



GRUPPO

CREDEM

FINANCIAL STATEMENTS 2022

FINANCIAL STATEMENTS 2022

GRUPPO

CREDEM

Credito Emiliano S.p.A.
Gruppo Bancario Credito Emiliano - Credem
3032 - Joint stock company

Registered Office and Headquarters:

Via Emilia San Pietro no. 4 - 42100 Reggio Emilia
Fully paid-up share capital € 341,320,065
Taxpayer's Code 01806740153 - VAT Number 02823390352
ABI Code 03032
Bank enrolled in the Banking Register under no. 5350
Bank enrolled in the Banking Groups Register under no.
03032 Member of the Interbank Deposit Protection Fund
Tel. +39 0522 5821 - Telefax +39 0522 433969 - Telex BACDIR 530658 – Swift Code BACRIT22
Website: www.credem.it

CONTENTS

Governing and Control Bodies	7

CONSOLIDATED FINANCIAL STATEMENTS

Report on Operations	11
Consolidated Financial Statements at 31 December 2022	77
Explanatory Notes to the Financial Statements	91
Attachments to the Separate Financial Statements	411
Certification by the chairman and the manager responsible for preparing the company's financial reports	423
Independent Auditor's Report	427

GOVERNING AND CONTROL BODIES

BOARD OF DIRECTORS

Chairman	Lucio Igino Zanon di Valgiurata	
Vice-Chairmen	Enrico Corradi(*)	Luigi Maramotti
Directors	Paola Agnese Bongini(**)	Giorgia Fontanesi(*)
	Mariaelena Fontanesi	Elisabetta Gualandri(**)
	Alessandro Merli(**)	Ernestina Morstofolini(*)
	Edoardo Prezioso(*)	Anna Chiara Svelto(**)
	Giovanni Viani	

(*) Members of the Executive Committee

(**) Independent directors pursuant to Art. 148, paragraph 3, of Italian Legislative Decree no. 58/1998 (Consolidated Financial Act)

BOARD OF STATUTORY AUDITORS

Chairperson	Anna Maria Allievi	
Standing Auditors	Giulio Morandi	Maria Paglia
Alternate Auditors	Maurizio Bergomi	Stefano Fiorini

SENIOR MANAGEMENT

General Manager	Angelo Campani	
Joint General Managers	Stefano Morellini	Stefano Pilastrì
Deputy General Manager	Giuliano Cassinadri	
Central Managers	Paolo Magnani Francesco Reggiani	
Deputy Central Managers	Ettore Corsi Maurizio Giglioli	Alessandro Cucchi

Manager responsible for preparing the company's financial reports

Paolo Tommasini

INDEPENDENT AUDITOR

Ernst & Young S.p.A.



GRUPPO

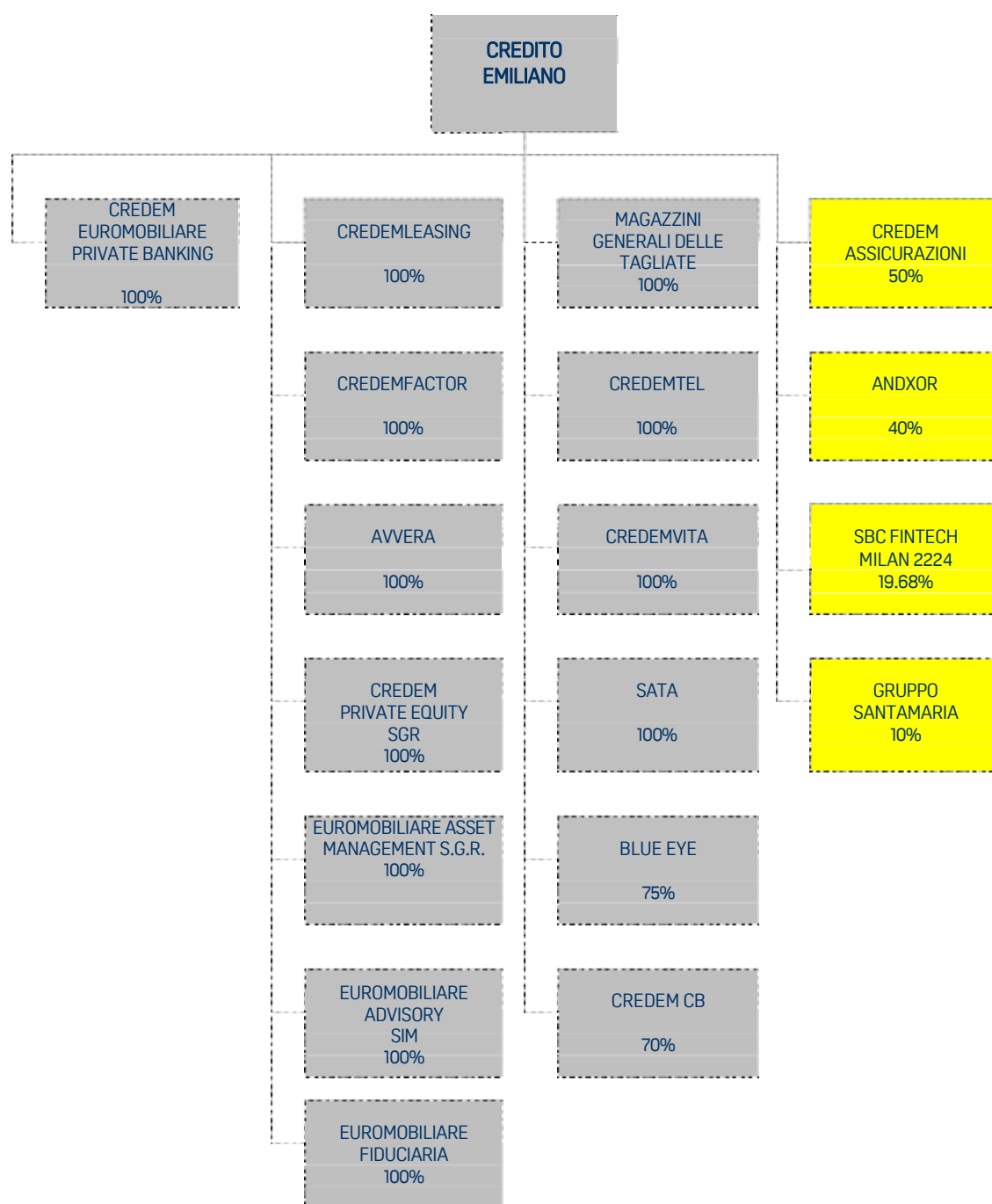
CREDEM

CONSOLIDATED FINANCIAL STATEMENTS 2022

Pair of Fo dogs, China, Qing dynasty, Emperor Kangxi reign (1662- 1722), porcelain, Reggio Emilia, CREDEM artcollections

REPORT ON OPERATIONS

SCOPE OF CONSOLIDATION



Notes:

the percentages refer to directly or indirectly exercisable voting rights the highlighted equity investments are valued under the equity method.

In January 2022, an investment by Credemtel S.p.A. ("Credemtel") in SBC Fintech Milan 2224 s.r.l. ("SBC") was finalised for a total amount of € 250,000. The investment was made as a capital increase reserved for Credemtel and Credemtel's share in the company is equal to 19.68% of the share capital.

In this context:

- Credemtel does not hold the majority of voting rights, as it is not able to take

CONSOLIDATED FINANCIAL STATEMENTS – REPORT ON OPERATIONS

corporate decisions alone, as it does not have the practical ability to unilaterally direct the relevant activity of the investee, for which the agreement of the other shareholders is always necessary;

- With regard to specific topics, Credemtel has instead the power to veto the decisions of the other shareholders, meaning that without the favourable vote of Credemtel, also the other shareholders cannot influence the company.

With regard to SBC, Credemtel's position is therefore that:

- of a party which is exposed to variable returns and which in any event has rights to said possible returns;
- which has the ability to influence said returns only by exercising its power to veto the decisions of the other shareholders.

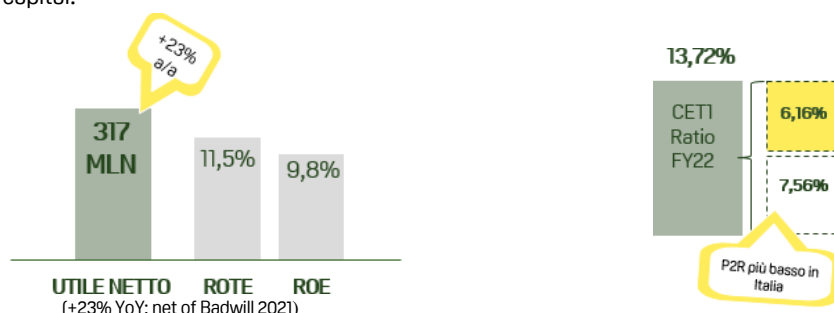
The agreements in place between the shareholders of SBC provide Credemtel with the right under a specific shareholders' agreement to obtain company representatives (a director). Since within SBC there are no director votes, which prevail over those of other directors, the appointment of company representatives does not give either shareholder any predominance over company decisions.

To our Shareholders,

We provide a brief preliminary overview of the main factors of 2022.

1. EXECUTIVE SUMMARY

- The results of 2022 are extremely positive and confirm the ability of the Credem Group to maintain high profitability also during less favourable economic cycles. The Group recorded very positive ROE levels while strengthening its capital position, through the organic generation of capital.



- During 2022, the Group took a further step towards strengthening private banking, with the creation of a single coordination of Banca Euromobiliare and the Private Business Unit of Credem and, from the end of February 2023, the two entities merged into a single legal entity (Credem Euromobiliare Private Banking).
- This development marks another important step in the diversification of the Group's activities, which also operates in commercial banking through Credem Banca and its networks, in the non-banking sector with Credemleasing, Credemfactor and Credemtel and in consumer credit, with the dedicated company Avvera.
- The Credem Group networks offer a wide range of asset management and insurance products, in synergy with the Group's product factories engaged in the wealth management area, which includes companies operating in asset management and insurance.
- From an economic standpoint, 2022 was characterised by an upward trend in rates, which favoured the development of revenues, largely offsetting the lower rise in the commission components, affected by market trends. The trend in costs is in line with the Group's developments and growth, while adjustments on loans are limited, confirming the historical quality of the assets. The profit amounted to € 317 million and, net of the badwill recorded last year due to the acquisition of Cassa di Risparmio di Cento, is the best result ever recorded by the Group.
- As regards volumes: loans are mainly driven by the Bank, by the non-banking business and by consumer credit, while deposits are mainly distributed over the Commercial Bank and Private Banking networks, with a consistent distribution among the various business segments.

Data in million of Euros

Eur/Bn	Loans	Funding	AUM & Insurance	AUC
Commercial bank	27.4	30.1	18.5	2.9
Extended banking services & Consumer Credit	6.3			
Private Banking*	0.9	6.5	20.5	8.6
Other		0.3	0.4	
Consolidation adjustments	-0.1	-0.5	-0.2	0.0
Total	34.5	36.3	39.2	11.5

(*) it includes Credem Euromobiliare Private Banking and Credem Private Banking

2. MACROECONOMIC SCENARIOS*

In 2022 the global economy was characterised by the dynamics of inflation, the strong uncertainty associated with the war in Ukraine and the restrictive stance of monetary policies. The macroeconomic scenario worsened in the last part of 2022. On a positive note, the slowdown in global demand contributed to moderating the price of oil at the end of the year, with impacts on inflation. In particular, natural gas prices fell sharply in Europe. As for the Eurozone, GDP growth was 3.5%. Italian GDP in 2022, adjusted for the impact of calendar differences and seasonal factors, increased by 3.9%. This trend is linked to the contribution of domestic demand. Looking only at the fourth quarter of 2022, GDP decreased by 0.1% compared to the previous quarter. In Italy, in December 2022, the national consumer price index increased by 0.3% on a monthly basis and by 11.6% on an annual basis. On average, consumer prices grew by 8.1% in 2022 (+1.9% in 2021). As regards monetary policy, the Governing Council of the European Central Bank (ECB):

- In the session of 10 March, announced that it would take all necessary measures to pursue price stability and safeguard financial stability. Revised APP (Asset Purchase Programme) monthly net purchases to € 40 billion in April, € 30 billion in May and € 20 billion in June.
- On 9 June, the Governing Council decided to end net asset purchases under the APP starting from 1 July 2022 and announced its intention to raise the key ECB interest rates.
- On 15 June 2022, the Governing Council held an extraordinary meeting to assess measures to combat the intensification of tensions on the financial markets in the Eurozone. It engaged the relevant Eurosystem committees and ECB services to design a new instrument to counter fragmentation.
- On 21 July 2022, the ECB raised rates by 50 basis points and approved the monetary policy Transmission Protection Instrument (TPI). The extent of the TPI purchases will depend on the severity of the risks to monetary policy transmission. The eligibility of the instrument was in any case subject to compliance with the requirements relating to the public budget indicated by the EU, the absence of serious macroeconomic imbalances, the sustainability of the public debt, the adoption of solid and sustainable policies.
- On 8 September 2022, rates were raised by 75 basis points.
- At its October and December meetings, the Governing Council of the ECB increased the official rates by 75 and 50 basis points, respectively.

The financial markets were affected by geopolitical tensions, the gradual normalisation of monetary policies, aimed at containing inflationary pressures and the worsening of the outlook for the global economic cycle. Looking at Italy in more detail:

- During the first quarter of 2022, the yields of Italian government bonds were pushed upwards by the expectations of a reduction in monetary easing in the euro area, in a context of strong inflationary pressures. The spread widened and reached 150 basis points at the end of March.
- From April 2022, the yields of Italian government bonds with a ten-year maturity have risen by more than 100 basis points and the spread with the corresponding German bonds has widened. The announcements of the ECB at the extraordinary meeting of 15 June 2022 helped to contain the increase in the ten-year spread, which had reached 242 basis points around that date. The spread at 30 June 2022 was around 205 basis points.
- Also in the third quarter of 2022, the yields of Italian government bonds on the ten-year maturity grew, reflecting the process of normalising monetary policy. The spread increased, reflecting the political uncertainty following the fall of the government in mid-July and the increased aversion to risk in the markets; at the end of September, the spread stood at 244 basis points.
- In the last quarter of 2022, expectations of an easing of the pace of increase in interest rates and the increased risk appetite of investors favoured the decline in returns; at the end of December, the spread fell towards 210 basis points.

