	Total 31/12/2022				Total 31/12/2021			
	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	-	12,950	-	-	-	-	-	-
b) Interest rate swaps	-	17,996	12	-	-	280	614	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	159	-	-	-	2	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-
Total	**-**	**31,105**	**12**	**-**	**-**	**282**	**614**	**-**
2. Negative fair value								
a) Options	-	10,626	59	-	-	-	52	-
b) Interest rate swaps	-	4,564	11,996	-	-	1	6	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-
Total	**-**	**15,189**	**12,055**	**-**	**-**	**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	29,629	20,248	227,176
- positive fair value	X		-	-
- negative fair value	X		527	11,528
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	-	477,900	58,000	-
- positive fair value	-	30,267	680	-
- negative fair value	-	14,287	902	-
2) Equity securities and share indices				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currencies and gold				
- notional value	-	60,566	-	-
- positive fair value	-	159	-	-
- negative fair value	-	60,566	-	-
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	66,289	523,086	223,578	119,902
A.2 Financial derivatives on equity securities and share indices	-	-	-	-
A.3 Financial derivatives on currencies and gold	60,566	-	-	60,566
A.4 Financial derivatives on goods	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2022	**126,855**	**523,086**	**223,578**	**873,519**
Total 31/12/2021	**2,186**	**104,425**	**13,468**	

3.2 Accounting hedges

For qualitative information, refer to Part E of the Explanatory Notes to the consolidated financial statements.

Quantitative information

A. Hedging derivatives

A.1 Hedging derivatives: end-of-period notional values

Underlying assets/ Types of derivatives	Total 31/12/2022				Total 31/12/2021			
	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	**-**	**819,336**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	819,336	-	-	-	-	-	-
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	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Goods	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**819,336**	**-**	**-**	**-**	**-**	**-**	**-**

A.2 Hedging derivatives: positive and negative gross fair value - distribution by products

Types of derivatives	Positive and negative fair value								Change in the value used to recognise the ineffectiveness of the hedge	
	Total 31/12/2022				Total 31/12/2021				Total 31/12/2022	Total 31/12/2021
	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			
Positive fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	29,874	-	-	-	-	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-	-	-
Total	**-**	**29,874**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Negative fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	32,646	-	-	-	-	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-	-	-
Total	**-**	**32,646**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

A.3 OTC hedging derivatives - 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	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
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	-	604,788	214,548	-
- positive fair value	-	23,491	6,383	-
- negative fair value	-	20,071	12,575	-
2) Equity securities and share indices				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currencies and gold				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- 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 hedging 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	127,236	522,100	170,000	819,336
A.2 Financial derivatives on equity securities and share indices	-	-	-	-
A.3 Financial derivatives on currencies and gold	-	-	-	-
A.4 Financial derivatives on goods	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2022	**127,236**	**522,100**	**170,000**	**819,336**
Total 31/12/2021	**-**	**-**	**-**	**-**

B. Credit derivative hedges

The Bank does not hold credit derivatives classified as hedges in its portfolio.

C. Non-derivative hedging instruments

The Bank does not hold non-derivative instruments classified as hedges in its portfolio.

D. Hedging instruments

D.1 Fair value hedges

	Specific hedges: book value	Specific hedges - net positions: book value of assets or liabilities (before offsetting)	Specific hedges			Generic hedges: Book value
			Accumulated changes in fair value of the hedged instrument	Termination of the hedge: residual accumulated changes in fair value	Changes in the value used to recognise the ineffectiveness of the hedge	
A. Assets						
1. Financial assets measured at fair value through other comprehensive income - hedging of:	**(193,818)**	**-**	**(8,445)**	**-**	**-**	**-**
1.1 Debt securities and interest rates	(193,818)	-	(8,445)	-	-	X
1.2 Equity securities and share indices	-	-	-	-	-	X
1.3 Currencies and gold	-	-	-	-	-	X
1.4 Loans	-	-	-	-	-	X
1.5 Others	-	-	-	-	-	X
2. Financial assets measured at amortised cost - hedging of:	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities and interest rates	-	-	-	-	-	X
1.2 Equity securities and share indices	-	-	-	-	-	X
1.3 Currencies and gold	-	-	-	-	-	X
1.4 Loans	-	-	-	-	-	X
1.5 Others	-	-	-	-	-	X
Total 31/12/2022	**(193,818)**	**-**	**(8,445)**	**-**	**-**	**-**
Total 31/12/2021	**-**	**-**	**-**	**-**	**-**	**-**
B. Liabilities						
1. Amounts due to customers - hedging of:	**398,150**	**-**	**(3,676)**	**-**	**-**	**-**
1.1 Debt securities and interest rates	398,150	-	(3,676)	-	-	X
1.2 Currencies and gold	-	-	-	-	-	X
1.3 Others	-	-	-	-	-	X
Total 31/12/2022	**398,150**	**-**	**(3,676)**	**-**	**-**	**-**
Total 31/12/2021	**-**	**-**	**-**	**-**	**-**	**-**

D.2 Cash flow and foreign investment hedging

The Bank does not hold cash flow or foreign investment hedges in its portfolio.

E. Effect of hedging operations on shareholders' equity

The Bank does not hold cash flow or foreign investment hedges in its portfolio.

3.3 Other information about (trading and hedging) derivatives

A. Financial and credit derivatives

A.1 Over-the-counter financial and credit derivatives: net fair value by counterparties

There are no offsets in the financial statements for derivatives whose netting agreements meet the criteria provided for by IAS 32, paragraph 42.

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

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	**1,470,428**	**1,572,780**	**437,547**	**234,686**	**1,257,446**	**677,983**	**32,664**	**22,884**
1.1 Debt securities	110,200	610,537	70,982	152,257	717,534	624,978	684	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	110,200	610,537	70,982	152,257	717,534	624,978	684	-
1.2 Loans to banks	710,837	-	-	-	-	-	-	22,884
1.3 Loans to customers	649,390	962,243	366,565	82,429	539,912	53,005	31,980	-
- current account	25,736	2,334	716	17,707	14,292	344	-	-
- other loans	623,655	959,909	365,849	64,723	525,620	52,662	31,980	-
- with early repayment option	10,997	839,735	341,935	724	56,789	10,925	3,502	-
- other	612,658	120,174	23,914	63,998	468,831	41,736	28,479	-
2. On-balance sheet liabilities	**1,581,245**	**764,196**	**135,249**	**1,035,593**	**1,870,666**	**3,373**	**-**	**-**
2.1 Amounts due to customers	967,281	241,215	135,249	824,941	1,360,222	3,373	-	-
- current account	850,355	-	-	-	-	-	-	-
- other payables	116,926	241,215	135,249	824,941	1,360,222	3,373	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	116,926	241,215	135,249	824,941	1,360,222	3,373	-	-
2.2 Amounts due to banks	613,964	522,981	-	58,003	10,092	-	-	-
- current account	9,847	-	-	-	-	-	-	-
- other payables	604,117	522,981	-	58,003	10,092	-	-	-
2.3 Debt securities	-	-	-	152,650	500,352	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	152,650	500,352	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**191,487**	**139,419**	**615,666**	**522,100**	**170,000**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	191,487	139,419	615,666	522,100	170,000	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	191,487	139,419	615,666	522,100	170,000	-	-
+ Long positions	-	110,000	110,000	127,236	472,100	-	-	-
+ Short positions	-	81,487	29,419	488,430	50,000	170,000	-	-
4. Other off-balance sheet transactions	**95,793**	**1**	**51**	**5,006**	**50,608**	**22,119**	**467**	**-**
+ Long positions	8,771	1	51	5,006	50,608	22,119	467	-
+ Short positions	87,022	-	-	-	-	-	-	-

2. *Self-securitisation operations*

Below is a brief description of the self-securitisation operations originated by illimity, in place as of 31 December 2022, in which the Bank subscribed all the securities issued by the vehicle in question (self-securitisation).

In December 2022, the Bank concluded an agreement to sell loans to the vehicle COLT SPV, pursuant to which it sold to the latter, in its entirety and without recourse, a portfolio of performing variable-rate loans originated by illimity with SME counterparties. COLT SPV is a vehicle established pursuant to Italian Law 130/1999, not owned by illimity, which, on 19 December 2022, issued senior, mezzanine and junior notes for a total notional value of EUR 570.1 million, which were fully subscribed by illimity. This operation was part of the operations without derecognition aimed at expanding the portfolio of assets that can be allocated to constitute a liquidity reserve activated through loan transactions with the ECB, repos or other operations. The notes subscribed by illimity were used as security for repo operations in order to guarantee the bank's liquidity supply, in line with its funding policies.

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.

OTHER RISKS

For information relating to Other Risks, refer to Part E of the Explanatory Notes to the consolidated financial statements.

Part F – Information on shareholders' equity

Section 1 - Bank's 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 Equity: breakdown

Items/Values	Amount 31 December 2022	Amount 31 December 2021
1. Share capital	**54,514**	**52,620**
2. Share premium reserve	**624,584**	**597,589**
3. Reserves	**140,627**	**65,483**
- earnings	104,365	30,577
a) legal	5,047	1,590
b) Articles of Association	-	-
c) treasury shares	-	-
d) others	99,318	28,987
- others	36,262	34,906
4. Equity instruments	**-**	**-**
5. (Treasury shares)	**(747)**	**(832)**
6. Valuation reserves:	**(48,275)**	**(6,036)**
- Equities measured at fair value through 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	(48,621)	(5,804)
- 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	341	(237)
- Share of valuation reserves for equity investments measured at equity	-	-
- Special revaluation laws	-	-
7. Profit (loss) for the period	**80,715**	**69,123**
Total	**851,418**	**777,947**

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

Assets/Values	Total 31/12/2022		Total 31/12/2021	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	13,173	(61,793)	757	(6,560)
2. Equity securities	5	-	5	-
3. Green Loans	-	-	-	-
Total	**13,178**	**(61,793)**	**762**	**(6,560)**

B.3 Valuation reserves of the financial assets measured at fair value through comprehensive income: annual changes

	Debt securities	Equity securities	Green Loans
1. Opening balance	**(5,804)**	**5**	**-**
2. Positive changes	**37,497**	**-**	**-**
2.1 Increases in fair value	417	-	-
2.2 Write-downs/write-backs for credit risk	1,479	X	-
2.3 Transfer to income statement of negative reserves following disposal	52	X	-
2.4 Transfers to other items of shareholders' equity (equity instruments)	-	-	-
2.5 Other changes	35,549	-	-
3. Negative changes	**(80,314)**	**-**	**-**
3.1 Decreases in fair value	(73,918)	-	-
3.2 Adjustments in value for credit risk	(187)	-	-
3.3 Reclassification through profit or loss of positive reserves: following disposal	(260)	X	-
3.4 Transfers to other items of shareholders' equity (equity instruments)	-	-	-
3.5 Other changes	(5,949)	-	-
4. Closing balance	**(48,621)**	**5**	**-**

B.4 Revaluation reserves on defined benefit plans: annual changes

	31 December 2022	31 December 2021
1. Opening balance	**(237)**	**(163)**
2. Positive changes	**773**	**28**
2.1 Increases in fair value Actuarial (Gains)/Losses	773	
2.2 Reclassification through profit or loss of negative reserves		
2.3 Other changes		**28**
3. Negative changes	**(195)**	**(102)**
3.1 Decreases in fair value Actuarial (Gains)/Losses		**(102)**
3.2 Reclassification through profit or loss of positive reserves		
3.3 Other changes	(195)	
4. Closing balance	**341**	**(237)**

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 2022.

Part G – Business combinations

Section 1 - Transactions completed during the year

1.3 Transactions of business combinations

Acquisition of AREC S.p.A.

On 11 May 2022, illimity and the shareholders of Aurora Recovery Capital S.p.A. ("AREC") announced that they had reached an agreement concerning the acquisition by illimity of AREC, a company that specialises in the management of Unlikely to Pay ("UTP") loans with a focus on the corporate real estate segment. Please refer to Part G of the Explanatory Notes to the Consolidated Financial Statements for further details about the acquisition and its accounting effects, recognised as of 31 December 2022.

The total consideration transferred, including both the cash and share portions, was valued at EUR 35.7 million. This amount was therefore considered as the initial recognition value of the Bank's controlling equity investment in AREC S.p.A.

1.4 Transactions between subjects under common control

On 1 April 2022, the spin-off to Abilio S.p.A. of the scope of assets and liabilities of the neprix Sales area, previous comprised within neprix, of the equity investment in Abilio agency S.r.l. (formerly Neprix Agency S.r.l.) and of a portion of the Tech area, also previously included within neprix, was approved. The accounting and tax effects of the operation were set for 1 April 2022.

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 2022, since these companies were already controlled by illimity in the previous financial years.

Section 2 - Business combinations carried out after the balance sheet date

2.2 Transactions of business combinations

There were no business combinations governed by IFRS 3 after the end of 2022.

Section 3 - Retrospective adjustments

No retrospective adjustment was made during 2022 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 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 2022 a material related party transaction was carried out involving an agreement to manage the liquidity deposited by said counterparty in current and deposit accounts with illimity Bank S.p.A. (about which adequate information was disclosed to the market, which should be referred to for more details). There were no further material or minor related party transactions in 2022 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 9th update to Circular no. 263 of 27 December 2006 which introduced prudential supervisory requirements for banks, issued in implementation of Article 53, paragraph 4 et seq., of the Consolidated Law on Banking and in accordance with Resolution of the Interministerial Committee for Credit and Savings no. 277 of 29 July 2008, as well as the regulations set forth by Article 136 of the Consolidated Law on Banking. 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).

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 12,390 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:

(Thousands of euros)

Category	Amount
a) short-term employee benefits	7,581
b) post-employment benefits	305
d) share-based payments for employees	2,672
e) compensation of members of the Board of Directors and the Management Control Committee	1,832

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.

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	31/12/2022	*of which with related parties*	*Impact of related parties*
10.	Cash and cash equivalents	676,509	*2,424*	*0.4%*
	- Other related parties		*2,424*	
20.	Financial assets measured at fair value through profit or loss	245,096	*152,402*	*62%*
	a) financial assets held for trading	31,146		
	b) financial assets at fair value	-		
	c) other financial assets mandatorily measured at fair value	213,950	*152,402*	*71%*
	- Other related parties		*93*	
	- Subsidiaries		*152,309*	
40.	Financial assets measured at amortised cost	4,454,122		
	a) due from banks	57,213		
	b) loans to customers	4,396,909	*912,838*	*21%*
	- Other related parties		*131,714*	
	- Subsidiaries		*775,383*	
	- Senior managers		*2,974*	
	- Companies subject to significant influence		*2,767*	
70.	Equity investments	155,041	*155,041*	*100%*
	- Subsidiaries		*63,335*	
	- Companies subject to significant influence		*10*	
	- Companies subject to joint control		*91,696*	
120.	Other assets	304,301	*26,502*	*9%*
	- Other related parties		*21,250*	
	- Subsidiaries		*2,898*	
	- Companies subject to joint control		*2,354*	

(Thousands of euros)

Liabilities and shareholders' equity		31/12/2022	*of which with related parties*	*Impact of related parties*
10.	Amounts due to customers	5,390,323	*200,332*	*4%*
	a) due to banks	1,205,039		
	b) due to customers	3,532,281	*200,332*	*6%*
	- Other related parties		*18,592*	
	- Subsidiaries		*102,464*	
	- Senior managers		*3,188*	
	- Companies subject to significant influence		*231*	
	- Companies subject to joint control		*75,857*	
	c) securities issued	653,002		
80.	Other liabilities	85,416	*7,752*	*9%*
	- Other related parties		*2,434*	
	- Subsidiaries		*2,810*	
	- Senior managers		*2,496*	
	- Companies subject to joint control		*12*	
90.	Employee severance pay	2,049	*299*	*15%*
	- Senior managers		*299*	
100.	Allowances for risks and charges	6,065	*74*	*1%*
	a) commitments and guarantees given	4,863	*74*	*2%*
	- Other related parties		*74*	
	b) post-employment benefits	-		
	c) other allowances for risks and charges	1,202		
140.	Reserves	140,627	*3,460*	*2%*
	- Senior managers		*3,460*	

INCOME STATEMENT

(Thousands of euros)

Items		31/12/2022	of which with related parties	*Impact of related parties*
10.	Interest income and similar income	227,731	*98,597*	*43%*
20.	Interest expenses and similar charges	(74,527)	*(138)*	*0.2%*
40.	Fee and commission income	43,660	*1,819*	*4%*
50.	Fee and commission expense	(5,573)	*(18)*	*0.3%*
110.	Profits (losses) on other financial assets and liabilities measured at fair value through profit or loss	11,317	*7,249*	*64%*
	a) financial assets and liabilities designated at fair value	-	-	-
	b) other financial assets mandatorily measured at fair value	11,317	*7,249*	*64%*
130.	Net losses/recoveries for credit risks associated with:	25,292	*352*	*1%*
	a) financial assets measured at amortised cost	26,584	*352*	*1%*
	b) financial assets measured at fair value through other comprehensive income	(1,292)	-	-
160.	Administrative expenses:	(137,818)	*(32,320)*	*24%*
	a) personnel expenses	(58,174)	*(12,390)*	*21%*
	b) other administrative expenses	(79,644)	*(19,930)*	*25%*
200.	Other operating income/expenses	24,765	*20,391*	*82%*

Part I – Share-based payments

Qualitative information

1. Description of payment agreements based on own equity instruments

As to the variable component, the Bank Remuneration Policy provides for the following plans:

- an "Employee Stock Ownership Plan" (ESOP);
- a "Long Term Incentive Plan" (LTIP).

"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 annually in five 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 ESOP was classified, in accordance with IFRS 2, as equity-settled, because it provides for payments based on the Bank's shares.

"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 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 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 2021; 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 LTIP was classified, in accordance with IFRS 2, as equity-settled, because it provides for payments based on the Bank's shares.