(*) The main sources for this chapter are: Economic Bulletin nos. 2, 3 and 4 - 2022, Economic Bulletin no. 1 - 2023 processed by Banca d'Italia; ECB press releases (from the Banca d'Italia website); Forecast Report, December 2022, Prometeia; websites: www.borsaitaliana.it; www.istat.it; www.ilsole24ore.it.

3. REGULATORY CONTEXT AND BANKING INDUSTRY PERFORMANCE*

During the year, the Supervisory Authorities ended some capital relief measures that had been introduced to combat the pandemic; at the same time, the Italian government continued to support households and businesses, especially with regard to effects of the cost of energy.

With regard to banking supervision, we recall:

- On 27 January 2022, the ECB launched a stress test to assess how well prepared banks are to deal with economic and financial shocks resulting from climate risk. Importantly, it was not aimed at promoting or failing banks, nor should it have any direct implications for capital levels.
- On 10 February 2022, the results of the *Supervisory Review and Evaluation Process* (SREP) carried out for 2021 were published. Based on the results of this annual exercise, the significant institutions maintained strong capital and liquidity positions, reflecting the resilience of the banking sector.
- Also on 10 February 2022, the decision was communicated not to extend the "capital relief" measures and in particular that banks must return to operate on the Pillar 2 Guidance from 1 January 2023 and include again exposures with the ECB in the Leverage Ratio from 1 April 2022.
- On 8 July 2022, the results of the climate risk stress test were published, showing that banks still do not adequately take into account climate risk in stress tests and internal models, despite some progress compared to 2020. According to the Supervisory Authority, "Eurozone banks urgently need to step up their efforts to measure and manage climate risk, filling current data gaps and adopting good practices that are already in the sector".
- On 2 November 2022, the results of the thematic review on climate and environmental risks were disclosed, which show that banks are still far from adequately managing these. Despite the progress made, banks should work further to identify these risks and better manage them. The ECB has set targets to be met by 2024.
- On 12 December 2022, disclosure was made on the supervisory priorities for 2023-2025. In summary, supervised entities will be required to strengthen their resilience to immediate macro-financial and geopolitical shocks (priority 1), to face the challenges posed by digitalisation and to strengthen the steering capacities of the management bodies (priority 2) and to devote greater efforts to tackling climate change (priority 3).

At the end of October 2022, the European Council proposed the text of CRR3, which should incorporate the finalisation of Basel 3 (so-called Basel 4) into European legislation. The legislative process is continuing.

On 15 June 2022, the Basel Committee published the "Principles for the effective management and supervision of climate-related financial risks" which are expected to be implemented in the near future.

Also on 16 December 2022, the Basel Committee issued the prudential standard for bank exposures in cryptoassets, which should be implemented from 1 January 2025. The Committee also announced that the strategic priorities for 2023-24 concern emerging risks and vulnerabilities related to digitalisation and the climate.

With regard to Italy, the Government has intervened with more decrees since the beginning of 2022 to calm the effects of the exceptional increase in the cost of energy. It should be noted in particular that the "Aid" Decree of 17 May 2022 (Urgent measures on national energy policies, business productivity and investment attraction, as well as on social policies and the Ukrainian crisis) introduced actions in favour of workers, businesses and households to face the economic effects of the crisis. The decree envisaged:

- electricity and gas social bonus and an increase in tax credits in favour of companies for the purchase of electricity and natural gas;
- diversified measures to support the liquidity of companies, including diversified measures to support the liquidity of companies, including temporary measures through guarantees granted by SACE, until 31 December 2022, for loans in favour of companies, to support imports to Italy of raw materials or production factors whose supply chain was interrupted or rose as a result of the current crisis;

- temporary measures to support the liquidity of small and medium-sized enterprises and the establishment of the Fund to support companies damaged by the Ukrainian crisis, through the disbursement of non-repayable grants.

The support of the Italian Government continued during the year until the “Aid Quater Decree” of November 2022.

Turning to the performance of the Italian banking system, in December 2022, loans to the private sector, adjusted to consider the harmonised methodology agreed within the European System of Central Banks (ESCB), grew by 2.1% (it was +2.1% in December 2021). In detail, corporate loans showed a zero trend on an annual basis (+1.7% in December 2021). Credit growth, after recording a considerable development in the first half of the year, weakened in the second half for companies operating in the manufacturing and services sectors, while it increased slightly for those operating in the construction industry. As regards loans to households, growth stood at +3.3% on an annual basis (+3.7% in December 2021). More specifically, mortgages showed an increase of +4.2% on an annual basis. Consumer credit showed a more contained trend (+3.0% in December 2022).

With regard to the level of risk, gross bad loans reached € 30.2 billion in December 2022 (€ 38.7 billion in December 2021, a decrease of 22.0% YoY). Bad loans, net of valuation reserve at December 2022 fell to € 14.2 billion from € 15.5 billion in December 2021 (-6.5% yoy).

Turning to direct deposits of Italian banks, private sector deposits recorded a considerable upward trend in 2022: deposits declined by -0.7% in December 2022 (+6.9% in December 2021). Deposits to households were affected by the lower savings formed and a gradual reallocation to other forms of savings; consequently, they closed with a +1.1% at the end of 2022. Business deposits recorded a -1.0%.

More specifically, demand liquidity instruments held in current accounts also showed a progressive decline (closing at -1.5% on an annual basis in December 2022). Fixed-term deposit instruments rose +5.9% YoY, while deposits repayable with advance notice recorded a contained trend (+1.1% in December 2022). The bond sector partially recovered from the decline that characterised the recent past, standing at -1.5% on an annual basis in December 2022 (-6.7% in December 2021).

With regard to assets under management, in the face of highly volatile markets marked by the very unstable context and reversal of the main global monetary policies, open-end mutual investment funds achieved inflows of € 9.3 billion in December 2022. According to Assogestioni, net deposits were positive for equities (+€ 21.1 billion, accounting for 31% of total assets under management), balanced assets (+€ 4.4 billion, accounting for 13% of total assets under management) and monetary (+€ 6.4 billion, accounting for 4% of total assets under management). Bonds recorded outflows of € -16.7 billion (representing 34% of total assets under management) and flexible funds (€ -5.7 billion, accounting for 19% of total assets under management). The total assets of open-end funds amounted, in December 2022, to € 1,075 billion (in December 2021 it was € 1,263.3 billion), due to the negative market effect. The flows described above were concentrated in foreign funds.

In December 2022, according to ANIA data, new business in individual life policies in Italy amounted to € 88.1 billion, down by 16.4% compared to the previous year. Segment I products were down by 3.3% (representing 67% of total deposits), while Segment III products showed a decline of 30.5% YoY (representing 32% of total business). With regard to the distribution channels of life insurance policies, there was a decline in the bank and post office branches (-9.3% YoY, accounting for 66% of total deposits), and the network channel also posted a negative trend (-28.8% YoY, representing 15% of total flows).

At the same time, in December 2022, household securities on deposit (at nominal value) recorded a considerable development (+32.7% YoY), interrupting the decline that characterised the past years.

(*) The main sources of this chapter are: Banks and money: national series - December 2022, Banca d'Italia; Real Estate Report 2022, Italian Revenue Agency; Economic Bulletin n. 1 - 2023, Banca d'Italia; websites: www.bankingsupervision.europa.eu; www.lavoro.gov.it; www.assogestioni.it; www.ania.it.

4. MAIN EXTRAORDINARY EVENTS

- *COVID-19 effects*

A progressive normalisation of the health situation has allowed a parallel slow return to the more ordinary ways of carrying out banking activities. During 2022, the Group maintained the controls identified to deal with the evolution of the pandemic from the initial stages (enhancement of digital channels, development of early warning systems on credit and institutionalisation of quarterly rolling forecast systems in planning processes...).

The activities were carried out in compliance with all current regulations, following their constant updating over time. In this regard, the following should be noted in particular:

- Protocol signed between the Government and the Social Partners to combat the spread of Covid-19, signed on 30 June 2022 and disclosed to all employees together with the main prevention measures to be maintained in the exercise of working activities.
- Decree-Law no. 24 of 25 March 2022, which provided for "Urgent provisions for overcoming the measures to combat the spread of the COVID-19 epidemic".
- Circular of the Ministry of Health of 31 December 2022, which made some substantial changes to the isolation regime in the event of illness from Covid-19 or close contact with a positive subject.
- Law no. 197 of 29 December 2022, the so-called Budget Law, which envisages until 31 March 2023 for public and private employees in a fragile condition according to current legislation the possibility of working in agile mode.

Smart working, as of September 2022 and subject to the categories highlighted above, has reverted to being a hybrid working mode, based on physical presence alternating with remote working, and no longer an emergency instrument.

After the extension granted until the end of 2021, the state moratoria also expired in the first half of 2022. The easing of the "COVID-19 measures" did not result in the Group showing any significant signs of deterioration in the economic situation.

- *Implications of the Ukraine conflict (*)*

The Credem Group has no significant exposures to countries involved in the conflict. The impacts on the yearly results are mainly due to the negative trend of the financial markets which have been affected by the situation of instability. The decrease in capitalisation determined a modest impact on fee and commission income, which continues to benefit from the important initial stock of assets under management. The markets recovered and in the second half of the year.

With regard to asset quality, since the beginning of the conflict, the Group has increased its supervision through customer segmentation mechanisms and the relative levels of risk in relation to the greater exposure in the sectors most directly affected or most exposed to geopolitical risks, or impacted by the increase in the prices of raw materials. The repercussions of the scenario on the main economic and equity figures are reviewed on a quarterly basis to take into account any deterioration or anomalies that have not yet become evident, allowing the Group to maintain excellent asset quality.

From an operational point of view, following the developments in the sanctioning framework, the Group has adopted a restrictive approach towards operations involving Russia, Belarus and Ukraine, providing for: blocks on transactions and the acquisition of new customers, geographic, commodity and financial restrictions with stringent relevance thresholds. The restrictive measures launched by the Authorities have been applied: starting from 12 March 2022, in compliance with the rule that provides for the prohibition of providing financial messaging services to exchange financial data with the listed parties and their subsidiaries, it has deactivated the SWIFT network towards some Russian and Belarusian listed banks. In support of the victims of the war in Ukraine, the Board of Directors of Credem, on 7 March 2022, approved an allocation in several instalments to the Italian Red Cross and the Reggiana Solidarity Foundation.

(*) ESMA, on 13 May 2022, published the Public Statement "Implications of Russia's invasion of Ukraine on half-yearly financial reports", concerning the effects of the invasion of Ukraine by Russia on the half-yearly cash flow statements and, on 28 October 2022, published the Public Statement "European common enforcement priorities for 2022 annual financial reports", which highlights the priorities relating to disclosure on annual reports.

5. MAIN EVENTS OF THE CREDEM GROUP

The main events relating to the Credem Group in 2022 are illustrated below:

- *Green Bond placement*
On 13 January 2022, Credem successfully launched its first green bond issue, intended for institutional investors, for an amount equal to € 600 million. The operation, which is one of the projects with positive environmental impact, was welcomed by the market with demand for almost 2 times the offer. The Green Bond will have a duration of 6 years with maturity on 19 January, 2028, and the possibility of early redemption in the penultimate year (spread of 105 basis points above the reference mid swap rate, annual coupon 1.125%). The issue was placed with Italian institutional investors (59%) and foreign institutional investors (41%) by a syndicate composed of Crédit Agricole – which also acted as green structuring advisor and global coordinator of the Group's ESG framework – as well as Société Générale, Natixis and Barclays as joint lead managers.
- *Call of T2 Credembanca and new Tier 2 Credemholding issue*
On 11 May 2022, following the authorisation issued by the Supervisory Authority, Credito Emiliano announced its intention to proceed, effective 10 July 2022, with the full repayment of the subordinated loan of € 100 million "Fixed to Floating Rate Subordinated Tier 2 Callable Notes", no longer efficient from a capital point of view.
On 28 June 2022, Credemholding issued a subordinated Tier 2 Social Bond of € 200 million, expiring in October 2032, the first Social Bond of a European bank, the first issue of Credemholding within the ESG framework. The issue is accompanied by a 'mirror' transaction by Credito Emiliano, with the same value date, fully subscribed by Credemholding.
- *Covered Bond placement*
On 24 May 2022, as part of the Covered Bank Bonds programme, updated on 6 April 2022, Credem placed € 500 million of Covered Bonds, fully backed by the Group's residential mortgages, with a gross annual coupon of 1.75% and the dividend date and settlement of the transaction at 31 May 2022. 65% of the issue was placed with Italian institutional investors while the remaining 35% with foreign investors.
- *Suitability of the Board of Statutory Auditors - Fit & Proper process*
On 20 May 2022, the Board of Statutory Auditors, following the appointments made by the Shareholders' Meeting of 28 April 2022, finalised the checks to ensure that the individual Statutory Auditors met the fit and proper requirements and criteria. These checks, which were carried out by the regulatory deadline of 30 days from appointment, were also positive in relation to the overall adequacy of the Board. The Fit & Proper Assessment process at the European Central Bank will therefore be on this same basis.
- *General Manager Appointment*
On 4 August 2022, following the expression of the intention by General Manager Nazzareno Gregori to benefit from the pension right, Credem's Board of Directors appointed a new General Manager: Angelo Campani, who held the position of Co-General Manager, testifying to the company's willingness to encourage an orderly generational transition, as a characteristic strength of the company in order to continue to create constant and solid value in the future. The Board launched the Fit & Proper process at the European Central Bank, then finalising the appointment, effective 1 February 2023.
- *Assigned ratings*
On 24 October 2022, Fitch Ratings confirmed the Long-Term Issuer Default Rating (IDR) of Credem to "BBB" and the Viability Rating (VR) to "bbb". The long-term outlook on IDR is stable. Previously, on 9 August 2022, following the revision of the outlook on the debt rating assigned to the Italian government (Baa3) from "Stable" to "Negative", Moody's had carried out a *rating* action on 14 Italian financial institutions. Nevertheless, all Credem ratings were confirmed; however, the outlook changed to "Negative" from "Stable", in line with that of sovereign debt. The confirmation of the ratings by the companies reflects the solidity of Credem's capital and business model.
- *Outcome of inspections and relations with Supervisory Authorities*

At the end of February 2022, the ECB inspection was concluded, as part of a specific campaign on credit and counterparty risk launched on a sample of banks with the aim of verifying the identification, management, monitoring and control of the support measures granted for the COVID-19 emergency and related to debtors classified as non-financial companies. The sharing of the inspection report by the Authority revealed only a few areas for improvement but without any significant impacts. Even in the context of low materiality and severity of the areas for improvement identified, the main evidence may refer to changes in the discounting criteria in defining the provisioning of positions classified as UTP and the criteria for defining the scope falling within the *Low Credit Risk Exemption* for performing positions.