Quantitative information

1. Annual changes

Items/Number of options and exercise prices	31 December 2022			31 December 2021		
	Number of options	Average exercise prices	Average expiration date	Number of options	Average exercise prices	Average expiration date
A. Opening balance	**1,696,386**	**-**	**31 December 2024**	**1,668,403**	**7.26**	**30 April 2024**
B. Increases			X			X
B.1 New issues	62,409	-	31 December 2024	1,696,386	-	31 December 2024
B.2 Other changes			X			X
C. Decreases			X			X
C.1 Derecognised	(203,658)	-	X	(1,668,403)	7.26	X
C.2 Exercised	-	-	X	-	-	X
C.3 Past-due	-	-	X	-	-	X
C.4 Other changes	-	-	X	-	-	X
D. Closing balance	**1,555,137**	-	31 December 2024	**1,696,386**	**-**	**31 December 2024**
E. Options exercised as of the end of the financial year	**-**	**-**	**X**	**-**	**-**	**X**

2. Other information

In 2022, in the context of the ESOP, 68,254 illimity shares were assigned to employees of the Bank in connection with a capital increase carried out to service the Plan, which was approved by the Board of Directors on 15 June 2022.

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 2022, there were 92 leasing contracts, of which 17 related to real estate leasing, with a total value of rights of use of EUR 20.5 million, and of which 75 related to cars, with a total value of rights of use of EUR 0.8 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, and do not include the option of purchasing the asset.

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	20,472	24,581
Long Term Rental Cars	789	806
Total	**21,261**	**25,387**

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	1,614	2,161
Long Term Rental Cars	26	539
Total	**1,640**	**2,700**

As of 31 December 2022 there were no material amounts relating to lease commitments not yet entered into.

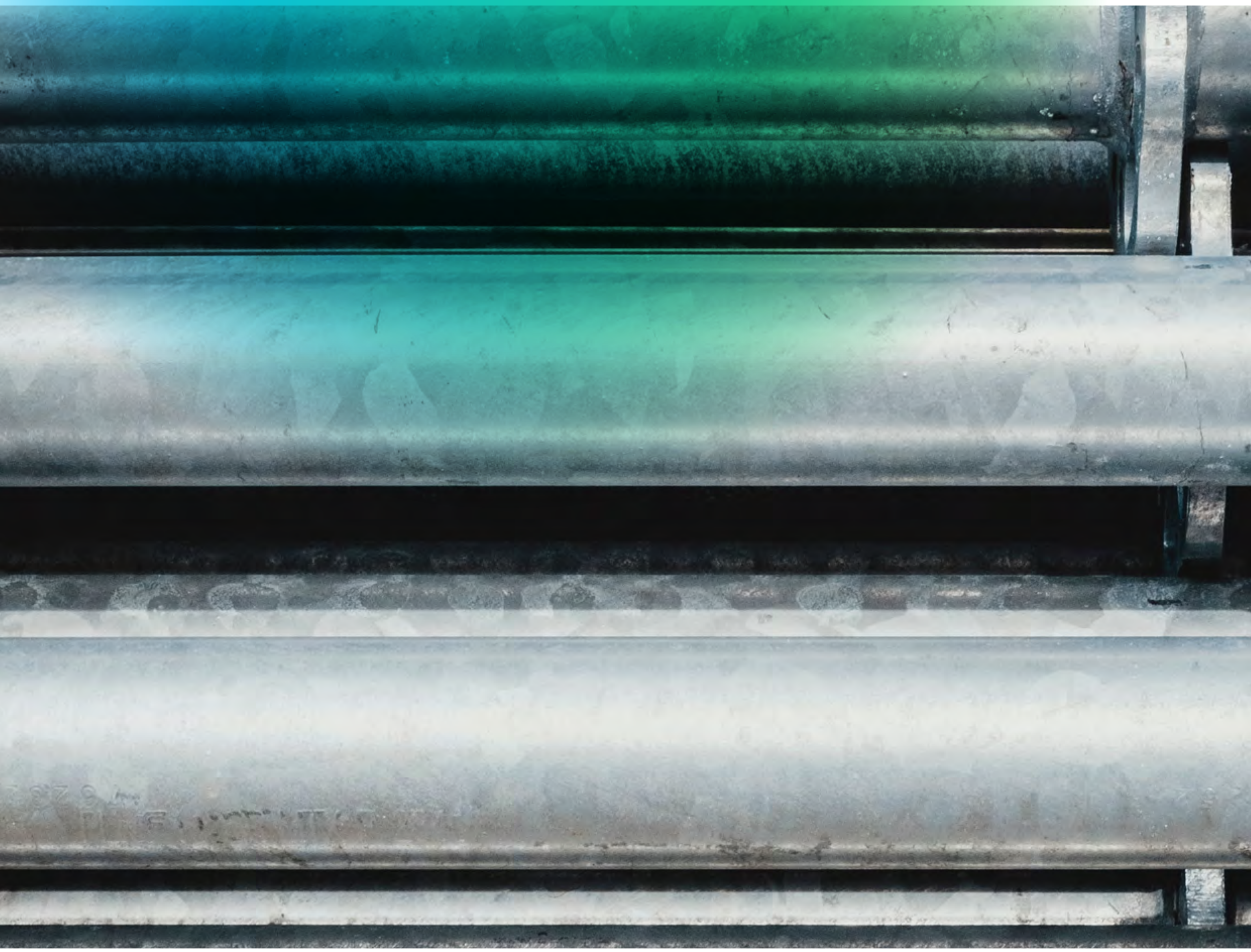
Section 2 - Lessor

Quantitative information

At the reporting date, the Bank had no leases in the role of lessor to third parties.

FECS Group

A circular adventure that looks to the future



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For more information:
illimity, FECS-Group

Certification of the Financial Statements

pursuant to Article 154-bis of Italian Legislative Decree 58/1998

illimity

Certification of the Financial Statements pursuant to Article 154-bis of Italian 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 2022.
2. The adequacy of the administrative and accounting procedures used in the formation of the accounts as of 31 December 2022 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) a) were drafted in conformity with the applicable international accounting standards endorsed by the European Community under the terms of Regulation (EC) no. 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 and 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, 9 March 2023

Chief Executive Officer Corrado Passera Signed	Financial Reporting Officer Sergio Fagioli Signed

Ferretto Group

A story of intuition in the automatic warehouse sector

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illimity, Ferretto Group

Report of the Management Control Committee

illimity

REPORT OF THE MANAGEMENT CONTROL COMMITTEE TO THE SHAREHOLDERS' MEETING OF ILLIMITY BANK S.p.A. ON ITS SUPERVISORY ACTIVITIES IN 2022

Pursuant to Art. 153, paragraph 1 of Legislative Decree no. 58 of 24 February 1998

Shareholders,

The Management Control Committee (hereafter also referred to as the "**MCC**", the "**Committee**" or the "**Control Body**") appointed by the Shareholders' Meeting of 28 April 2022 reports in this document submitted to the Shareholders' Meeting 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 2022.

Note that on 21 February 2022 the Extraordinary Shareholders' Meeting of the Company amended its Articles of Association to introduce the so-called one-tier administration and control model pursuant to Articles 2409 *sextiesdecies* et seq. of the Civil Code, which became fully effective with the Shareholders' Meeting of 28 April 2022, which among other things resolved to renew the Corporate Bodies. The Shareholders' Meeting then appointed the members of the Management Control Committee, also designating its Chair, all of whom meet the requirements of good reputation, professionalism and independence, requirements set forth by the TUF, the Corporate Governance Code for Listed Companies, the Company’s Articles of Association, Legislative Decree no. 385/1993 (hereinafter the "**TUB**") and Decree no. 169 of the Ministry of Economy and Finance of 23 November 2020.

In addition to performing the tasks envisaged by law and the Articles of Association, in accordance with the provisions of Bank of Italy Circular no. 285/2013 the Committee also performs the same tasks assigned to the Control Body (Board of Statutory Auditors) in the traditional model, as well as the tasks envisaged by Article 19 of Legislative Decree no. 39/2010 as the Control and Audit Committee.

The Committee therefore points out that the overall operation of the body leverages the specificities of the new one-tier corporate governance, which envisages the complete circularity and timeliness of information, the full participation of the members of the Board of Directors, including taking prior control actions, as well as the active participation of some members in other board Committees, thereby achieving a two-way communication between the Committees themselves. Thus are acquired additional elements, broader perspectives on existing risks and controls and more information on issues deserving attention, allowing for timely responses in the course of the action plan. Also key to the effectiveness of the work is the continuous exchange of information with the other board Committees, in particular with the Risk Committee, with which issues and operations of common interest are agreed to while still respecting their respective functions and objectives, defining a coordinated work plan, shedding light on the different perspectives and interpretations. Two members of the MCC were members of the former Board of Statutory Auditors, a circumstance that offered an appropriate degree of continuity between the two bodies.

During the 2022 financial year, the Committee carried out its statutory duties in compliance with the Civil Code, 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 Committee 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.

Overall, in 2022 the Committee held 19 meetings lasting for around two and a half hours each, and held 7 joint meeting with the Risks Committee; it attended the Shareholders’ Meeting of 21 June 2022 and 19 meetings of the Board of Directors. In early 2023 the Committee met

15 times, of which eight in joint session with other board committees. Furthermore, the Committee attended 30 meetings of the board committees (some of which were joint meetings on topics of common interest).

During the financial year, the Committee also issued 7 opinions on compliance or the sharing of decisions taken by the Executive Body, required by the law or regulations.

The Committee also approved its own Rules, after having submitted the text to the Board of Directors for examination and opinion, as required by the Articles of Association.

The Chair of the Risks Committee and the Secretary of the Board of Directors were notified of the Committee's invitations, with details of the items on the agenda. The CFO and the General Counsel (the latter with the support of the Corporate Governance function to act as Secretary) duly participated in the work of the Committee, while depending on the agenda items numerous executives – first and foremost the Financial Reporting Officer, the Head of Internal Audit, the Chief Compliance & AFC Officer, not to mention the CRO, the Head of Human Resources & Organisation, the CIO and other executives – regularly took part in the Committee's work.

At the first Board of Directors' meeting held after each meeting, the Committee Chair verbally updated the members of the Board of Directors on the most relevant results of the work done, as recorded in the Board minutes. A semi-annual report on the work done was also formally submitted to the Board.

Also with regard to the activities of the Control Body, note that from 1 January to 28 April 2022 (the date of its termination) the Board of Statutory Auditors in office had also performed its functions in accordance with the processes and criteria envisaged by current regulations, referred to in its report accompanying the 2021 financial statements. During that period it held seven meetings, as well as attended 23 meetings of the board Committees.

As in the previous year, in 2022 the Committee, like the Bank’s other governance bodies, carried out its activities and held its meetings by video/audio conference, operating 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 health and safety, but now also as an effective modus operandi thanks to the functionality of illimity's IT tools.

As part of its control activities, the Committee, 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;
- supervised compliance with the principles of proper administration, specifically it 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, as well as with compliance with the Policy itself;

- monitored the adequacy, efficiency and functionality of the organisational set-up, including the prior review of corporate regulations of strategic importance introduced for the first time or subject to significant updating, and the review of updates prepared by the CIO on IT issues, including the monitoring of the evolution of the recommendations of the control functions, the progress of the Task Force on the Centrico IT procedure, the Business Continuity Plan and disaster recovery;
- assessed the adequacy and effectiveness of the internal control and risk management system with respect to the characteristics of the Bank and the risk profile assumed, including by means of:
    a. a review of the periodic reports prepared by the Internal Audit Department, the annual final report for 2022, the annual planning for 2023, the annual reports concerning Whistleblowing and the outsourced Essential or Important Functions;
    b. during joint meetings with the Risks Committee, in the perspective of their respective tasks and roles, and prior to the approval of the Directors, the assessment of the definition and approval of strategic guidelines and risk governance policies, examining the following information prepared by the risk control functions and division management:
        i. periodic reports and dashboards as at 31 March 2022, 30 June 2022, 30 September 2022 and 31 December 2022 prepared by the control functions, annual report of the Chief Compliance & AFC Officer and the CRO Department, work plans prepared for 2023 by these functions;
        ii. the updating of the Risk Appetite Framework indicators and 2022 Risk Appetite Statement, the drafting of the 2023 budget;
    c. the analysis of the performance reports of the Growth Credit, Distressed Credit, Direct Banking, Investment Banking and b-ilty Divisions, as well as the formalisation reports of Level II and collective credit controls as at 31 March 2022, 30 June 2022, 30 September 2022 and 31 December 2022;
- checked the adequacy, efficiency and functionality of the 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**");
- examined the independent auditing process, monitored the financial and non-financial reporting process, and independence of the independent auditors;
- examined the material transactions finalised during the year and referred to below, as well as performed analyses and studies on other activities brought to the Committee's attention or requested thereby;
- within its scope of responsibility, supervised the adoption and proper application of the remuneration policies, in particular through the performance review and goal setting of the Head of Internal Audit and of the Financial Reporting Officer and the participation, within its scope of responsibility, in the performance review and goal setting of other top management and of the Chief Executive Officer;
- monitored the adequacy of the company control functions and their independence;
- pursuant to Article 149, paragraph 1, letter c-*bis* of the TUF, supervised the procedures for the concrete implementation of the Corporate Governance Code (2020 edition), as well as the proper

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application of the criteria and assessment procedures adopted by the Board to evaluate the various requirements for Directors and members of the Control Body;

- examined the actions taken by the Bank to comply with requests or suggestions of the Bank of Italy regarding best practices in internal organisation and control systems;
- met with the Boards of Statutory Auditors of the main subsidiaries Arec neprix S.p.A. ("**Arecneprix**"), illimity SGR S.p.A. ("**illimity SGR**") and Abilio S.p.A. for exchanges of information.

in their capacity as members of the Supervisory Body set up pursuant to Legislative Decree no. 231/2001 concerning the administrative liability of entities and assigned by a resolution of the Board of Directors of 15 June 2022, the members of the MCC were further able to supervise the measures adopted by the Board of Directors and Management and compliance with regulations relating to the Bank's business, verifying the application of the relevant Organisational Model pursuant to Legislative Decree no. 231/2001 that illimity put in place (MCM).

Compliance with laws, regulations and statutory provisions

The Committee monitored compliance with the law and the Articles of Association and has no comments worthy of note. With regard to the provisions of Article 2408 of the Civil Code, the Committee notes that in 2022 no reports of matters worthy of note were received from Shareholders. Similarly, during the year the Committee 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.

We believe that there were no alleged cases of breach of duties by the Directors in 2022 as set out by Articles 2406 and 2409 of the Civil Code.

Lastly, the Committee examined the Descriptive Document of Unlimited Bank S.p.A. relating to 2021, which sets out the controls adopted by the Banks regarding the deposit and sub-deposit methods of financial instruments and money pertaining to customers, in compliance with the regulatory provisions of the TUF, and also received the final certificates issued by KPMG pursuant to the ISAE 3000 Revised auditing standard.

Self-assessment and verification of requirements

As required by internal rules, the Committee renewed the customary annual self-assessment of its composition and operation in a process separate from what was done by the Board. As is well known, the purpose of this exercise is also to assess the proper and effective performance of the functions entrusted to the Committee as the Bank's control body according to criteria and methods consistent with its characteristics.

The qualitative and quantitative results confirmed the adequacy of the Committee and its overall compliance with the provisions of the Corporate Governance Code (the "**Corporate Governance Code**"), with the EBA guidelines, with the provisions of Bank of Italy Circular no. 285/2013 and with best practices.

Compliance with the principles of sound management

In the 2022 financial year, using the methods described above the Committee obtained the information about the activities performed and the major financial and equity transactions carried out in exercising the activities of the Bank or its subsidiaries. The exchange of information between the Committee, Management and the Chief Executive Officer is enriched by periodic meetings, including during Board meetings, focused on the one hand on the performance of the Bank and the Group, and on the other on the operation and effectiveness of the internal control and risk management system.

Based on this information, supplemented by periodic meetings with Management and the control functions, the Committee monitored compliance with the provisions on the fulfilment of the requirements for such major transactions. In this regard, it can reasonably conclude that they are in compliance with the law and the Articles of Association and are not manifestly imprudent, risky, in conflict of interest, in contrast with the resolutions passed by the Shareholders' Meeting or such as to compromise the integrity of the company's assets.

Disclosures pursuant to Article 150, paragraphs 1 and 2 of the TUF are made both as part of the reporting produced by the Financial Reporting Officer and during periodic meetings with the Chief Executive Officer. The Committee also periodically receives reports in accordance with internal rules on the governance of Major Transactions (hereinafter "**MT**"), transactions involving a potential significant change to the overall risk profile detailed in the Risk Appetite Framework (hereinafter "**RAF**"). Pursuant to the Policy on Transactions with entities covered by the illimity Bank Group's Single Perimeter, the Committee receives quarterly reports on transactions with related parties and connected persons, including an assessment of the significance of financial relationships for the purpose of the requirement of Directors' independence.

Finally, the Committee was able to observe the concrete implementation and governance of the illimity Way (Group Code of Ethics), which represents the Group's commitment to customers, shareholders, suppliers and business partners , to Supervisory Authorities and the Public Administration, to the media and to the country.

In light of the above, there were no atypical and/or unusual transactions – neither with third parties nor with related parties or intercompany – to be considered as operations that could give rise to doubts as to the correctness/completeness of the information in the financial statements, conflicts of interest, the safeguarding of company assets, or the protection of minority shareholders. Likewise, no management irregularities or performance anomalies were identified.

The Committee 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.

The development of the Group's operations and business model is evidenced on the one hand by the continuous development initiatives in credit lending, but also by the support for strategic investment initiatives in innovative businesses that are still growing operationally, searching for the best solutions and products, as well as the achievement of its medium-term objectives. In this respect, see the support provided for the consolidation of HYPE S.p.A.'s capital structure, the growth of ABILIO S.p.A.'s structure in the real estate trading business including through the QUIMMO channel, and the plan to launch B-ILTY as a digital bank for mainly small corporate customers.

We also recall the capital transaction resolved by the Extraordinary Shareholders' Meeting of 21 June 2022 that called for a capital increase for a total amount of Euro 35,999,990.00 through the issue of 2,769,230 ordinary shares of illimity to service the acquisition of AREC S.p.A.