In September 2021, the inspection report was delivered by Banca d'Italia following the checks carried out in the period April-July 2021 on compliance with the regulations and supervisory guidelines on the subject of transparency of transactions and fairness of relations with customers. During 2022 certain areas for strengthening were identified, in some cases also with restitution consequences in favour of customers, for which a specific project activity was established for the definition and implementation of the remedial plan to overcome the anomalies reported.

On 12 December 2022, the European Banking Authority (EBA) published the information package of the "EU-wide Transparency Exercise" 2022, with reference to the quarterly FINREP and COREP data from September 2021 to June 2022: this exercise involved, together, with other European financial institutions, also the Credito Emiliano Banking Group, consolidated at Credito Emiliano Holding S.p.A. level.

On 15 December 2022, the European Central Bank (ECB) confirmed, also for 2023, the Pillar 2 (P2R) requirement of Credem at 1.00%, as already in place for 2022 (communication of 2 February) placing it among the best in Italy and Europe among the main banks supervised directly from Frankfurt. The Pillar 2 requirement derives from the annual analysis carried out by the ECB (SREP - Supervisory Review and Evaluation Process) which thus reasserted the soundness of the business model and the risk management measures of Credito Emiliano. Consequently, the overall capital requirements amounted to 7.56%, 9.25% and 11.5% respectively as regards the CET 1 ratio, the Tier 1 ratio *and the* Tier total.

- *Market shares*

In view of the timeframe for the approval of this report, the latest system data available in December are therefore used for "Loans and direct deposits to customers" and "Total deposits". As for the core direct deposits, the "deposits" figure was used (updated at the reporting date), given the different timings of the return flows of bonds and repurchase agreements broken down by counterparty.

- *Related parties*

For information on Related Party transactions, on the basis of Art. 5, paragraph 8 of the Consob Regulation containing provisions on Related Party transactions (adopted by Consob with resolution no. 17221 dated 12 March 2010 and subsequently amended with resolutions no. 17389 dated 23 June 2010), please refer to the content of the Explanatory Notes to the consolidated financial statements.

- *Corporate scope*

It should also be remembered that the comparison period for this report did not include the contribution of Cassa di Risparmio di Cento, merged into Credem starting from the second half of 2021, and therefore the results are not perfectly comparable.

Furthermore, the first half of 2022 also saw finalisation of the disposal of Gestimlux. On 11 November 2022, Banca Euromobiliare took on the name of Credem Euromobiliare Private Banking, a company to which in February 2023, following the authorisation of the Supervisory Authority, the Private Business Unit of Credem was conferred. Please refer to the business outlook for further information on the transfer of the division.

6. MAIN DESIGN AREAS

For the whole of 2022, as in 2021, planning, organisational and technological development activities were very intense:

- The monitoring of 10 strategic programs continued, including 35 significant projects (at 31 December 2022)
- The strategic programs involved more than 700 users and a very intense pace of change management on the sales networks.

The main areas of intervention are highlighted below broken down by Strategic Area.

STRATEGIC PROGRAMS

- *Private Banking*

During 2022, a significant component of the deployment activities concerned the Credem Group's private banking specialisation project, through the creation of Credem Euromobiliare Private Banking, the bank dedicated to private customers, with the aim of strengthening its distinctive positioning also through synergies with all the companies active in the Group.

- *Retail Banking*

The evolution of the retail di service model retail being defined provides for the provision of a digital service model, which allows customers to choose (both in terms of transactional and advisory aspects) between a self-service offer, and a commercial relationship remotely supported by an advisor or to continue their relationship through branch advice.

- *Wealth Management*

In continuity with the previous year, the development of a new holistic advisory platform was completed, which integrates financial advisory with wealth advisory, through the support of a ROBO for Advisory model developed with the best market players : UBS and Prometeia.

- *Consumer Credit*

The strategy of “centralisation” of the offer of consumer credit products for households and individuals continues on the company Avvera, which will soon become the only company of the Group providing consumer credit, also for the Parent Company's customers. Projects are underway to automate credit concessions (with the processing of instant lending algorithms) and to monitor the performance of existing exposures, aimed at identifying early warning mechanisms.

- *Corporate Banking*

A “HUB” was created for customer companies to access the entire offer of the Group companies operating for companies (Credem Banca, Credemleasing, Credemfactor, Credemtel). Trials have been launched for the granting of loans to businesses by exploiting the access to account enabled by PSD2 and some digital processes have been developed for the subscription of the main reference products for SMEs.

Initial trials based on blockchain technology platform activated.

- *Payment System*

The payments transformation programme was launched, starting with the overhaul of the technological architecture of the Group's payments system in cooperation with TAS, with the aim of bringing 24x7 operation to core banking and enabling the development of new products (e.g. instant bank transfer).

- *Digital Transformation & Customer Interaction*

Investments continue on Credem's new Mobile APP, evolved through the introduction of personal financial management functions and advanced CRM platforms.

A new way of interacting with customers was also introduced, through the use of the Salesforce Marketing Cloud and Digital Marketing and by extending the use of digital signatures in sales processes and subscription methods.

The initiatives to optimise the cost/income of the distribution network also continued, by factoring the migration to digital of customer transactions (intense plan for the installation of Evolved ATMs and Self-Assisted Cashiers).

Process automation was further increased through the use of robotic solutions, work flow management and OCR (Optical Character Recognition), with the aim of streamlining operations, improving efficiency and lowering operational risks;

- *Risk management (regulatory and credit risk)*

Project activities are underway aimed at the transposition of and alignment with of the regulations issued by national and European regulators (the main ones include GDPR, Anti-Money Laundering Directive, ECMS, CRR, T2T2S2 and IRRBB).

Strategic monitoring of the Group's loan portfolio continues, with the aim of maintaining asset quality among the best in the System.

- *Support for households and businesses*

In line with the provisions of the NRRP, a specific control room was activated to follow up on the opportunities generated by the tenders issued by the Government.

Specific credit processes have been developed to support companies while the product range has been integrated, in order to accompany the Group's customers in the creation of products related to the NRRP, with particular reference to the issues of digital innovation, green and ESG transition and female entrepreneurship.

- *Information Governance*

Various data analytics and data visualisation solutions and initiatives were implemented in order to strengthen the data culture, in line with what is defined by the Group Data Governance. Launch of a project dedicated to the definition of an organisational and governance model relating to the use of artificial intelligence.

- *ESG:*

After carrying out a preliminary assessment of the controls in place for the management of climate and environmental risks and the relevance of physical and transition risks for the banking Group's portfolio, an evolution roadmap was defined to integrate climate and environmental risks into the internal risk and credit models of the Group.

- *Information systems development:*

Investments continued in cyber security to strengthen the protection of the Group and customers in the face of growing cyber threats through the adoption of dedicated methods and tools, the updating of systems and hardware equipment, the inclusion of specialised professionals. The process of scaling up the Agile culture and methodology continues, with the involvement of all company areas (business and IT). Investments for the renovation of core banking systems continue; in particular, the launch of developments relating to the replacement and evolution of the platform for processing and managing massive documentation for customers.

7. CONSOLIDATED FINANCIAL RESULTS

The economic results of 2022 are significant both in absolute value and compared to the previous year. In this regard, it should be noted that the 2021 figures are influenced by the consolidation, starting from 1 July, of Cassa di Risparmio di Cento and by the goodwill deriving from the transaction. The percentage changes are therefore not calculated on a like-for-like basis.

INCOME STATEMENT €million	2022	2021	Change %
- Financial margin	662.7	496.3	33.5
- Non-interest margin (*) (****)	810.2	840.4	-3.6
Net interest and other banking income (*)	1,472.9	1,336.7	10.2
- Personnel expenses	-563.4	-550.7	2.3
- Other administrative expenses (*)	-238.6	-231.9	2.9
Operating costs (*)	-802.1	-782.6	2.5
Gross operating profit	670.8	554.1	21.1
- Amortisation/depreciation	-98.3	-93.2	5.4
Operating profit	572.5	460.9	24.2
- Provisions for risks and charges (**)	-11.3	-7.5	49.8
- Extraordinary income/charges (**) (***)	-51.8	44.6	-216.1
- Net value adjustments to equity invest. and goodwill	1.2	-0.3	n.s.
- Net value adjustments to loans (****)	-49.1	-31.5	55.7
Profit before tax	461.6	466.2	-1.0
- Profit/loss for the year attributable to minority interests	0.0	-0.2	n.s.
- Income taxes for the year	-144.6	-113.6	27.3
Net profit	317.0	352.4	-10.1
Net profit net of Caricento goodwill	317.0	256.8	23.4

The reclassification was carried out also considering operating data not directly inferable from the financial statements and the notes to the financial statements. Please refer to the key in the paragraph on summary performance indicators for the reconciliation of the financial statement items to the mandatory schedules.

(*) costs and non-interest margin are shown net of indirect taxes and taxes recovered from customers (€ 113.6 million at December 2022; € 116.1 million at December 2021); contributions to national funds of € 57.4 million were written off against expenses (€ 51.3 million at December 2021);

(**) the profit resulting from the sale of bad loans was reclassified under extraordinary income (€ 5.2 million in 2022; 0.1 million in 2021);

(***) The component related to the contribution to the Resolution Fund (€ 3.9 million in 2022, € 2.7 million in 2021) allocated to Provisions for Risks and Charges was reclassified to extraordinary charges;

(****) value adjustments to (recoveries on) loans included in financial assets measured at amortised cost relating to securities (€ -0.4 million; € -0.8 million in December 2021) and those included in financial assets measured at fair value through other comprehensive income (€ +0.2 million; € +0.5 million in December 2021) were recognised in the non-interest margin.

(*****) the component of negative goodwill, or goodwill of 2021, amounting to € 95.6 million is reclassified under extraordinary income.

The net interest and other banking income recorded an overall growth of more than 10% compared to 2021, factoring in the diversification of the Group's business model, which allowed the harmonious development of various income components. In particular, the impacts of the turbulence in the financial markets were offset by greater growth in revenues linked to traditional banking activities. In addition, the Group was able to benefit from the full contribution of Cassa di Risparmio di Cento.

- *Financial margin*

The aggregate recorded a particularly positive trend, +33.5%, both due to the growth in customer volumes and the growing impact deriving from the dynamic in interest rates that it allowed, especially in the last two quarters of 2022, a reopening of the customer spread.

The following table illustrates therefore the trend in progressive average interest rates (%) relating to customer accounts:

RATES	2022	2021
Average interest rate on loans	1.87	1.51
Average interest rate on deposits	0.05	0.04
Customer "spread"	1.82	1.47

The profitability deriving from the financial component continued to benefit from the positive contribution of interest from TLTRO, albeit to a lesser extent than in 2021. The contribution of the securities portfolio was also positive, with stable volumes, maintaining a diversified composition of Italian and foreign government bonds.

- *Non-interest margin:*

As shown in the table below, the service margin decreased by 3.6%:

BREAKDOWN BY AREA OF CONTRIBUTION	2022	2021	% %
- Management and brokerage	426.6	478.9	-10.9
- Banking services (*)	237.6	217.1	9.4
NET FEE AND COMMISSION INCOME	664.2	696	-4.6
Securities trading, exchange rates and derivatives	52.9	54.0	-2.0
Life insurance operations (**)	64.8	65.3	-0.8
Reclassified balance of other operating income/charges (**)	28.3	25.1	12.7
NON-INTEREST MARGIN	810.2	840.4	-3.6

(*) Revenues resulting from fast track applications have been reclassified under net fee and commission income, after deducting operating profit (**) The items illustrated in the above table are net of the corresponding items for Credemvita, which are summarised in "life segment insurance management".

Net fee and commission income totaled € 664.2 million (-4.6% compared to 2021).

With reference to management and brokerage commissions, which reached € 426.6 million, the year was inevitably affected by the instability deriving from the geopolitical tensions that were unleashed on the financial markets as a result of the outbreak of the conflict in Ukraine, with repercussions on the profitability of most of the companies in the wealth area. The solid starting volumes and the partial recovery, which materialized in the second part of the year, however allowed the maintenance of good ordinary profitability, while the component relating to performance commissions suffered.

Bank commissions recorded an increase of 9.4%, which partly offset the lack of growth in assets under management. There were no significant changes in the margins of the insurance component and the contribution of the trading /finance area decreased very slightly.

- *Expenses and amortisation/depreciation*

Costs show an overall growth of 2.5%, reflecting some inflationary dynamics and the growth of the business, as well as the computability over twelve months of the charges relating to the scope of Cassa di Risparmio di Cento. In detail, for 2022:

- personnel expenses amounted to € 563.4 million, up 2.3% compared to 2021;
- other administrative costs amounted to € 238.6 million, up 2.9% compared to 2021, and include some components linked to the Group's IT developments (of which approximately € 5 million non-recurring linked to the establishment of Credem Euromobiliare Private Banking);
- depreciation and amortisation, equal to € 98.3 million, are up by 5.4%, in line with the expectations in terms of investments to support the intense planning activity and the evolution of the service model.

- *Non-operating components*

The income statement under the item "extraordinary income/charges" includes, in addition to other minor items:

- systemic charges for € 61.2 million compared to € 53.9 million in 2021;
- profit from the sale of bad loans for € 5.2 million and € 11.1 million for the sale of Gestimlux;
- in 2021 the item included the goodwill deriving from the integration transaction with Cassa di Risparmio di Cento for € 95.6 million.