This transaction, finalised with the merger of AREC into neprix S.r.l. (with consequent renaming to Arec neprix S.p.A.) as from 1 January 2023, was therefore aimed at strengthening the illimity Group's servicer operating in the credit management business with a focus on corporate customers, specialising in the management of unlikely to pay - UTP loans, and with a focus on the mid and large corporate real estate segment.

Lastly, worthy of note is the development of the illimity SGR S.p.A. product range, having launched highly innovative alternative investment funds in 2022 and 2023, expanding the group's product range across the entire value chain in the area of credit management, including non-performing loans.

In order to monitor compliance with the principles of sound management, the Committee 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.

The Committee exercised constant control over the process of continuous adaptation of the overall ICT system, consistent also with the significant expansion of the business, in particular B-ILTY, which also continued in 2022.

The Bank has set up a "*Policy on Transactions with entities covered by the Single Perimeter of the illimity Banking Group*" 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 believed that the Policy is sufficient for the purpose, among other things, (i) of fully complying with the provisions of Bank of Italy Circular 285, (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 the Chief Compliance & AFC Officer 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.

The Committee takes the view that the procedures mentioned above are compliant with the requirements of CONSOB Regulation 17221/2010, as amended, and Bank of Italy Circular 285 of 2013: during the course of the year the Committee 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 Committee, 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.

Adequacy, efficiency and functionality of the organisational structure

In the organisational structure set up by illimity, 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, are always governed by formalised policies.

The Committee continuously 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 set of Rules, Policies and Guidelines governing all the Bank's operations underwent numerous modifications during 2022 as well, adapting to the expansion of the business, the change in the Group's structure and new regulations. In advance of the presentation to the Board of Directors the Committee analysed and then 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 MCC actively participated in the significant updates to the policies within the scope of its responsibility.

The Committee 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.

This particular business model necessitates the adoption of innovative IT solutions that are in part handled by the ICT servicer and in part by outsourcing some ICT activities closely related to business expansion, but most importantly advanced digital banking services and products have been developed. The Management Control Committee continuously supervises these activities.

Today the management of core banking ICT is entrusted to BDY (for all of 2022 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 Risks Committee, and submitted to the Bank of Italy by 30 April during the year after the year it refers to.

During the course of 2022 the Committee was able to review the overall effectiveness of the ICT core banking performance since the dynamism of the Bank's digital services requires continuous updates and upgrades of the ICT system. As far as Microsoft is concerned, the functionality of the relative "Microsoft Azure" system has been assessed as adequate.

Indeed, the Committee reviewed the status of the Business Continuity and Disaster Recovery Plan for illimity and the Group's subsidiaries both with respect to 2022 outcomes and planned reinforcements, also in response to the suggestions of the control functions. No critical security and incident management issues emerged, as confirmed by the absence of IT security incidents of a serious nature and the dynamics of minor and medium incidents.

The Committee, whose members also perform 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 always 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 this regard, we received the annual report of the Body in which no critical issues were reported.

The Committee 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).

Compliance with the Corporate Governance Code, composition of the Board of Directors and Remuneration

As reported in the Corporate Governance and Share Ownership Report, some time ago illimity adopted the Corporate Governance Code approved by the Corporate Governance Committee, which was published on 31 January 2020 and became applicable on 1 January 2021.

The Committee 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 24 February 2023. An induction plan continued during the year with the aim of continuously strengthening skills and judgement.

The Committee also verified the correct application of the criteria adopted and process put in place by the Board of Directors in order to assess the prerequisites of directors' independence.

Adequacy of the internal control and risk management system

The Corporate Governance and Ownership Report also describes the principal characteristics of the internal control and risk management system (hereinafter the "**SCIGR**").

This system consists of the rules, procedures and corporate structures that act to enable the effective operation of the Bank and the Group and to identify, measure, manage and monitor the main risks they are exposed to in order to contribute to the company's sustainable success. 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.

The Chief Executive Officer oversees the organisational, administrative and accounting structure so that the internal control and risk management system is appropriate to the Company's nature and size, and reports to the Board and specifically to the Committee. The Chief Executive Officer is in charge of setting up and maintaining the SCIGR, thus serving as "Director in charge of the internal control and risk management system". Finally, note also that pursuant to the Corporate Governance Code and internal governance rules, the MCC expresses its opinion on the adequacy of the internal control and risk management system, while the Risks Committee reports on its work and findings.

The Management Control Committee monitored the adequacy of the SCIGR operated by illimity and the Group, and verified its specific operation. Specifically, it:

i. acknowledged the assessment expressed by 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");
ii. examined and assessed the evolution of the organisational structure, which in September 2022, also as a result of the change of Chief Financial Officer, went through a general reorganisation to adapt to the natural growth of operations and business;
iii. examined the reports (dashboards) of the Control Functions submitted on a quarterly basis to the attention of the Risks Committee, the MCC and then the Board of Directors;

iv. 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 our Committee decided to promote or require on specific matters;

v. taken note of the development of the structure of the Bank and the Group;

vi. verified the autonomy, independence and manner of operation of the Internal Audit Department, and maintained appropriate and constant links with it;

vii. 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 as well as the implementation of the related remediation measures for any problems;

viii. 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 21 February 2023 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 MCC acknowledged that at the end of 2022, the Chief Risk Officer Department was comprised of 32 FTE resources, who were appropriate both professionally and in terms of their number, 5 of whom have the status of senior manager. As of the same date, the Chief Compliance & AFC Officer had 16 staff (plus one intern), 1 of whom with the status of company officer, whilst the Internal Audit function comprised 10 staff, 1 of whom with the status of senior manager. The Internal Audit function recently experienced a significant level of turnover, which it responded to by partially filling the vacant positions, and foresees a full recovery by H1 2023. The Committee 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.

The Committee's overall assessment of their autonomy as well as the adequacy, effectiveness and efficiency of their operations is positive.

Internal Audit

In 2022 the Internal Audit Function completed the action plan for the Bank and its subsidiaries approved by the Board of Directors at the start of the year.

Each quarter, the Internal Audit Department prepares a dashboard for the Bank of Italy and senior management detailing the work done, the results achieved and the status of the improvement measures requested. Specifically, a comprehensive flow of information on the completed audits and the implementation of the remediation plan was ensured to the Committee.

During the period under review, Internal Audit assessed the adequacy of the analyses performed and the compliance of the processes with the provisions of Circular 285/2013. It also provided the Committee with information pertaining to the following issues: (i) Annual report on the internal whistleblowing system (2022); (ii) Analysis of the tax credit procurement process; (iii) Review of the effectiveness of the Business Continuity Plan and (iv) Annual report on Outsourced EIF functions.

On the whole, the activities carried out by the Audit Function showed that the corporate structures substantially supervised the residual risks – overall of a limited entity – underlying the processes analysed, with areas for improvement that the Committee focused on, which did not significantly affect the Bank's operations and the efficacy of its controls.

The Committee assessed the autonomy, adequacy, effectiveness and efficiency of the Internal Audit function, raising no exceptions.

Chief Risk Officer

The CRO Function carried out activity of primary importance during 2022, monitoring banking risks in accordance with the requirements set forth in Bank of Italy Circular no. 285, also taking account a new significant risk associated with the Russian-Ukrainian conflict. The activity also concerned the 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.); (vi) Management framework and business profiles, with checks for consistency with the Group's risk appetite (understood as second-level controls).

The CRO reports on risk trends to the Governance Bodies in the quarterly dashboard. The Committee systematically interacted with the Risks Committee and with the CRO function with particular attention to the ICAAP and ILAAP reports, the refinements of the new calculation model of the so-called collective adjustment of performing loans, the backtesting and updating of the parameters for collective adjustment, and the improvement of the second-level controls of the credit area.

With regard to these risks, the Committee also analysed the performance and monitoring reports of the Growth Credit, Distressed Credit, Investment Banking and b-ilty divisions and the formalisation reports of the Level II credit controls as at 31 March 2022, 30 June 2022, 30 September 2022 and 31 December 2022, and indicated that the Level I reports of the above divisions were substantially complete and the Level II controls also included a focus on senior financing, energy and repossessed assets. Furthermore, the CRO function assessed the level of impairment provisions for performing and non-performing counterparties, considering that the collective adjustment estimates as at 31 December 2022 benefited from the due rating update and a refinement of the modelling. The Committee emphasised the importance of continuing to monitor the administrative work required for the attentive handling of state guarantees.

In a joint meeting with the Risks Committee and the Sustainability Committee (for the matters within its remit), the Committee also received information on the process followed for the mapping of sustainability risks relevant to the Group, the outcome of which is included in the 2022 NFS, as well as an update on the state of the art of identification activities, development and commissioning of analysis frameworks and methodological approaches for the assessment of the Group's exposure to ESG risks, with particular reference to climate/environmental risks, together with the outcomes of the first applications and the plan of initiatives concerning these issues with a view to inclusion in the 2023 ICAAP/ILAAP processes and the possible update of the 2023 RAS.

Finally, the Committee analysed the 2022 final report of the CRO Department and, jointly with the Risks Committee, examined the calendar of controls for 2023, including the plan for subsidiaries.

Chief Compliance & AFC Officer

There was also ongoing dialogue and cooperation with the Chief Compliance & AFC Officer 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.