- *Credit risk*

Adjustments on loans remain at extremely low values (15 bps of cost of credit), record components, relating to an update of the scenarios in the IFRS 9 models and an adjustment of the policies on non-performing loans, and confirm, as already highlighted in the chapter on loans, in line with the addendum and provisioning calendar objectives and confirm, as already highlighted in the chapter on loans, the absence of significant signs of credit deterioration.

- *Profit (loss) for the year*

Net profit amounted to € 317.0 million, up 23.4% compared to € 256.8 million in 2021, confirming the Group's income capacity over time even in periods of uncertainty.

8. MAIN BALANCE SHEET AGGREGATES

8.1 LOANS

The dynamics in loans of the Credem Group, as shown in the table below, shows a change compared to the previous year of 4%, compared to a system figure that shows a growth of 0.9%.

LOANS TO CUSTOMERS	€/million		% change	
	2022	2021	Group	System (*)
Loans	34,483	33,156	4.0	0.9

(*) the industry figure includes Italian residents net of public administrations and repurchase agreements with central counterparts (source: Banca d'Italia)

In 2022, the decisive contribution of the Group companies to the growth in loans was confirmed, which derives from strategic choices already made in previous years. This approach will be further strengthened in 2023 with the creation of the new Credem Euromobiliare Private Banking entity, which will make it possible to better develop synergies between the private segment and businesses. The Group confirms the importance of risk oversight, boosted by the introduction of indicators that increase the effectiveness of the monitoring and the early detection of the signs of a potential increase in credit risk. With the situation remaining unstable, these monitoring tools were maintained also in 2022, with a focus on the assessment of potential financial distress.

With reference to Credembanca's performing loans:

- The aggregated data confirms the long-term trends that characterise the lending offer, in particular the heavy concentration on positions with better ratings where about 87% of the uses are located.
- With regard to corporate companies, there was a further improvement in the credit quality of the portfolio, which shows an increase in the use of positions with better ratings that come to account for 96% of the total companies in the segment.
- For the other companies included in the corporate regulatory function segment, it should be noted that at the end of 2022 the uses on the best ratings represented approximately 87% of the total, up by 5% compared to the previous year.
- The portfolio of small companies (micro-enterprises) managed by branches or small business centres shows a credit quality up by 3% compared to the previous year (uses on the best ratings are 85% of the total).
- The portfolio of micro companies and producing households, albeit in a context of greater economic difficulties due to the effects of the Ukrainian war and the inflationary crisis, highlights the concentration towards exposures with better ratings (76%).
- Lastly, loans to private customers and consumer households, also during 2022, increased the amounts, in particular residential mortgages recorded a change of +4.4% compared to the corresponding period of the previous year, despite the increase in rates of interest occurred in the second part of the year.

With reference to the other Group companies, it should be noted that they are the subject of separate discussion in the following chapters. Here we briefly highlight the performances of the following companies:

- Avvera, driven by mortgages and salary-back loans, achieved an overall growth of 82.3% in volumes.
- Credemleasing, with growth close to 5.4%, showed a higher performance than reference market, as did Credemfactor, which closed with a growth in loans of more than 19%.

The breakdown of performing loans by residual maturity is shown below

LOANS BY RESIDUAL MATURITY (%)	2022	2021
View	8.9	8.6
Up to 1 year	32.2	32.4
Over	58.9	59.0
	100.0	100.0

The national market shares related to the Italian banks show the following evolution (in %):

LOANS MARKET SHARES relating to Italian banks (%)	2022	2021
Total cash loans (*) of which:	2.106	2.026
– Non-financial companies	2.168	2.062
– Consumer households	2.138	2.181
– Income generating households	1.449	1.492
– Total “core” share	2.111	2.081

(*) Includes “repurchase agreements with institutional counterparties”; does not include loans to Public Administrations.

The following table provides the classification of loans to customers by stage:

CLASSIFICATION OF GROSS CREDITS BY STAGE		2022	2021
Stage 1	€/million	31,975	30,913
Stage 2	€/million	2,184	1,864
Stage 3	€/million	324	379
Stage 1	%	92.7	93.2
Stage 2	%	6.3	5.6
Stage 3	%	0.9	1.1

In 2022, despite the deterioration of the global macroeconomic environment, the stock of non-performing loans of the Group recorded a decline, confirming the excellent quality of the loan portfolio.

Please refer to the attachments as regards the classification of loans by rating class, while the table below shows the percentage evolution of bad loans on loans with respect to the System:

BAD LOANS (%) ON NET LOANS	2022	2021
Credem	0.2	0.3
Industry	0.9	1.0

The gross NPL ratio went from 2.2% to 2.1%, while the ratio on net loans stood at 0.9%, as shown in the following table:

NON-PERFORMING LOANS					Performing	TOTAL
€ mln	Bad loans	Unlikely	"Past-due receivables exposures"	Tot. Non-performing RECEIVABLES to pay receivables		
2022 values	321	373	42	736	34,246	34,981
2021 nominal values	398	378	43	819	32,866	33,685
Forecasts of loss	2022	243	161	8	412	87
	2021	296	136	8	440	88
Estimated recoveries	2022	78	212	34	324	34,159
	2021	102	242	35	379	32,777
						33,156
						Coverage
	2022					"extended" version*
Coverage	2022	75.7	43.2	18.7	56.0	0.3
	2021	74.4	36.0	18.8	53.7	0.3
						61.1
						62.7

(*) The coverage in the "extended" version, which has no accounting relevant, includes the shareholders' equity shortfall, calculated as the difference between ELBE - Expected Loss Best Estimate (represents the best estimate of the expected loss for each exposure, given the current economic circumstances and the status of the exposure itself) and net adjustments to loans.

The overall coverage ratio on Non Performing Loans (NPLs) measured at amortised cost increased compared to the same period last year from 54% to 56%.

In 2022, Credem Banca's non-performing loans recorded:

- an overall stock of bad loans down by € 70 million (-19%) compared to the end of the previous year, due to disposals (recorded in February, May, June and October), which generated a profit of € 5.2 million and the effective management of NPLs. Recovery of bad loans also improved;
- an exposure of defaults down compared to 2021 by approximately € 11 million (-3%), for transfers from performing positions more contained;
- an overall stock of non-performing past due loans that shows a decline of 6% compared to 2021, despite the increase in macroeconomic instability and the significant increase in the level of inflation. Also in this case, the reduction in flows from performing positions contributes.

Furthermore, the stock of NPLs is down in all Group companies, with the exception of Credem Euromobiliare Private Banking, with negligible figures both in absolute and relative terms, and Avvera S.p.A., whose increase is natural and derives from the important business growth.

The cost of credit of the Credem Group in December 2022 stood at € 49.1 million (0.15%), up slightly compared to 2021 (0.10%). Approximately € 48 million relate to specific write-downs on non - performing positions. The cost of credit for NPLs decreased by 12% compared to 2021, despite the fact that write-downs of € 23.5 million were recorded, following the evolution of the criteria for the write-down of unlikely to pay and bad loans. Collective write-downs amounted to approximately € 1 million, mainly due to the expansion of the business of Avvera S.p.A..

The IFRS 9 methodological framework is subject to continuous monitoring by the Group in order to assess its consistency with macroeconomic and portfolio developments on a quarterly basis. The strategy for the management of Non Performing Loans will be directed towards a reduction of the vintage in line with regulatory provisions (SREP letter, Addendum, Calendar Provisioning) that penalise the oldest non-performing exposures. To support credit risk management, an early warning system is in place which uses algorithms to prevent the degradation of positions by operating from an anticipatory and predictive point of view. The monitoring of past-due positions has been further strengthened with dedicated central structures that allow timely recovery actions to be carried out in order to limit the transition to NPLs.

8.2 DEPOSITS

The Group's total deposits continue to grow and stands at € 107.2 billion compared to € 101.9 billion in 2021.

Direct customers recorded +5.1% compared to December 2021, while indirect customers recorded a decrease of -8.8% compared to December, affected by the marked volatility that occurred on the financial markets. Insurance reserves, as better highlighted in the section dedicated to Credemvita, recorded -4.7% compared to December 2021, affected, like other forms of indirect deposits, by a particularly negative market effect.

Despite the reference context that has always remained uncertain, amid new inflationary threats, the re-emergence of isolated Covid outbreaks and the numerous unknowns on the global political and economic balance, net inflows in 2022 were positive.

CUSTOMER AND INSTITUTIONAL DEPOSITS	€ mln		% %	
	2022	2021Group	System	
- Current accounts and savings (*)	35,377	33,641	5.2	
- Other accounts	914	932	-2.0	
Deposits	36,291	34,574	5.0	0.0
Bonds and subordinated debts	3,481	2,536	37.2	-1.0
Direct banking deposits (**)	39,771	37,110	7.2	-0.5
Insurance reserves (**)	8,260	8,665	-4.7	
Indirect deposits at Countervalue	53,914	59,142	-8.8	
Total deposits	101,946	104,910	-2.8	
Direct Customer Deposits (***)	36,330	34,576	5.1	
Indirect Customer Deposits (***)	42,494	47,106	-9.8	
Total Customer Deposits (***)	87,084	90,347	-3.6	

(*) This item does not include loans stipulated, in the form of repurchase agreements, with the Clearing House and Guarantee Fund; it includes certificates of deposit (less than € 1 million in both years).

(**) The "banking direct deposits" include the contribution of the companies belonging to the banking group, while "insurance reserves" include Credemvita insurance reserves and financial liabilities measured at fair value.

(***) For all reference periods, debt securities issued on institutional markets and indirect deposits of a financial nature are deducted. "Total customer deposits" also includes Insurance Reserves.

In greater detail, the main aggregates are highlighted:

- *Direct deposits*

According to ABI data, in Italy, in December 2022, the trend in direct deposits was down by -1.2% on an annual basis, with a more marked change in deposits, while funding through bonds remained unchanged. The decrease is mainly attributable to the deposits of businesses, which in the previous year had significantly increased the balances of deposits, given the abundance of liquidity present and the caution to proceed with new investments.

As regards the Credem Group, overall, direct bank deposits showed an opposite trend, growing by 7.2% compared to December 2021, reaching € 39.8 billion, an effect of commercial development that has also continued organically in the difficult reference context.

Deposits recorded +5.0% compared to 2021, and accompanied the growth of the customer base, mainly concentrated on the demand component (86.6% of total deposits) although the trend in interest rates is also favouring the growth of maturity deposits (3.1% versus 1.1%).

BREAKDOWN BY MATURITY (%)	2022	2021
On demand	86.6	92.0
Up to 1 year	3.1	1.1
Over	10.3	6.9
	100.0	100.0

The bonds, which amounted to € 3.5 billion at the end of December 2022, compared to € 2.5 billion in 2021, incorporate the € 200 million subordinated T2 issue, carried out in July 2022 (transaction preceded by the call) of a previous issue no longer effective in terms of equity for € 100 million), in addition to the issue of the Green Senior Preferred, intended for institutional investors, for a nominal amount of € 600 million, as already mentioned in the paragraph dedicated to the main events of the Credem Group.

Regarding the other forms of institutional deposits and the use of the ECB refinancing channel, please refer to the chapter on financial assets.

- *Indirect deposits*

With regard in particular to assets under management, the Group's performance is common to the entire System, which was affected by adverse market trends: according to Assogestioni data, assets under management at the end of 2022 amounted to € 2,215 billion, with respect to € 2,583 billion at the end of 2021. Assets under custody also suffered repercussions linked to price volatility and the increase in interest rates.

Indirect deposits, broken down by product type, show the following trend (€/million):

BREAKDOWN OF INDIRECT DEPOSITS BY TYPE OF PRODUCT			
'22-'21	2022	2021	%
Portfolio Management	5,745	6,729	-14.6
Mutual investment funds	9,748	10,661	-8.6
SICAV	3,762	4,348	-13.5
Other and third-party products	11,721	13,605	-13.8
Indirect customer deposits - assets under management	30,976	35,343	-12.4
Indirect customer deposits - assets under administration	11,518	11,764	-2.1
Indirect customer deposits	42,494	47,106	-9.8
Indirect deposits at countervalue	53,914	59,142	-8.8

As can be seen from the table, the drop in return, which overall on indirect customer deposits stood at -12.4% compared to the previous year, concerned all products, from management to SICAVs, with a less marked decrease for mutual investment funds. On the other hand, assets under custody closed with volumes down slightly by -2.1%, benefiting from the increase in government bond yields and new inflows from customers.

Overall, indirect deposits amounted to € 53.9 billion, compared to € 59.1 billion at the end of 2021.

Despite the market context, the companies in the wealth management area continued to innovate products and services with a strong focus on supporting the commercial networks. During 2022, Euromobiliare AM SGR continued to develop sustainable products with the launch of three new mutual funds. The commitment of the insurance companies Credemvita and Credemassicurazioni in the development of protection products continued. Euromobiliare Advisory SIM also developed the activation of a digital platform for data analysis, in collaboration with the structure of the Group's information systems, operational for the production of assessments in the field of sustainability of financial instruments in advisory and internal asset management service. In November 2022, a new financial and wealth advisory model was launched for Credem Banca branches and the network of financial advisors (Financial Wellbankers) based on a technology platform that will be progressively extended to all Group networks, with the role of the advisor at the centre. The new approach is integrated and extended to the total assets of customers with innovative views and functions; the daily

analysis of the quality of individual customer portfolios and the use of advanced algorithms and artificial intelligence will also allow advisors to manage their relationship with customers more efficiently and effectively.

The national market shares related to the Italian banks show the following evolution (in %):

DEPOSITS MARKET SHARE (%)	2022	2021
Direct deposits (*)	1,869	1,756
Indirect deposits	1,423	1,486
Overall customer deposits (*)	1,599	1,588
<i>of which:</i>		
<i>Direct deposits of consumer and income generating households</i>	<i>1,484</i>	<i>1,460</i>
<i>Indirect deposits of consumer and income generating households</i>	<i>3,963</i>	<i>4,148</i>
<i>Total deposits from consumer and income generating households</i>	<i>2,374</i>	<i>2,471</i>

(*) Includes institutional counterparties

For a more detailed examination of the breakdown of direct and indirect deposits by business segment please refer to Part “L” of the Explanatory Notes to the consolidated financial statements.

8.3 FINANCIAL ASSETS

Customer deposits continue to represent the Credem Group's preferred overall funding channel.

The use of the refinancing channel through the ECB at the end of 2022, was entirely represented by participation in TLTRO III operations, for a total amount of € 5.7 billion. No new transactions were carried out during the year. In December 2022, the Bank made a voluntary early repayment of € 1.2 billion of the TLTRO III.3 tranche maturing in March 2023. In December 2022, the € 1.4 billion TLTRO III.2 tranche, which had reached its natural maturity, was also repaid.

In the first quarter of 2022, as part of the Group Green, Social and Sustainability Bond Framework, an inaugural issue of a Green Senior Preferred bond loan was placed, aimed at institutional investors, for a nominal € 600 million.

As part of Credem CB's Covered Bank Bonds programme, in April 2022, the Base Prospectus was renewed, and in the following month a new € 500 million issue was placed. The total nominal value of the Covered Bonds outstanding at 31 December 2022 is equal to € 2.1 billion.

In July 2022, Credemholding S.p.A. placed the stand-alone issue of a subordinated Social Tier 2 bond loan for a nominal amount of € 200 million, intended for institutional and professional investors. At the same time, Credem issued a Tier 2 subordinated bond loan with the same characteristics, fully subscribed by Credemholding S.p.A.

During the same month, Credem exercised the early repayment option provided for the € 100 million subordinated Tier 2 bond issued in 2017.

The management of the bond portfolio, at an individual level, favoured the investment in securities of Italian and European issuers. The percentage of the total portfolio represented by Italian issuers was about 45% at the end of 2022.

In the course of 2022, a substantially stable position was maintained in government bonds issued by the US Treasury, denominated in USD, for a total value of € 1.8 billion.

The portfolio is therefore mainly composed of government bonds, both euro-denominated and issued by European states and USD-denominated, as well as bonds issued by banks and other corporate issuers and a portion of the securities issued under securitisation transactions.

FINANCIAL ASSETS - SECURITIES (€/mln)	2022	2021
Held for trading	55	60
HTCS	6,199	6,593
HTC (*)	7,861	7,033
	14,115	13,686
LOANS AND DEPOSITS FROM BANKS (€/mln)		
Loans to banks	1,487	8,949
Bank deposits	8,736	12,586

(*) Assets held to collect contractual cash flows, measured at amortised cost

During 2022, secured financing of owned assets continued with repo funding *transactions* carried out mainly on government securities in both euros and dollars, which at the end of 2022 amounted to € 4.8 billion.

The banking group maintained a surplus of liquidity in the accounts held at the ECB for the whole of 2022. At the end of December, it amounted to € 3.1 billion.

8.4 PROPERTY

The Group's property and buildings are analysed below (€/million):

PROPERTY	2022	2021
Land		
- operational use	136.5	136.7
- investment purposes	2.4	2.6
Owned properties:		
- operational use	119.7	125.5
- investment purposes	2.7	3.0
Rights of use acquired through leases	124.9	127.0

9. GROUP STRUCTURE AND CONTRIBUTION OF COMPANIES

9.1 KEY FIGURES

The following table shows the evolution of the territorial presence of the Group, the data for 2022 include the branches deriving from the consolidation of Cassa di Risparmio di Cento:

LOCAL PRESENCE	2022	2021
Credembanca	426	434
Credem Euromobiliare Private Banking	20	20
TOTAL BRANCHES	446	454
Regions	19	19
Provinces	94	93
"Credempoint"	70	62
Banca Euromobiliare Financial Outlets	13	14
TOTAL FINANCIAL OUTLETS	83	76
Financial advisors with Credembanca mandate	520	526
Financial advisors with Banca Euromobiliare mandate	313	322
TOTAL EXTERNAL FINANCIAL ADVISORS WITH MANDATE	833	834
CORPORATE CENTRES	38	37
SMALL BUSINESS CENTRES	58	58
FINANCIAL AGENTS RESIDENTIAL MORTGAGES	256	239
FINANCIAL AGENTS "SALARY-BACKED LOANS" and SPECIAL PURPOSE AGENTS (WITH COLLABORATORS)	506	444

The tables show the physical channels, while as regards virtual channels, please refer to the individual report of Credem Banca in the section related to payment systems.

Within the branch network, work to optimise the sales outlets of the branch network continued: 11 branches were closed in areas where other branches are present or in areas with low development prospects, which could be served by sales outlets in neighbouring areas. At the same time, 3 new branches were opened in areas with excellent growth prospects. During 2022, 7 branches were transferred to the Private Business Unit, from commercial banking, in preparation for the transfer of the business unit.

In terms of financial promotion, 2022 saw the network consolidate with 520 operating agents, keeping the number of Credem Points at 67 to confirm an important level of service to customers.

In 2022, the number of business centres remained stable, with optimal coverage of the main centres.

The table shows the number of employees by group company:

NUMBER OF EMPLOYEES BY COMPANY	2022		2021		Changes
	number	inc.%	number	inc.%	
Credito Emiliano	5,641	85.3	5,676	85.9	-35
Credemleasing	106	1.6	105	1.6	1
Credemfactor	74	1.1	75	1.1	-1
Credem Euromobiliare Private Banking	263	4.0	246	3.7	17
Euromobiliare A.M. SGR	55	0.8	58	0.9	-3
Euromobiliare Advisory SIM	61	0.9	56	0.8	5
Credem Private Equity	3	0.0	3	0.0	0
Credemvita	66	1.0	66	1.0	0
Credemassicurazioni	24	0.4	24	0.4	0
Magazzini Generali delle Tagliate	28	0.4	29	0.4	-1
Credemtel	107	1.6	99	1.5	8
Euromobiliare Fiduciaria	6	0.1	7	0.1	-1
Avvera	136	2.1	122	1.8	14
S.A.T.A.	16	0.2	16	0.2	0
Blue Eye Solutions	30	0.5	26	0.4	4
Consolidated	6,616	100	6,608	100	8

The business areas of the Group are divided into various companies that can be ideally combined by identifying four main areas:

- Commercial and Private Banking**
 It is the main source of revenues of the Group, contributing to more than 80% of the consolidated net interest and other banking income. Profits (€ 201.4 million) account for 64% of consolidated profit.
- Non-banking business and Consumer Lending**
 They contribute 10% of consolidated revenues and 17% of the Group's profits, with an increase of 26.8% compared to the comparative period, supported by the excellent dynamics of volumes.
- Asset Management and Bancassurance**
 The range of services dedicated to customers is completed by the companies in the Wealth Management area, which represent 10% of consolidated revenues, but contribute to the Group's profitability, accounting for 21% of the consolidated profits despite the uncertain frame of reference, which was unfavourable during the last year.
- Other activities:**
 Lastly, the Group is also characterized by the presence of companies not strictly linked to the banking sector, but still significant, both in terms of contribution to the Group and in terms of the possibility of expanding the range of products offered to customers.

The tables highlighted below show the main indicators relating to the group companies:

- Income statement by company

CONTRIBUZIONE PER SOCIETA' AL CONSOLIDATO (milioni di euro)	COMMERCIAL E PRIVATE BANKING			PARABANCARIO e CONSUMER LENDING			ASSET MANAGEMENT e BANCASSURANCE			ATTIVITA' DIVERSE			CONSOLIDATO*		
	dic-22	dic-21	var%	dic-22	dic-21	var%	dic-22	dic-21	var%	dic-22	dic-21	var%	dic-22	dic-21	var%
MARGINE DA INTERMEDIAZIONE	1,207,3	1,045,7	15,4%	150,2	123,6	21,5%	149,8	198,3	-24,4%	38,7	35,4	9,5%	1,472,9	1,336,7	10,2%
COSTI OPERATIVI	-813,2	-797,6	1,9%	-62,7	-54,9	14,2%	-50,2	-47,3	6,1%	-30,0	-27,2	10,3%	-900,3	-875,8	2,8%
RISULTATO OPERATIVO	394,1	248,1	58,8%	87,5	68,7	27,4%	99,6	151,0	-34,0%	8,8	8,2	7,3%	572,5	460,9	24,2%
RISULTATO ANTE IMPOSTE	292,5	262,0	11,6%	79,6	62,2	28,7%	92,9	144,3	-35,6%	8,9	8,4	6,7%	461,6	466,2	-1,0%
UTILE NETTO**	201,4	209,0	-3,6%	53,4	42,1	26,8%	85,7	101,9	-15,9%	6,4	6,3	2,0%	317,0	352,4	-10,1%

CONTRIBUTION BY COMPANY TO CONSOLIDATED TOTAL (millions of Euro)

NET INTEREST AND OTHER BANKING INCOME

OPERATING COSTS

OPERATING RESULT

PRE-TAX RESULT

NET PROFIT**

COMMERCIAL AND PRIVATE BANKING

NON-BANKING FINANCIAL SERVICES AND CONSUMER LENDING

ASSET MANAGEMENT AND BANCASSURANCE

OTHER ACTIVITIES

Other companies – Sata, Credem Cb, Bue Eye Solution

CONSOLIDATED*

Dec-22

Dec-21

1,207.3	1,045.7	15.4%	150.2	123.6	21.5%	149.8	198.3	-24.4%	38.7
35.4	9.5%	1,472.9	1,336.7	10.2%					
-813.2	-797.6	1.9%	-62.7	-54.9	14.2%	-50.2	-47.3	6.1%	-30.0
-27.2	10.1%	-900.3	-875.8	2.8%					
394.1	248.1	58.8%	87.5	68.7	27.4%	99.6	151.0	-34.0%	8.8
8.2	7.3%	572.5	460.9	24.2%					
292.5	262.0	11.6%	79.6	62.2	28.1%	92.9	144.3	-35.6%	8.9
8.4	6.1%	461.6	466.2	-1.0%					
201.4	209.0	-3.6%	53.4	42.1	26.8%	65.7	101.9	-35.6%	6.4
6.3	2.0%	317.0	352.4	-10.1%					

(*) Consolidation adjustments, not highlighted in the table, concern dividends collected from consolidated companies, the contribution of investments valued under the equity method and revenues from services provided to other companies of the Group.

(**) The 2021 profit included badwill from the transaction with Caricento (€ 97.1 million) and performance fees that make the year-on-year comparison not very meaningful.

- Customer volumes by company*

CUSTOMER VOLUMES	LOANS	% change	DIRECT	% change	UNDER MANAGEMENT	% change	UNDER ADMINISTRATION	% change
COMMERCIAL and PRIVATE BANKING								
 PARENT	33,603	4.2	34,500	4.2	30,763	-10.2	7,903	0.2
 EUROBANK PRIVATE BANKING	451	0.2	2,025	15.5	8,190	-12.0	3,631	-6.8
NON-BANKING and CONSUMER LENDING								
 CROWN  HYPERMART	3,194	5.4						
 CROWN  HYPERMART	1,540	19.1						
 AVVERA	1,582	82.3						
ASSET MANAGEMENT and BANCASSURANCE								
 EUROBANK ASSET MANAGEMENT					9,553	-8.8		
 EUROBANK ASSET MANAGEMENT					3,762	-23.6		
 EUROBANK ASSET MANAGEMENT					14	-23.6		
 EUROBANK ASSET MANAGEMENT					195	6.3		
 EUROBANK ASSET MANAGEMENT					8,260	-4.7		
Other	15		193					
Aggregate	40,385	6.4	36,717	4.8	60,737	-9.7	11,534	-2.1
Consolidation adjustments	-5,902		-386		-21,501		-16	
CONSOLIDATED	34,483	4.0	36,330	5.1	39,236	-12.3	11,518	-2.1

(*) In this table, the institutional assets under custody of € 11.4 billion are not represented, the volumes of the Parent Company include intercompany services to the other companies

9.2 COMMENTS ON THE GROUP COMPANIES' RESULTS

In the following pages, we report the analysis of the main aggregates and the contribution of the individual companies (in € millions), taken from accounting situations drawn up in accordance with IAS/IFRS international standards for all the companies examined

	Dec-22	Dec-21	Changes %
ECONOMICS: € mln/%			
Net interest and other banking income	1,126.2	973.7	15.7%
Costs (Overheads + Amortisation/Depreciation)	-752.0	-742.3	1.3%
Personnel	-462.8	-456.3	1.4%
Administrative	-205.1	-206.2	-0.5%
Amortisation/depreciation	-84.0	-79.8	5.3%
Operating profit	374.2	231.4	61.7%
Value adjustments to loans	-41.9	-27.1	54.6%
Net Profit	189.0	199.5	-5.2%
Net profit without goodwill 2021	189.0	102.4	84.6%
VOLUMES (sfp): €/million/%			
DIRIND "customers"	73,093	75,161	-2.8%
of which: Managed + Third party	30,763	34,265	-10.2%
Loans	33,603	32,252	4.2%
Cost/Income with amm./dep. %/bps	66.8%	76.3%	

The 2022 financial result of Credem amounted to € 189.0 million compared to € 199.5 million in the comparative period, which was characterised by the merger by incorporation of CR Cento with accounting effect from 1 July 2021, resulting in extraordinary income and charges (in particular goodwill for € 97.1 m and integration costs for € 22.5 m).

The financial margin grew sharply (+34%), thanks to the favourable trend in the interest rate curve and commercial development. The contribution of brokerage to customers grew, penalised by lower interest deriving from the hedging of demand items, but benefiting from the growth of the reference curve and the opening of the interest rate spread, which benefits from a still low cost of funding as well as from higher volumes of deposits and loans disbursed on average during the year. The own securities sector benefited from the positive trend of the interest rate curve as well as from the growth in invested volumes. The contribution of the net interbank position, which only in the second half of the year was affected by the increase in rates and the worsening of funding costs, was positive.

The contribution of trading and the sale of financial assets in securities was positive, while the performance of the markets led to a decline in commissions relating to individual management and the placement of funds. The income related to traditional banking services was very positive.