In light of these documents and the information acquired in the meetings with the head of the function, the Committee notes that it has had a regular flow of information on the work done and offers the following comments:

a) the Compliance Risk Assessment update reported a low residual risk of non-compliance for the Growth Credit, Distressed Credit and Direct Banking divisions, despite delays in the rectification of some findings. The catalogue of compliance controls was updated to include controls focused on new businesses such as investment banking;

b) the Chief Compliance & AFC Officer updated the Anti-Money Laundering Policy, approved by the Parent Company's Board of Directors on 15 December 2022 (having obtained the favourable opinion of the Risks Committee and the Management Control Committee), with the aim of correctly representing the changes in the Group's operations and the evolution of the processes and operating procedures adopted in the area of anti-money laundering;

c) as far as AML activities are concerned, the main issues that emerge from the audits are related to regulatory document preservation and due diligence;

d) the joint report of the control functions on the subsidiaries was acquired.

Finally, we note that the Committee also oversaw, within the scope of its responsibility, the constant, continuous monitoring of regulatory capital, also having regard to the maintenance of adequate buffers with respect to regulatory requirements in view of the evolution of the Bank's provisions and discussions with the Supervisory Authority. Specifically, it monitored:

- compliance with the provisions of the Internal Capital Adequacy Assessment Process and the Internal Liquidity Adequacy Assessment Process (ICAAP/ILAAP), more specifically investigating methodological and process scenarios and aspects, as well as the CRO function's evidence of the adequacy of the framework for quantifying economic capital and managing liquidity risk;
- the completeness, adequacy, functionality and reliability of the internal risk measurement systems for determining capital requirements, verifying their compliance with regulatory requirements;
- the completeness, adequacy, functionality and reliability of the RAF for 2023, examining the methodological aspects, the definition process and consistency with the 2023 Budget.

The Committee also reviewed the following periodic reports during the year:

- outcomes of the annual IT risk exposure assessment of procedures in operation in the Group;
- results of checks and controls of the Group's business continuity plan;
- Preparation of the Group's IT security plan for the current financial year.

ESG issues

In view of the importance of ESG issues, the Committee pays great attention to the action and supervisory plan on the management, measurement and control of environmental, social and governance risks adopted by the Bank with increasing pervasiveness, which is also evidenced by the cross-cutting nature of the corporate functions actively involved.

Among other things, the Committee examined a number of important steps in the process of integrating ESG issues into the strategy as well as into day-to-day operations, such as:

– the definition of a 2023-2025 Sustainability Plan, identifying ambitious targets for each business sector in line with stakeholder and regulatory expectations on sustainable finance and climate and environmental risk management;

– the monitoring of the continuous improvements in ESG ratings and indices earned by the Bank from rating agencies, considered a continuous stimulus for the evolution of best practice, conduct and commitment;

– the Group's adoption of international schemes such as the UN Global Compact in 2021 and the PRI - Principles for Responsible Investment in January 2023 through Illimity SGR, as examples of operating in sync with general ESG objectives;

– the inclusion in the 2023 budget as well as in the 2023 RAF indicators of specific ESG risks, including those related to climate and environmental factors, in order to monitor, measure and mitigate them in the long term, and even to factor these aspects into the valuation of capital and liquidity.

The Committee also furthered its self-analysis with respect to the “Expectations on Climate and Environmental Risk Supervision” indicated by the Bank of Italy, and assessed the work done and the general plan implemented by the Bank, considering both the results already achieved to date, including results recognised by the market, and the pervasiveness of the approach adopted to make ESG issues a priority and strategic issue with a view to both medium- and long-term returns.

Adequacy, efficiency and functionality of the administrative accounting system

As already highlighted, the Committee systematically met with the Financial Reporting Officer in order to ensure the exchange of information required, among other things, for the fulfilment of the necessary supervision as well as for the purpose of acquiring information and clarifications concerning the adequacy of the administrative-accounting system, functionality of the ICT system and the progress in the requested recalibration, improvement and implementation actions necessary in order to adapt the system to new business lines, with results that the Committee considered satisfactory.

Indeed, over time we have looked closely at, among others, the process of preparing the consolidated financial statements, the derecognition of assigned receivables, the process of estimating the accounting of provisions for risks, the process applied for the impairment test of assets with a definite and indefinite life, the process followed in the application of IFRS 3 concerning the PPA (purchase price application) for the merger with AREC S.p.A., the determination of the fair value of certain financial instruments with fair value level 2 and 3, and the process of preparing non-financial information useful for drafting the Group's Non-Financial Statement.

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 of the Group 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 Management Control Committee as the "Internal Control and Audit Committee", in 2022 the Committee verified the process of drawing up regular financial reports (Consolidated Financial Report as at 30 June and Consolidated Interim Reports as at 31 March and 30 September), 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.

Similar to the practice adopted in previous periods, the Committee met with the independent auditors with respect to both the results presented in the interim reports as at 31 March and 30 September 2022 and the H1 results as at 30 June 2022 as well as the preliminary results as at 31 December 2022 of the Bank, for which there were no issues of note. Like the Board of Directors, the Committee also received information from the Financial Reporting Officer concerning the issue of the certification pursuant to Article 154-bis, paragraph 5 of the TUF of the Financial Statements and the Consolidated Financial Statements as at 31 December 2022.

Monitoring of the financial reporting process

With reference to the preparation of the Financial Statements, financial and non-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.

In this role, with regard to the financial statements for 2022, among other things the Committee:

- informed the illimity Bank Board of Directors of the outcome of the audit of the 2022 interim figures and the progress of the audit of illimity Bank's 2022 Financial Statements by KPMG;
- monitored the elaboration and 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.

Pursuant to Article 2409-*septies* of the Civil Code, from the date of its establishment to today the Committee has had numerous meetings (8) with the Partner and staff of the auditing firm KPMG, responsible for the audit of the illimity Group, exchanging the necessary information and assessments. The main topic of the meetings was the work carried out by KPMG, based on the auditing plan shared by the Committee, 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;
- the Purchase Price Allocation of the AREC acquisition;
- the update of the "collective" adjustment calculation model;
- the valuation of several significant credit exposures.

The MCC – always in its above-mentioned role – 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

2022 Financial Statements of illimity Bank, Arecneprix 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 Arecneprix and its subsidiaries, illimity SGR and the SPVs are all subject to independent auditing by KPMG.
In early 2023, meetings between the Committee and the Independent Auditors were intensified (4 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.

In light of the provisions in force, in good time for the filing of the financial statements for the Shareholders' Meeting the Independent Auditors:

- issued the Reports referring to the Separate and Consolidated Financial Statements as at 31 December 2022, pursuant to Article 14 of Legislative Decree 39/2010 and Article 10 of Regulation (EU) no. 537/2014, including the opinion that the Management Report and the Report on Corporate Governance and Ownership Structures, limited to the information indicated in Article 123-bis, paragraph 4, of Legislative Decree 58/1998, are consistent with the annual and consolidated financial statements and prepared in accordance with the law;
- confirmed that the individual and consolidated financial statements were prepared in the ESEF (European Single Format) and were marked in all significant aspects in accordance with the provisions of Delegated Regulation (EU) 2019/815, and moreover included a specific paragraph as suggested by Assirevi Research Document no. 252, in which it pointed out that due to certain technical limitations present in the procedures in use in the market certain information contained in the notes to the consolidated financial statements when extracted from the XHTML format in an XBRL instance may not be reproduced identically with respect to the corresponding information that can be displayed in the consolidated financial statements in XHTML format;
- pursuant to Article 11 of Regulation (EU) no. 537/2014 issued the Additional Report for the Internal Control and Audit Committee to the Management Control Committee confirming its independence pursuant to Article 6, paragraph 2, letter a) of Regulation (EU) 537/2014 and paragraph 17 of International Auditing Standard (ISA Italia) 260;
- with regard to the Consolidated Non-Financial Statement pursuant to Legislative Decree no. 254/2016, in the presence of a limited assurance engagement performed in accordance with ISAE Standard 3000 (Revised), issued its report on 16 March 2023 (see below).

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 the Consolidated Non-Financial Statement (hereafter “**NFS**” or the “**Declaration**”) for the year 2022. 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”.

The MCC monitored the drafting of the NFS on an ongoing basis, checking its structure, the criteria adopted and the application choices, examining the controls set up to verify the quantitative data, through discussions with the relevant internal function, joint meetings with the Sustainability Committee, the Risks Committee and the designated auditing firm.

On 9 March 2023 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 Committee also noted that, as mentioned above, the independent auditors had issued the report referred to in 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 Committee 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.

Activities of the Management Control Committee with regard to non-audit services

illimity has adopted specific Group Rules on the designation of independent auditors and their network envisaging among other things specific processes of prior authorisation, monitoring and periodic reporting to the Committee in order to safeguard their independence.

During the course of 2022, 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, EU 537/2014, in accordance with the provisions of the aforementioned Regulation, acting in its capacity as the Internal Control and Audit Committee, the MCC 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 Committee 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 potential risks to the Auditor's independence arising from the performance of such services in light of the provisions contained in Legislative Decree no. 39/2010 (Art. 10 et seq.), in the Issuers' Regulation (Art. 149-bis et seq.) and in Auditing Standard no. 100. After verification of the statutory prerequisites, the Committee approved the appointment of KPMG or other entities from the network to perform these services.
The 2022 Financial Statements include an annex containing a statement of the fees (in thousands) on a consolidated basis for the year paid to KPMG: The Committee closely monitored compliance with the relevant regulations and the policy in force in illimity on the assignment of non-audit services to the appointed auditing firm.

Remuneration and incentive system.

Without prejudice to the responsibilities of the Remuneration Committee, in compliance with the tasks entrusted to the MCC with regard to the remuneration and incentive system and more generally for its supervisory functions, the Committee focused on some specific issues.
First of all the Committee verified the company processes that led to the definition of the remuneration policies. It received information on the implementation of the Risk and Financial Assessments procedure in order to comply with and respond to an invitation received from the Bank of Italy on the need for greater detail in the policies and operating rules underlying the annual incentive system (MBO) with respect to the Risk and Financial Assessment, to limit discretionary powers and to eliminate any questions on the exact interpretation of the activities to be performed, those responsible for them and their effects.

The Committee noted that as at 31 December 2022 the Entry Gates had been crossed, the method for applying the funding mechanism and the CRO and CFO Assessment adjustments as well as the final size of the 2022 bonus pool based on the mechanisms set forth in the 2022 Remuneration Policy and the MBO System Rules.

With regard to the Financial Reporting Officer, the Committee expressed its opinion on the proposal of the Remuneration Committee on the definition and review of remuneration, goal setting for the year 2023 and performance evaluation for the year 2022 and definition of the individual bonus, while for the Head of Internal Audit it is our responsibility to express an opinion on the definition and review of remuneration, to formulate a proposal for the goal setting for the year 2023 and to evaluate the performance for the year 2022 and the definition of the individual bonus.

The Committee was adequately informed of the ascertainment of the 2023 MBO System's consistency with the illimity Group's Risk Appetite Framework, and in particular with the process of updating the relevant 2023 guidelines based on the review of the Remuneration Committee and the Board of Directors' approval of the 2023 MBO System, which took place at the meeting of 9 February 2023. The MCC also expressed its opinion on the Chief Executive Officer's 2022 performance evaluation with a view to its approval by the Board of Directors on 9 February 2023, referring the final remuneration proposal to the Remuneration Committee. Finally, the Committee was informed about the Group's Material Risk Takers Identification Criteria for 2023.

The Committee emphasises the consistency of the introduction of ESG criteria and digital mindset within the 2023 target sheets with the changing risk environment.

Other topics

The Committee conducted studies and sometimes expressed opinions on other issues brought to its attention by management, as exemplified below.

Among other things, within the scope of its responsibilities the Committee examined:

a) the 2023 Budget, specifically the 2023 Funding plan and the 2023 Investment policy, brought to the attention of the Board of Directors, emphasising the importance of ensuring continuous monitoring of these issues, a control of the related risks, as well as the adoption of instruments already in use such as hedge accounting for risk mitigation;
b) the progress of the B-ILTY Project, the development of a digital bank dedicated to the Small Corporate customer segment
c) it will continue to monitor the consistency of the safeguards put in place to mitigate the risks inherent in this lending activity as operations continue to grow as expected in 2023;
d) risks within the framework of the contracts for the outsourcing of Essential or Important Functions (EIF) by the Bank to the companies Namirial S.p.A., HYPE S.p.A. and Centrico.

2022 Consolidated and Separate Financial Statements

The Consolidated Financial Statements of the illimity Bank S.p.A. Group include the parent company illimity and the subsidiaries AREC S.p.A., neprix S.r.l., Abilio S.p.A., Abilio Agency S.r.l., illimity SGR S.p.A., 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., MAUI SPV S.r.l., Kenobi SPV S.r.l., Piedmont SPV S.r.l., Dagobah LeaseCo S.r.l., Dagobah SPV S.r.l., Spicy Green SPV S.r.l. 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 2022, specifically on the complex international political and economic environment, which also has had inevitable consequences for the domestic market. Despite operating in such a problematic environment, illimity was able to develop its operations well in its various business divisions and achieved growth in its financial results compared to the previous year, with a fully adequate regulatory capital endowment, while continuing to support investments in the tech initiatives currently being launched and consolidated. All of these considerations, in a context of favourable earnings performance and prospects, notwithstanding the known international geo-political tensions, led the Bank to adopt accounting principles presuming a going concern basis.

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 Committee has exercised an overall summary control of the consolidated and separate financial statements for 2022, 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.

As indicated above, the particular focus of the Independent auditors was the recoverability of the goodwill recognised in the consolidated financial statements for the year relating to the acquisition of AREC and for previous years in respect of 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 Committee also carefully examined and endorsed the methodology used to carry out the impairment tests on both goodwill, supported by an external consultant, and deferred tax assets (DTA).

Conclusions

As detailed in this Report, the Committee verified the operation of the body of internal procedures as suitable for ensuring compliance with the law, regulations and the articles of association. The Committee also found that the decision-making process takes due account of the riskiness and effects of the management choices made and is based on an adequate system of information flows, including with respect to any interests of the Directors. The organisational structure, the administrative and accounting system and the statutory audit process were found to be adequate and functional for the tasks to be performed by the designated persons. It was also verified that there were no critical elements that could affect the general structure of the internal control system and the risk governance and management process.

The supervisory activities carried out by the Committee did not reveal any reportable matters or conduct, omissions or irregularities to be outlined herein. As stressed above, from the information obtained through its supervisory activities, the Committee 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 such that would compromise the integrity of the company’s assets.
Having considered the content of the Independent Auditor’s reports, and acknowledging the statements issued jointly by the CEO and the Financial Reporting Officer, the Committee, acting within its scope of responsibility has not identified any obstacles to the approval by the Shareholders’ Meeting of the draft financial statements for the year ended 31 December 2022 of illimity Bank S.p.A. accompanied by the Management Report, as approval by Board of Directors on 9 March 2022.

In the Committee's opinion, there are no objections to the proposal formulated by the Board of Directors to allocate
the profit for the year of Euro 80,715,289.07 as follows:

(i) Euro 4,035,764.45 to the legal reserve

(ii) Euro 15,064,483.95 for the distribution of a dividend of Euro 0.1801 per share

(iii) retained earnings of Euro 61,615,040.67

Milan, 16 March 2023

The Management Control Committee,

Marco Bozzola - Chair

Nadia Fontana

Stefano Caringi

Franco Barberis

From the ugly duckling to the swan of real estate

For more information:
illimity, Franco Barberis

Independent Auditors' Report

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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 2022, 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 2022 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 €4,396.9 million at 31 December 2022, accounting for 68.4% of total assets. These loans and receivables include purchased or originated credit-impaired financial assets of €1,300.7 million. Net impairment gains on loans and receivables with customers recognised during the year totalled €26.4 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 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 as a result of the geopolitical uncertainties caused by the conflict in Ukraine and the persisting Covid-19 emergency in 2022. These uncertainties have severely worsened current economic conditions and the outlook for future macroeconomic scenarios and have had a strong impact on the energy market, supply chains, inflationary pressure and its effect on monetary	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 financial effects of the geopolitical situation caused by the conflict in Ukraine and the persisting 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 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

Key audit matter	Audit procedures addressing the key audit matter
policies, leading central banks to raise interest rates in the main economies. This required the directors to revisit 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.	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 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 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.

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 using the discounted dividend cash flow model (Dividend Discount Model) that are expected to be generated by the CGUs to calculate its recoverable amount. 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 as a result of the geopolitical uncertainties caused by the conflict in Ukraine and the persisting Covid-19 emergency in 2022. These uncertainties have severely worsened current economic conditions and the outlook for future macroeconomic scenarios and have had a strong impact on the energy market, supply chains, inflationary pressure and its effect on monetary policies, leading central banks to raise interest rates in the main economies. 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 geopolitical situation caused by the conflict in Ukraine and the persisting 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.

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 2022 include an investment in a joint venture of €91.7 million. The bank acquired this investment in Hype S.p.A. during 2022. 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 as a result of the geopolitical uncertainties caused by the conflict in Ukraine and the persisting Covid-19 emergency in 2022. These uncertainties have severely worsened current economic conditions and the outlook for future macroeconomic scenarios and have had a strong impact on the energy market, supply chains, inflationary pressure and its effect on monetary policies, leading central banks to raise interest rates in the main economies. 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 the Audit and Internal Control Committee ("Comitato di Controllo sulla Gestione") 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 *Comitato di Controllo sulla Gestione* 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, the measures taken to eliminate those threats or safeguards applied.