Overheads and amortisation/depreciation in 2022 amounted to € 752.0 million (+1.3% compared to the previous year) and include some non-linear components deriving from the extraordinary transaction aimed at the reorganisation of private banking. Depreciation and amortisation for € 84 million were up by 5.3% due to substantial investments in projects to support the business and regulatory requirements.

These results translated into an increase in the operating result (+61.7%). The cost of credit is low and amounted to € -41.9 million (€ -27.1 million in 2021, contributed by a significant recovery on performing loans) despite the evolution, in the last quarter of the year, of the criteria for the write-

down of unlikely to pay and bad loans. Extraordinary charges/income of € -61.2 million include higher systemic charges (€ -59.7 million compared to € -52.6million in the previous year) and higher provisions for risks and charges (€ -4.5 million), in addition to the profit from the sale of the investment in Gestimlux.

With reference to Credem Banca, we highlight below the main aggregates relating to retail and corporate commercial banking and to private banking, based on management control data, reporting as a comparison period the figure of December 2021 which already included Cassa di Risparmio Caricento in the scope of consolidation and therefore offers a like-for-like comparison.

Commercial banking (€/mln) (Retail and Corporate)	Dec-22	Dec-21	Changes %
Gross loans	25,835	25,768	0.3
Direct deposits	28,082	27,080	3.7
Indirect deposits	22,441	23,869	-6.0
Total deposits	50,523	50,949	-0.8
. Assets under management	17,707	19,315	-8.3
. Assets under administration	4,734	4,555	3.9

(*) The figure excludes € 5.7 billion in loans (€ 4.7 billion in 2021) attributable to loans to Group companies and other smaller centres

The negative performance of the financial markets penalised funding stocks, which decreased by 8.3% compared to December 2021, also in the face of positive net production (equal to over € 500 million). The dynamics of the interest rate curve, which in the second half of the year saw yields move rapidly upwards, and the dynamics of inflation affected the performance of the aggregates of direct deposits and deposits under administration. Direct assets, despite the outflows for investments under custody and current expenses, nonetheless grew, compared to the previous year, with an increase of 3.7%, while assets under custody closed at +3.9%, benefiting from very favourable rates on government bonds.

In 2022, total loans stood at € 25.8 billion, specifically, disbursements were driven by the contribution of the Business segment and the home mortgage segment, which, however, was affected by the slowdown in the subrogation market.

On the corporate front, the increase in the customer base continues despite the conclusion of the measures to support the economy by the Government; the effort put in place, which allowed the growth of both short and medium-term amounts, was significant.

Private Banking (€/mln)	Dec-22	Dec-21	% change
Gross loans	986	976	1.3
Direct deposits	5,102	4,455	14.5
Indirect deposits	18,702	20,726	-9.8
Total deposits	23,804	25,182	-5.5
. Assets under management	13,270	15,246	-13.0
. Assets under administration	5,432	5,480	-0.9

The growth in direct deposits(+14.5% on 2021) only partially offset a particularly negative market effect, bringing the capital of customers down (from € 25.2 billion at the end of December 2021 to € 23.8 billion) in December 2022).

The activity on cross selling and the acquisition of new customers has allowed the development of all services and in particular of credit/debit cards and contracts for accessing banking services through use of the Internet.

(Debit and credit) cards grew by +3.9% on an annual basis. Uses also showed a marked recovery, with Credemcard spending at +16.3% compared to the previous year and Carta Ego at +17.2%.

CONSOLIDATED FINANCIAL STATEMENTS – REPORT ON OPERATIONS

As regards digital services, an increasing number of customers are using virtual channels to access the bank, from their PCs or mobile phones, through their Internet Banking contract.

Active Internet Banking contracts for private customers, and for Business On and Telemaco 32 corporate customers, showed a +3.2% rise yoy.

With a view to paper-based dematerialisation, Mybox, i.e. the service for the distribution and archiving of bank-customer communications, absorbs 69.5% of communications. For the same purpose, the “Fircon” remote digital signature service saw a growth of 7.5% on an annual basis.

	Dec-22	Dec-21	Changes %
<i>ECONOMIC INDICATORS:</i> €/mln/%			
Net interest and other banking income	81.1	72.0	12.6%
Costs (Overheads + Amortisation/Depreciation)	-61.2	-55.4	10.5%
Personnel	-34.6	-31.3	10.8%
Administrative	-22.3	-19.9	12.2%
Amortisation/depreciation	-4.2	-4.2	0.4%
Operating profit	19.9	16.6	19.4%
Losses on loans	-0.1	0.1	-152.3%
Net Profit	12.4	9.5	30.0%
<i>VOLUMES (sfp):</i> €/mln/%			
DIRIND "customers"	13,846	14,957	-7.4%
<i>of which: Managed + Third party</i>	8,190	9,309	-12.0%
Loans	451	450	0.1%

In 2022, customer assets equaled € 13.8 billion, decreasing by 7.4% compared to 2021, due to a very negative market effect (-14%), only partially offset by the positive contribution of net deposits, equal to € 1,029 million. In the period under review, the assets under management fell (- 12%), despite the positive net inflows which benefited from inflows on collective investment undertakings (both Group and third party) and Group insurance products. Assets under custody reached € 545 million in positive deposits, more than offset by a negative market effect, which contributed to a decrease in the balances at the end of the period (- 6.5% compared to the previous year). On demand and timed direct assets, increased by € 324 million, while loans remained unchanged.

The net result amounted to € 12.4 million, up by 30% compared to the previous year, mainly due to the growth in the financial margin, which incorporated the recent increase in rates. The performance of the margin from services had the opposite sign and its decrease is attributable to the overall reduction in net commissions, especially for the component linked to performance . The contribution of finance was positive, with an increase in net profit from trading thanks to the sale of some securities in the proprietary portfolio (€ 0.9 million, compared to € 0.6 million in 2021).

Costs are affected by rising personnel expenses due to the recruitment of private bankers and the organisational strengthening implemented (there were 401 commercial resources at the end of 2022), while the increase in general expenses is mainly due to higher outsourcing costs, also linked to the Bank's growth in size.

The result before taxes in December 2022 was € +18 million compared to € +13.5 million in the previous year.

In November 2022, the company was renamed Credem Euromobiliare Private Banking, and the sales network was reorganised in line with a broader review of the organisational model. The project, already partially activated in February 2021, initially envisaged the introduction of Group coordination aimed at synergistically managing the private banking business within the Credem Group. The project activity was completed, at the end of February 2023, with the transfer of the Credem *Private* Banking Business Unit to Credem Euromobiliare Private Banking . For further details, please refer to the paragraph dedicated to the business outlook.

	Dec-22	Dec-21	Changes %
ECONOMIC INDICATORS: €/mln/%			
Net interest and other banking income	53.8	36.3	48.2%
Costs (Overheads + Amortisation/Depreciation)	-27.1	-21.7	25.3%
Personnel	-12.4	-11.0	12.7%
Administrative	-11.4	-8.1	41.3%
Amortisation/depreciation	-3.3	-2.6	29.1%
Operating profit	26.7	14.7	82.0%
Losses on loans	-8.0	-3.0	163.5%
Net Profit	11.7	7.1	65.1%
VOLUMES (sfp): €/mln/%			
Net balance sheet receivables	1,582	868	82.3%

The mortgage market recorded lower volumes in 2022 than 2021 (-12.5%), the consumer credit segment recorded a recovery in 2022 compared to 2021 (the Special Purpose Loans recorded +2.8% compared to 2021, Salary-backed loans increased by +5.0%, Personal Loans increased by +18.7% year on year).

In 2022, the results obtained by Avvera in the brokerage of mortgages to private customers went against the market trend, with brokered volumes of € 697.0 million (+7.9% year on year over 2021). The volumes of early redemptions are down by 9% compared to 2021. Transfers to bad loans of brokered mortgages were numerically very limited and in line with the previous year. With regard to Salary-backed loans, the volumes financed in 2022 amounted to € 385.2 million, up by 24.9% compared to 2021. With regard to Personal Loans, the total disbursed was € 88.5 million, and for Special Purpose Loans € 384.8 million.

Net interest and other banking income amounted to € 53.8 million (+48.2% over 2021). The increase is driven by a greater contribution of the commission margin on mortgages and the increasing contribution of the Net Interest Income, driven by the growth of the stock. The increase in the cost of credit is given by the trend in volumes and a prudent approach to collective write-downs.

The increase in costs, both for the personnel component and administrative expenses, is due to the development of the Company.

The net result for the period was € 11.7 million, higher than 2021, when a profit of € 7.1 million was recorded, thanks to the contribution of the growth in loan volumes and the positive performance of the brokerage of mortgages and ancillary insurance products.



CREDEM LEASING

	Dec-22	Dec-21	Changes %
ECONOMIC INDICATORS: €/mln/%			
Net interest and other banking income	63.4	59.5	6.7%
Costs (Overheads + Amortisation/Depreciation)	-18.8	-17.1	9.6%
Personnel	-10.8	-10.0	7.6%
Administrative	-6.7	-6.0	12.9%
Amortisation/depreciation	-1.3	-1.2	9.5%
Operating profit	44.6	42.3	5.5%
Losses on loans	0.9	-2.4	137.4%
Net Profit	30.7	26.1	17.9%
VOLUMES (sfp): €/mln/%			
Net balance sheet receivables	3,194	3,031	5.4%

The market finalised a total of approximately € 31.5 billion worth of investments, with an increase of 9.7% compared to 2021, and continues to be characterised by the prevalence of investments in the "securities" segment, which accounts for 91% of the total value of new contracts signed in the year. The performance of the capital goods department continues to benefit from SME subsidised measures including the "New Sabatini" law, while the real estate sector experienced a decline.

Credemleasing recorded a commercial performance that was in line with the sector, showing, compared to the previous December, an increase of 9% in the overall value of the financed investments and of 8.2% in the number of new contracts stipulated.

The securities sector accounts for 72% of new contracts and continues to be composed predominantly of capital goods, which have increased by 1.6% compared to December 2021. Vehicles recorded a 16.4% increase in the value financed, characterised by investments in industrial and commercial vehicles. The nautical sector also recorded strong growth in terms of volumes (+76.2%).

The real estate sector goes against the trend of the system, with volumes up by 13.4% compared to the previous year: the "to be built" segment contributes to the sector for 52% of the financed volumes, with an increase of 17.8% compared to the previous year, while the "finished" properties segment recorded a +9.1% in volumes, with transactions concentrated in the amount brackets up to € 2.5 million.

The main trends in the core business show an increase in net interest and other banking income, positively impacted by net interest income thanks to the increase in average capital generated (+5.3% compared to 2021), the trend in market interest rates and (which gradually returned to positive territory during the second half of the year) by the positive trend in commission income from the management of lease agreements.

Adjustments to loans show overall a write-back mainly attributable to performing loans which show an improvement in the quality of the related portfolio, as well as incorporating the effects of the updates made to the IFRS 9 methodology adopted by the Group.

Administrative costs increased overall due in particular to the component related to the management and disbursement of contracts; the Cost/Income at 29.6% confirms a good level of operating efficiency.

Net profit amounted to € 30.7 million, compared to € 26.1 million in the previous year.



CREDEMFACTOR

	Dec-22	Dec-21	% %
<i>ECONOMIC INDICATORS:</i> €/mln/%			
Net interest and other banking income	27.2	22.3	21.9%
Costs (Overheads + Amortisation/Depreciation)	-12.0	-11.5	4.3%
Personnel	-7.8	-7.5	4.0%
Administrative	-3.4	-3.3	2.7%
Amortisation/depreciation	-0.8	-0.7	14.7%
Operating profit	15.2	10.8	40.6%
Losses on loans	0.0	0.9	103.7%
Net Profit	10.3	8.1	26.5%
<i>VOLUMES (stp):</i> €/mln/%			
Net balance sheet receivables	1,540	1,293	19.1%

The Italian factoring market showed significant growth for all indicators compared to 2021. According to preliminary data, at 31 December 2022, turnover recorded a growth of 14.5% compared to last year, in line with the forecasts formulated in the ForeFact Report of Assifact last November.

The outstanding amount stood at € 1,682 million, an increase of 16.9% on the previous year. The turnover flow amounted to € 5,348 million, up by +19.1% compared to the same period of the previous year, which already recorded an increasing trend compared to 2020, thanks above all to the development of the non-recourse component.

Net loans at book value amounted to € 1,540 million, an increase of 19.1% compared to 2021. The market share of specific loans, in November 2022, stood at 2.44% compared to 2.38% in 2021. From an asset quality point of view, non-performing loans decreased by 23.3% compared to December 2021, due to the decrease in all components, with an NPL ratio of 0.72% compared to 1.11% in 2021.

Ordinary business activities generated net interest and other banking income of € 27.2 million, up by 21.9% compared to 2021. The figure was positively affected by the increase in both the financial margin and the services margin, both benefitting from the growth in progressive average loans (+20.4%) and by the higher turnover. Operating costs amounted to € 11.2 million, up by 3.6% on the previous year due to the increase in the number of resources following the structural evolution of the company.

Net value adjustments to loans had an impact on the income statement for € 32.4 thousand, the effect of individual write-downs of € 2.8 million and net write-backs on performing loans for € 2.4 million.

Operating income/charges, amounting to € 403 thousand, were essentially affected by the profit-sharing of the Insurance Company Coface, as well as the recovery of stamp duty expenses on invoices and the recovery of legal expenses following injunctions.

Profit amounted to € 10.3 million, up 26.5% compared to the previous year.

The main areas of strategic innovation, in line with the Group's guidelines, relate to the increase in the digitalisation of multi-channel customer service processes, the efficiency of internal operating processes to reduce the cost to serve and optimize the service and launch of the INSTANT project for the activation of the PEF, an electronic credit facility procedure, integrated with the internal management system and enabling factor for instant prospect resolutions.