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 *Comitato di Controllo sulla Gestione*, 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 as at 31 December 2022 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 as at 31 December 2022 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 2022 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 2022 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 2022 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, 16 March 2023

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 31/12/2022
Property portfolio - Securities at FV	**422,856**
Item 20. a) Financial assets held for trading	31,146
Item 30. Financial assets measured at fair value through other comprehensive income	391,710
Financial instruments mandatorily measured at fair value	**189,950**
Item 20. c) Other financial assets mandatorily measured at fair value	213,950
To be deducted:	
Loans mandatorily measured at fair value	(24,000)
Loans mandatorily measured at fair value	**24,000**
Due from banks	**57,213**
Item 40. a) Due from banks	57,213
Loans to financial entities	**125,588**
Loans to financial entities	125,588
Government Bonds HTC	**428,309**
Loans to customers - HTC	**2,535,938**
Item 40. b) Loans to customers	4,396,909
To be deducted:	
Loans to financial entities	(125,588)
Government Bonds	(428,309)
Loans to customers - Securities	(1,307,074)
Securities at amortised cost - Growth Credit	**95,144**
Item 40. b) Loans to customers	4,396,909
To be deducted:	
Loans to customers	(2,535,938)
Government Bonds	(428,309)
Loans to financial entities	(125,588)
Distressed Credit Business securities	(1,077,459)
Investment Banking Business Securities	(134,471)
Securities at amortised cost – Distressed Credit	**1,077,459**
Item 40. b) Loans to customers	4,396,909
To be deducted:	
Loans to customers	(2,535,938)
Government Bonds	(428,309)
Loans to financial entities	(125,588)
Business Growth Credit securities	(95,144)
Investment Banking Business Securities	(134,471)
Securities at amortised cost – Investment Banking	**134,471**
Item 40. b) Loans to customers	4,396,909
To be deducted:	
Loans to customers	(2,535,938)
Government Bonds	(428,309)
Loans to financial entities	(125,588)
Business Growth Credit securities	(95,144)
Distressed Credit Business securities	(1,077,459)

Assets	Values as of 31/12/2022
Investments in equity	**155,041**
Item 70. Equity investments	155,041
Property and equipment and intangible assets	**98,038**
Item 90. Property and equipment	22,009
Item 100. Intangible assets	76,029
Tax assets	**73,991**
Item 110. Tax assets	73,991
Other assets	**1,010,684**
Item 10. Cash and cash equivalents	676,509
Item 50. Hedging derivatives	29,874
Item 120. Non-current assets held for sale and discontinued operations	-
Item 130. Other assets	304,301
Total assets	**6,428,682**

Liabilities and shareholders' equity	Values as of 31/12/2022
Due to banks	**1,205,039**
Item 10. a) Due to banks	1,205,039
Amounts due to customers	**3,506,895**
Item 10. b) Due to customers	3,532,281
To be deducted:	
Lease Liability (IFRS 16)	(25,386)
Securities issued	**653,002**
Item 10. c) Securities issued	653,002
Financial liabilities in own portfolio - instruments at FV	**27,244**
Item 20. Financial liabilities held for trading	27,244
Tax liabilities	**33,522**
Item 60. Tax liabilities	33,522
Other liabilities	**151,562**
Item 80. Other Liabilities	85,416
Increase:	
Lease Liability (IFRS 16)	25,386
Item 40. Hedging derivatives	32,646
Item 90. Employee severance pay	2,049
Item 100. Allowances for risks and charges	6,065
Shareholders' equity	**851,418**
Capital and reserves	
Item 110. Valuation reserves	(48,275)
Item 140. Reserves	140,627
Item 150. Share premium reserves	624,584
Item 160. Share capital	54,514
Item 170. Treasury shares (-)	(747)
Item 180. Profit (loss) for the period	80,715
Total liabilities and shareholders' equity	**6,428,682**

Reclassified income statement

Income Statement items	Values as of 31/12/2022
Net interest margin	**151,260**
Item 10. Interest income and similar income	227,731
Reclassification from Profit (Loss) from discontinued operations	-
Item 140. Profits/losses on changes in contracts without derecognition	-
Item 20. Interest expenses and similar charges	(74,527)
Reclassification of Raisin operating components	*(3,585)*
To be deducted:	
IFRS 16 interest expenses	*1,640*
Net fee and commission income	**40,406**
Item 40. Fee and commission income	43,660
Item 50. Fee and commission expense	(5,573)
Reclassification of fee and commission expense HFS	-
To be deducted:	
Raisin operating components	*2,320*
Profits/losses on financial assets and liabilities	**15,777**
Item 70. Dividends and similar income	200
Item 80. Net trading result	4,729
Item 100. Profits (losses) from disposal or repurchase	(468)
Item 110. Profits (losses) on other financial assets and liabilities measured at fair value through profit or loss	11,317
Net write-downs/write-backs on closed positions	**18,939**
of which: Net write-downs/write-backs on closed positions - Clients - POCI	18,939
of which: Net write-downs/write-backs on closed positions - Clients - PPC	-
of which: Net write-downs/write-backs on closed positions - Clients - Energy performing	-
Reclassification from item 280. Profits (losses) on disposal of investments	-
Other profits (losses) from the disposal of investments	**-**
Item 250. Profits (losses) on disposal of investments	-
To be deducted:	
Reclassification to Net write-downs/write-backs on closed positions	-
Other operating expenses and income (excluding taxes)	**17,890**
Item 200. Other operating income/expenses	24,765
To be deducted:	
Reclassification of outsourcing services	*(724)*
Reclassification of recovery of other operating expenses/income to Other administrative expenses	*(6,150)*
Total net operating income	**244,272**
Personnel expenses	**(57,704)**
Item 160. Administrative expenses: a) Personnel expenses	(58,174)
To be deducted:	
Reclassification of outsourcing services	*724*
Reclassification of HR expenses from other administrative expenses	*(255)*
Other administrative expenses	**(66,926)**
Item 160. Administrative expenses: b) Other administrative expenses	(79,644)
Reclassification of IFRS 16 interest expenses	(1,640)
Reclassification of HR expenses to personnel expenses	*255*
Reclassification of recovery of other operating expenses/income to Other administrative expenses	*6,150*
Raisin operating components	*1,265*
Reclassification of contributions and other non-recurring expenses	*6,687*
Net adjustments/recoveries on property and equipment and intangible assets	**(13,885)**
Item 180. Net adjustments/recoveries on property and equipment	(3,147)
Item 190. Net adjustments/recoveries on intangible assets	(10,738)
Operating expenses	**(138,515)**
Operating profit (loss)	**105,757**

Income Statement items	Values as of 31/12/2022
Net losses/recoveries for credit risk - HTC Banks	**214**
Net losses/recoveries for credit risk - HTC Financial entities	**105**
Net losses/recoveries for credit risk - HTC Clients	**7,699**
Item 130. Losses/recoveries for credit risk associated with: a) financial assets measured at amortised cost	26,584
Reclassification of Net write-downs/write-backs on closed positions - HTC&S Clients - POCI to item 130b	-
Reclassification of Net write-downs/write-backs on closed positions - HTC Clients - POCI off-balance to item 170	373
To be deducted:	
Net losses/recoveries for credit risk - HTC Banks	(214)
Net losses/recoveries for credit risk - HTC Financial entities	(105)
Net write-downs/write-backs on closed positions - Clients - POCI	(18,939)
Net losses/recoveries for credit risk - HTCS	**(1,292)**
Item 130. Losses/recoveries for credit risk associated with: b) financial assets measured at fair value through other comprehensive income	(1,292)
To be deducted:	
Net write-downs/write-backs on closed positions - HTC&S Clients - POCI	-
Net adjustments/recoveries for commitments and guarantees	**(1,042)**
Item 170. Net allowances for risks and charges: a) commitments and guarantees given	(669)
To be deducted:	
Net write-downs/write-backs on closed positions - HTC Clients - POCI off-balance	(373)
Total net adjustments/recoveries	**5,684**
Other net provisions	**-**
Item 170. Net allowances for risks and charges: b) other net provisions	-
Other income (expenses) on investments	**-**
Item 220. Profits (losses) on equity investments	-
Contributions and other non-recurring expenses	***(6,687)***
of which: Contributions and other non-recurring expenses	*(6,687)*
Other profits (losses) from the disposal of investments	**-**
Item 250. Profits (losses) on disposal of investments	-
To be deducted:	
Reclassification to Net write-downs/write-backs on closed positions	-
Profit (loss) from operations before taxes	**104,754**
Income tax for the period on continuing operations	**(24,038)**
Item 270. Income tax for the period on continuing operations	(24,038)
Reclassification from Profit (Loss) from discontinued operations	-
Item 290. Net income (loss) from discontinued operations after tax	**-**
Item 290. Net income (loss) from discontinued operations after tax	-
To be deducted:	
Interest income and similar income	-
Fee and commission expense HFS	-
Income tax for the year on continuing operations	-
Profit (loss) for the period	**80,715**

Graphic and creative design in association with:
Redpoint Communication

Gruppo illimity Bank S.p.A.
illimity.com

Marzo 2023

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.
Registered office: Via Soperga, 9 – 20124 Milan
Share capital: EUR 54.513.905,72 fully subscribed and paid up
Registered in the Milan Companies Register - Milan Economic and Administrative Register MI 2534291
Taxpayer identification number 03192350365
Representative of the “illimity” VAT group, VAT number 12020720962
Bankers’ Association Code 03395 – A member of the Interbank Fund for the Protection of Deposits
A registered bank no. 5710 - A Parent Company of the Gruppo illimity Bank S.p.A. A registered Banking Group no. 245

www.illimity.com