	Dec-22	Dec-21	% %
<i>ECONOMIC INDICATORS:</i> €/mln/%			
Net interest and other banking income	58.2	100.6	-42.1%
of which Performance fees	3.5	47.1	-92.5%
Costs (Overheads + Amortisation/Depreciation)	-17.9	-16.8	6.8%
Personnel	-7.3	-7.5	-2.6%
Administrative	-10.1	-8.8	15.0%
Amortisation/depreciation	-0.5	-0.4	2.7%
Operating profit	40.3	83.8	-51.9%
Net Profit	29.4	59.6	-50.7%
<i>VOLUMES (sfp):</i> €/mln/%			
House funds	9,553	10,478	-8.8%
House SICAV	3,762	4,348	-13.5%

The data of the monthly map of Assogestioni of December 2022 show a total collection of funds and collective asset management in 2022 of 19.7 billion against the boom of 93 billion in 2021, in addition to the trend that influenced the overall volumes of the Italian market. against the markets. Net deposits in December 2022, as regards Italian funds and SICAVs, recorded an overall positive figure of € 259 million (€ +323 million and € -64 million, respectively), in line with the industry trend as a whole, which records positive inflows.

The volumes relating to UCITS decreased overall compared to the end of the previous year due to the negative capitalisation effect due to market trends. The asset mix shows a decrease in the weight of bond *life cycle* products (36.3% against 38.0% at the end of 2021) in favour of flexible products (41.1% against 40.0% at the end of 2021) and balanced products (16.6% against 16.0% at the end of 2021). The weight of equity products confirmed its stability (6.0%).

The Company's market share, in terms of asset management (including Italian funds and SICAV), is 1.24%, up against the figure recorded at the end of 2021 (source: Assogestioni).

The net result amounted to € 29.4 million, a decrease of -50.7% compared to 2021, mainly due to lower net commissions (-43.0%, of which management fees -1.2% and performance fees -92.5%). General expenses amounted to € 17.4 million, up compared to 2021 (+6.9%), due to the increase in other operating expenses (+15.0%), mainly linked to the start of the Bloomberg AIM project (new platform for the middle/front office) and sustainability projects.

 EUROMOBILIARE ADVISORY SIM	Dec-22	Dec-21	Changes %
<i>ECONOMIC INDICATORS:</i> €/mln/%			
Net interest and other banking income	16.1	21.7	-25.8%
of which Performance fees	0.0	4.9	n.s.
Costs (Overheads + Amortisation/Depreciation)	-11.7	-11.6	1.7%
Personnel	-6.3	-7.1	-10.7%
Administrative	-4.9	-4.0	23.3%
Amortisation/depreciation	-0.5	-0.5	-8.5%
Operating profit	4.4	10.1	-56.5%
Net Profit	3.0	7.4	-59.3%
<i>VOLUMES (sfp):</i> €/mln/%			
Group asset management under delegation	6,036	7,104	-15.0%
Group advisory assistance	38,323	43,819	-12.5%
Direct Services	457	500	-8.6%

In a difficult market context that significantly reduced assets, the Company confirmed a certain resilience that allowed it to close the year with a profit for the year of € 3 million.

Stocks at market values, which amounted to € 6,036 million at 31 December 2022, saw a considerable decrease compared to the end of the previous year, only minimally due to negative deposits and mainly attributable to the negative trend of the financial markets, which recorded a decline in the values of all asset classes, in all geographies, with significant impacts on the value of the assets of the portfolio management service under delegation.

Assets under administration, assets for which EA SIM provides investment advisory assistance given to Group banks, suffered from the negative trend of the markets.

In relation to the extra-captive activities, management delegations received from Banca del Piemonte and the Luxembourg insurance companies of third parties that distribute in Italy under the Freedom to Provide Services system continued. In terms of independent advisory services, the growth trend already recorded last year was strengthened by combining High Net Worth Individuals with Large Corporate customers, while there was a negative trend in deposits linked to the management delegation of Banca del Piemonte for events that have characterised its network.

Also this year the Company received the recognition from the German Institute of Quality and Finance as confirmation of the quality of the services offered.

In 2023, the Company will continue to maintain a significant focus on the development of the path of integration of ESG criteria in its business strategies, corporate social responsibility, communication and training in alignment also with the policies defined at Group level. In addition, a project program aimed at changing its technological architecture will be launched, focused on improving the efficiency and effectiveness of the procedures and processes related to the services addressed to the Group banks and to those in the extra-captive area towards institutional counterparties. Lastly, developments related to the company data platform will continue in order to further develop its path in the field of data analysis and data management.



CREDEM VITA

	Dec-22	Dec-21	% %
<i>ECONOMIC INDICATORS:</i> <i>€/mln/%</i>			
Net interest and other banking income	64.8	65.3	-0.7%
of which Performance fees	0.0	1.5	n.s.
Costs (Overheads + Amortisation/Depreciation)	-17.4	-15.6	11.2%
Personnel	-6.3	-5.8	8.9%
Administrative	-9.9	-8.7	13.8%
Amortisation/depreciation	-1.2	-1.2	3.3%
Operating profit	47.4	49.6	-4.4%
Net Profit	32.6	34.4	-5.1%
<i>VOLUMES Group networks (sfp):</i> <i>€/mln/%</i>			
Segment I	4,161	4,042	2.9%
Segment III	3,321	3,879	-14.4%
Segment VI	396	408	-2.9%

In 2022, Credemvita recorded commercial results that were down, in particular due to:

- Total gross premiums collected amounted to € 1,020.9 million, down 23% compared to 2021 (€ 522.2 million attributable to Segments I and V policies subject that can be revalued; € 409.9 million to Unit-Linked products; € 33.5 million to life insurance and credit protection policies; € 55.3 million to the Pension Fund).
- Services rendered amounted to approximately € 780.6 million, up by 14% compared to the same period of 2021.
- Net deposits of € +240.3 million, down by 63% compared to the previous year, due exclusively to Unit Linked policies.

A net profit of € 32.6 million was recorded, slightly lower than in 2021. The decline was mainly attributable to the trend in revenues on Unit and Pension Fund policies, which were impacted by a significant market effect that has reduced the reference stocks at that date due to the decline in almost all asset classes.

Shareholders' equity stood at € 177.7 million and incorporates the 2021 profit (€ 34.4 million) and the change in the valuation reserves of financial assets, net of components attributed to policyholders (€ -213.4 million after tax).



CREDEMASSICURAZIONI

	Dec-22	Dec-21	% %
<i>ECONOMIC INDICATORS:</i> €/mln/%			
Premiums for the period	47.6	45.4	4.8%
Charges relating to claims	-6.1	-6.9	-12.1%
Overheads and administrative costs	-22.2	-20.9	6.3%
Technical balance	18.5	18.0	3.3%
Ordinary operating profit (*)	19.0	18.2	4.1%
Net profit (loss) (100%)	12.8	12.8	-0.4%

(*) Technical balance + Amortisation/Depreciation + Financial income

At 31 December 2022, Credemassicurazioni collected premiums of approximately € 51.9 million, up by 4% compared to the previous year, thanks to the good performance of CPI and Leasing products, which offset the decline in personal protection products. In more detail:

- CPI Products, with premiums of € 9.7 million (accounting for 19% of total volumes, with the percentage rising on total premiums), were up by 45% compared to 2021.
- Leasing products recorded premiums of € 2.3 million (+4% compared to 2021).
- Individual Protection products recorded premiums of € 39.9 million, down by 3% compared to 2021, and accounting for approximately 77% of total premium collected.

Credemassicurazioni reported an IAS net profit of € 12.8 million at 31 December 2022, in line with the result for 2021.

This result is attributable to:

- Increase in total revenues (premiums for the period recorded an increase of € +2.2 million compared to 2021, +5%).
- Trend of the claims down compared to the end of 2021 (2022 loss ratio equal to 12.7%, compared to 15.2% in 2021).
- Increase in overall overheads (both commissions retroceded as a result of the production mix, and administrative costs).

Shareholders' equity, which at 31 December 2022 amounted to € 57.4 million (excluding the profit for the period), recorded a decrease of € -2.7 million against the figure of 2021. This decrease is mainly due to the increase in reserves due to earnings retained from previous years net of dividends paid (€ +6.9 million) and to changes in valuation reserves of financial assets after tax (€ -9.6 million).

 CREDEM PRIVATE EQUITY SGR		Dec-22	Dec-21	% %
<i>ECONOMIC INDICATORS:</i>	<i>€ mln/%</i>			
Shareholders' equity not including profit	€/million	7.5	7.0	+8.2%
Employees	No.	3	3	
Profit before tax	€/million	0.8	0.8	-5.3%
Net profit	€/million	0.5	0.6	-6.8%

In 2022, the Company concluded the following investment transactions:

- Indirect minority interest in “Contri Spumanti S.p.A.”, active in the production and distribution of still and sparkling wine.
- Minority interest in “HMC Premedical S.p.A.”, active in the medical-biomedical sector.
- Indirect majority stake in “Laboratori Italiani Riuniti S.p.A.” (LIR S.p.A.), active in the management of testing laboratories.

The SGR was also involved in arranging the public purchase offer aimed at the acquisition and delisting of Finlogic S.p.A., a company listed on the EGM market (formerly AIM Italia) managed by the Italian Stock Exchange. Finlogic is active in the production of labels and offers solutions for the coding and automatic identification of products through the use of barcodes and Radio Frequency Identification technology. At present, as communicated by the target of 6 December 2022, an agreement for participation in the takeover bid has been signed with the Company's reference shareholders.

With specific reference to the Élite Fund, on 23 June 2022, the Board of Directors of the SGR resolved, subject to the favourable opinion of the Advisory Committee of the Fund, a one-year extension of the "call period" and "investment period". On 5 October 2022, a new call for commitments was initiated, concluded in mid-November 2022, for € 24 million.

There are three Funds managed by the SGR: two Closed-end Alternative Funds placed on 10 January 2019 (Élite, for € 72.8 million and Credem Venture Capital II for € 25.8 million), and an ELTIF Fund (called Eltifplus) with assets amounting to € 132.2 million.

The SGR closed the financial statements with a profit of € 0.5 million.

		Dec-22	Dec-21	Changes %
<i>ECONOMIC INDICATORS:</i>	<i>€/mln/%</i>			
Shareholders' equity not including profit	€/million	4.1	4.0	+3.8%
Fiduciary mandates	No.	665	672	-1.0%
Securities under administration		1,346	1,399	-3.8%
Profit before tax	€/million	0.1	0.1	-70.6%
Net profit	€/million	0.1	0.1	-62.2%

2022 was a year characterised by extreme market volatility.

Fiduciary assets under management lost € 171 million, in sharp contrast to the last few years.

Net fee and commission income in 2022 was down slightly compared to the figure of 2021 and amounted to € 1,261 thousand, plus other operating income, for a total of € 1,956 thousand. Administrative expenses amounted to € 1,896 thousand, up due to personnel expenses and some costs for outsourced services provided by Group companies.

The gross profit for the year amounted to € 54 thousand, compared to € 180 thousand in 2021.

For 2023, the company expects to benefit from some synergies with the other group companies, in particular thanks to the completion of the project involving Credem Euromobiliare Private Banking, strongly focused on specialisation in serving a sophisticated customer target (private and high net worth,) which could be an important driver in the proactive nature of the fiduciary service, as well as the development of the project focused on the evolution of the wealth advisory service.



MAGAZZINI GENERALI
DELLE TAGLIATE

		Dec-22	Dec-21	Changes %
ECONOMIC INDICATORS:	€/mln/%			
Storage revenues	€/million	5.7	5.5	+4.1%
Shareholders' equity not including profit	€/million	26.0	25.1	+3.8%
Profit before tax	€/million	1.0	0.9	+6.1%
Net profit	€/million	0.7	0.8	-17.7%

The production of Parmigiano Reggiano, after several years of strong growth trends, in 2022 recorded a decrease in the number of wheels by 2.17% to just over 4 million. The production of Grana Padano also fell slightly on an annual basis; the price dynamics were different, the price of Parmigiano Reggiano stable or slightly down, while the price of Padano rose sharply. Despite strong inflationary increases due to the rise in energy and feed, farmers continued to produce consistently also given the very high prices of milk for food use to which they were able to allocate part of the production.

Consumption remained positive both on foreign markets and in Italy, but with percentages lower than the increases recorded in production in 2020 and 2021, with a consequent increase in stocks. The decline in household disposable income, due to strong inflationary phenomena, is leading consumers to favour alternative and less expensive cheeses of lesser value.

The trend of inventories at our warehouses highlights the increasingly important use of the two facilities, plus significant efforts to replace and segment customers. Moreover, the MGT warehouse is characterised by a high level of movement of wheels, a symptom of an increasing need of customers to combine the seasoning activity with logistics.

Investments continue on two levels, the first of maintaining an adequate level of equipment and the second of planning the expansion and structural improvement of the Montecavolo site. The activity as a whole is affected by the difficulties encountered in finding industrial spare parts as well as materials for use and the increase in relevant prices. The income statement shows a positive result beyond expectations, underlining how it was possible to recover the increase in costs necessary to be able to meet the increasingly stringent needs of customers, as well as to absorb the investments made to maintain an adequate update industrial.

 		Dec-22	Dec-21	Changes %
ECONOMIC INDICATORS:	€ mln/%			
Revenues from services and sale of software	€/million	33.6	30.9	+8.8%
Shareholders' equity not including profit	€/million	35.5	29.7	+19.6%
Profit before tax	€/million	7.8	7.4	+5.4%
Net profit	€/million	5.7	5.6	+0.7%

The performance of 2022 focused on fundamental projects including: the platform for the digital management of Supply Chain Finance and initiatives related to the Business segment envisaged in the Open Banking Credem plan. Furthermore, the search for new partnerships continues both with a view to diversification and integration of the commercial offer. The Company's sustainable business model, focused on digitalisation and dematerialisation processes, continues to make processes faster and have a lower impact on the environment.

The entry into the Acceleration Programme is part of the Corporate Venture Capital (CVC) initiative launched by the Credem Group aimed at the acquisition and management of equity investments in innovative startups with high growth potential. Through the *Fintech Accelerator and Insurtech Accelerator S.r.l.*, Credemtel initially invested € 250,000 in "SBC *Fintech* Milan 2224" (equal to 19.96%, with which to indirectly acquire approximately 0.30% of each of the selected startups) and further

€ 450,000 (reaching 41.12% of the Company and indirectly a share equal to 1% of the best startups selected by the Program, in a selection and investment process that will last until 2024, already started with the payment in January 2023 of the first of three tranches of € 150,000.

From an economic standpoint: revenues, with sustained dynamics, in particular GED (Electronic Document Management) revenues both from external customers and the Group; This year the contribution of OTHER SERVICES to the Group grew significantly, generated above all by one-off payments for new projects; costs are expanding strongly in line with the strategy of diversifying the range of services offered and with the need to make the current product portfolio more scalable. Gross operating profit of € 10.1 million (+8.46%). Pre-tax profit (loss) for the year of € 7.8 million, up 5.4% compared to 2021.

The main businesses:

- *Electronic Document Management (GED)*: represents 75.8% of total turnover, with a constantly growing trend towards digitalisation and technological innovation (possible levers also for sustainability). Collaboration with the other Group companies is constantly active, to analyse the impacts and developments of Electronic Document Management services as part of the open banking project. Through the two subsidiaries, the offer was expanded and strengthened, in areas considered "strategic": with BEPlatform, the Supply Chain Management service platform, with the associated company *Andxar S.r.l.*, the electronic signature segment, and with Blue Eye Solutions S.r.l., the first RPA (*Robot Process Automation*) solutions, thanks to the use of artificial intelligence.
- Interbank Corporate Banking (ICB): accounts for 18.9% of total turnover and offers to banks. In addition to Credem, at the reporting date, three banks are served directly in the capacity of Delegated Technical Structure (DTS), with the addition of a fourth bank under a specific partnership agreement with Nexy Payment S.p.A.. The commercial proposal is based on two products, both multi-user, multi-bank and multi-company, developed with Client-server and Web-based technologies. Both products are being constantly upgraded based on regulatory developments.
- Other services: *collaboration and commercial exchanges between buyers and suppliers*. These account for 3.5% of total revenues and are broken down as follows: Telepass, Professional Services (e.g. preparation and management of websites for a number of Group companies, provision of professional services in support of the Parent Company's IT departments, and the PagoPA service.

To conclude our illustration of Group companies, note that due to its limited contribution to the balance sheet and income statement, the wholly consolidated company, special purpose vehicle Credem CB, established for the covered bonds programme, is not analysed separately; it is also necessary to emphasise that the separate credit assets related to these bonds are not derecognised.

GestimLux data is not commented upon, as it is a company disposed of in the first half of the year.

For a more detailed examination of the breakdown of these aggregates by business segment and by geographical area please refer to Part L of the Explanatory notes to the consolidated financial statements.

We provide here (in €/thousand) the reconciliation between the shareholders' equity and the profit for the year of the Parent Company with the results of the Consolidated Financial Statements.

	EQUITY	which: NET PROFIT FOR THE YEAR
Balances at 31 December 2022 of Credembanca	2,409,630	189,020
Surpluses compared with book values:		
Companies consolidated line-by-line	816,187	137,810
Companies valued under the equity method	25,097	6,643
Dividends collected during the period		-3,671
Goodwill	12,520	
Elimination of intercompany profits and other adjustments	-52,088	-12,832
Balances at 31 December 2022 of the Group	3,211,346	316,970

10. OWN FUNDS, REGULATORY RATIOS AND LIQUIDITY RATIO

OWN FUNDS AND REGULATORY RATIOS	2022	2021
"Statutory" own funds*€/mln	3,099.1	3,357.2

The change in statutory shareholders' equity, compared to 31/12/2021, is mainly due to:

- the assumed capitalisation of the profit for the year (€ 204,7 million);
- the result of the valuation of "assets held to collect cash flows and for sale" (€ -364.4 million);
- The negative balance of the fair value measurement of cash flow hedging derivatives (€ -95.4 million);
- the positive balance of the actuarial valuation of the employee severance pay (€ 7,3 million);
- the capitalisation of personnel expenses relating to payment plans based on financial instruments (€ 1,2 million);
- the change in Credemassicurazioni's shareholders' equity not incorporated in profit/loss for the year (€ -4.8 million);
- the purchase of own shares (€ -6,0 million);
- the goodwill purchase of the SATA equity investment (€ -0.7 million).

The following table illustrates the capital adequacy of the banking group in accordance with Supervisory regulations (€/million):

BANKING GROUP	2022	2021
Total own funds €/ <i>million</i>	3,172	3,169
. of which Common Equity Tier 1	2,768	2,868
- of which Tier 1 Capital	2,582	2,654
Total RWA	18,247	18,747
Total capital requirement	1,460	1,500
. credit and counterparty	1,289	1,340
. market	9	6
. operational	162	153
CET1 capital ratio (**) %	15.2	15.3
Tier 1 capital ratio	15.2	15.3
Total capital ratio	17.4	16.9
Minimum supervisory requirement (***)		
CET1 capital ratio	7.0	7.0
Tier 1 capital ratio	8.5	8.5
Total capital ratio	10.5	10.5

(**) Se CET1<TIER1; CET1=T1

(***) Including the so-called "capital conservation buffer", it does not include the additional requirement as per the "SREP decision".

The following table illustrates the capital adequacy of the reference scope for prudential supervisory purposes, namely the scope of consolidation of Credemholding (€/million):

CREDEM HOLDING SCOPE		2022	2021
Total own funds	€/million	3,063	2,993
. of which Common Equity Tier 1		2,524	2,591
- of which Tier 1 Capital		2,582	2,654
Total RWA		18,395	18,907
Total capital requirement		1,472	1,513
. credit and counterparty		1,289	1,340
. market		21	20
. operational		162	153
CET1 capital ratio (*)	%	13.7	13.7
Tier 1 capital ratio		14.0	14.0
Total capital ratio		16.7	15.8
Minimum capital requirement (**)			
CET1 capital ratio		7.0	7.0
Tier 1 capital ratio		8.5	8.5
Total capital ratio		10.5	10.5

(*) If CET1 < TIER1; CET1 = T1

(**) Including the so-called "capital conservation buffer", it does not include the additional requirement as per the "SREP decision".

More specifically, the change in the capital situation (compared to 31/12/2021) reflects:

- in positive terms:
 - the capitalisation of the profit for the year;
 - the decrease in the shareholders' equity of CredemVita* (capital losses on the securities portfolio);
 - the reduction of the deduction relating to credit shortfalls (+33 bps) + fixed assets;
 - the reduction of RWAs due to updating the models and the reduction of other assets.
- in negative terms:
 - the negative change in valuation reserves;
 - the increase in DTAs relating to capital losses on the securities portfolio;
 - the decrease in minorities (due to the decline in RWA);
 - the decrease in the shortfall (+33 bps) + change in fixed assets;
 - the increase of risk, with specific regard to credit risk, in relation to the similar rise in loans to customers.

The figures confirm the Group's excellent capital position and self-financing capacity despite the growth in volumes. CET1 at holding level therefore stood at 13.7% and, compared to the SREP 2022** requirement, reported a buffer of 616 bps.

(*) On 8 January 2021, the European Central Bank revoked the use of the standardised approach for the so-called Equity Exposure. Following this revocation, the equity investment in Credemvita is weighted at 370%. The decision follows the authorisation, deriving from the application of Article 49 of the (EU) Regulation no. 575/2103 (the "CRR") is applicable if the Group forms part of the list of those which, on the basis of the supervisory parameters, carry out significant activities both in the banking sector and investment services sector, and the insurance sector (financial conglomerates). In this regard, reference is made to the decision of the Supervisory Authority, which included the Credem Group among the above parties as from October 2017.

In this regard, please note that the additional requirement assigned by the Supervisory Body (the Pillar 2 Requirement), compared to the regulatory levels of capital in force in 2022, would be equal to 1%, however, the so-called "capital relief" introduced following the spread of the Covid-19 pandemic remain in effect. The requirement may, by virtue of these measures, be met with a minimum of 56.25% of CET1 capital and with 75% of Tier 1 capital. This decision has taken retroactive effect starting from 12 March 2020 and was subsequently extended. It resulted, therefore, in the following minimum ratios for 2022: 7.56%, 9.25% and 11.5% at the level of CET1 ratio, Tier 1 Ratio and Total Capital Ratio, respectively.

Specific reporting with regard to the capital adequacy of the financial conglomerate (also headed up by Credemholding) is shown (in €/million):

CONGLOMERATE MARGIN	2022	2021
A. Total shareholders' equity of the conglomerate	3,391	3,180
B. Capital requirements of the banking components	2,030	2,012
C. Required solvency margin of the insurance components	360	259
D. Total capital requirements of the conglomerate (B+C)	2,390	2,271
E. Surplus (deficit) of the conglomerate (A-D)	1,001	909

The shareholders' equity of the financial conglomerate Credem exceeds the total of the capital requirements by € 1.001,3 million. In the calculation of the capital requirements of the financial conglomerate, for 2022, a Total Capital Ratio of 11.5% was adopted, as communicated by the European Central Bank.

This decision was also confirmed for 2022, at the end of the SREP risk assessment and measurement process which once again confirms the strength of the Group also in terms of European comparison.

The profit margin of the conglomerate was also impacted considerably by the banking Group's capital situation, as illustrated above.

To fulfil regulatory provisions, we report that the Group holds treasury shares, with relation to the above-mentioned remuneration plans, as indicated in Part B "Information on the consolidated balance sheet" in section 12 of the Explanatory notes to the consolidated financial statements.

As part of the disclosure required for CRR/CRD4, in addition to the already-mentioned regulatory ratios, the following are illustrated below (again with reference to the scope of consolidation of CredemHolding): the regulatory indicators aimed at ascertaining the adequacy of the short-term liquidity situation (level of immediate liquidity for covering requirements at 30 days), the medium/long-term liquidity situation (stability of the funding profile in relation to the composition of the assets) and the ratio between equity and banking assets.

REGULATORY INDICATORS%	2022	2021
Liquidity coverage ratio (LCR)	232	205
Net stable funding ratio (NSFR)	137	136
Leverage ratio (*)	4.6	5.1
Minimum supervisory requirement		
Liquidity coverage ratio (LCR)	100	100
Net stable funding ratio (NSFR)	100	100
Leverage ratio (*)	3.45	3

(*) Mandatory reporting according to the "CRR". With the capital relief measures, having chosen to exclude the amount of the compulsory reserve from the total exposure, the target level of leverage up to 31/03/2022 was calculated at 3.45%.

With regard to the Leverage Ratio, note that the indicator is subject to the so-called temporary relief measures granted by the Supervisory Authorities to banks to deal with the pandemic: it essentially benefits from the possibility of excluding the excess liquidity held at the European Central Bank from the calculation of the ratio.

As regards the Group, as shown in the table, the indicator is well above the regulatory limits.

The same is confirmed for the indicators envisaged by the CRR in terms of liquidity: LCR and NSFR are improving.

Finally, it should be noted that starting from 01/01/2022, the MREL requirement (Minimum requirement for own funds and eligible liabilities), required of banks in order to improve their solvability, is "binding". The Group shows a fair margin with respect to the requirement requested by the Single Resolution Board.

At the end of April 2022, as set forth in Circular 285 of 17 December 2013, in the part regarding "supervisory review process" (Pillar II), the ICAAP ("Internal Capital Adequacy Assessment Process") report, together with the various specific documents requested, was sent to the Supervisory Authority. The purpose of this report is to assess capital adequacy in relation to the total risks assumed in current and ordinary operations, it concerns the situation at the end of 2021 with a forward-looking assessment of the situation, on a three-year basis.

Again at the end of April 2022, based on the provisions of Directive no. 2013/36 (CRD IV), the ILAAP Report was submitted to the Supervisory Authority.

Both documents were drafted on the basis of the indications of the Supervisory Authorities, specifically addressed to financial institutions in the particularly uncertain scenario that had emerged following the Covid-19 pandemic and include an overview:

- of the capital margins available to face risks that are difficult to measure, the effects of stress tests, as well as maintaining the standing established by the financial markets and by national and European Authorities;
- of the Group's liquidity profile, both under expected and stressed conditions.

11. SHAREHOLDERS, SHARES AND RATINGS

With regard to the Italian stock market, the FTSE Mib closed 2022 with a -13.0% compared to the end of 2021. In the first half of the year, the stock market was heavily affected before the outbreak of the conflict and then the acceleration in the normalisation of monetary policies at global level and the deterioration of economic growth prospects. The latter part of the year, on the other hand, recorded a recovery thanks to the profits recorded by listed companies.

No share capital transactions were recorded in the year:

date	share capital in €	no. shares	situation
Dec-21	341,320,065	341,320,065	at the end of the year
Dec-22	341,320,065	341,320,065	at the end of the year

The breakdown of shareholdings at 31/12/2022 was the following:

	% of ordinary share capital
Credito Emiliano Holding S.p.A.	78.83
Other shareholders	21.17

The following table provides a comparison between the Credem share and several stock market indicators for the past two years:

Comparison with market	31/12/2022	31/12/2021	Changes %
Credem Share Price (€)	6.63	5.82	14
FTSE Italia Banche (Index)	9,584	10,041	-5
FTSE Italia All-Share (Index)	25,720	27,347	-6

12. PERSONNEL

In 2022, the headcount increased slightly from 6,608 at 31/12/2021 to 6,616 at 31/12/2022, an overall increase of 8.

The main areas of intervention regarded:

- The equilibrium of Credem Banca's sales network to maintain adequate levels of service offered to customers and to extend the territorial scope, including through raising the effectiveness of the network of sales outlets;
- The strengthening of IT structures / companies, with the aim of developing new procedures useful for business, make adjustments to the processes envisaged by regulations and better govern the "IT risk".
- The strengthening of Avvera's structure to support the Company's development plan.
- The creation of a single reference hub for the Group for the private banking channel, with the creation of Credem Euromobiliare Private Banking and the strengthening of the related sales network, which will also include the relative Credito Emiliano structures.
- The strengthening of the workforce of some of the other Group companies, to sustain their respective development plans.
- The measure, which has already been in place for several years, seek to reach a voluntary agreement for early retirement, and has enabled the Group to then hire young high school and university graduates.

Investment in training continued, thanks especially to the use of a "remote training" approach, also to address the continuing health emergency due to Covid-19. The main topic of courses was behavioural skills, related legislation, leadership and personal well-being in the workplace and "Agile" work methodology for project management. The sales network continued to receive training related to acquiring the know-how/expertise fundamental to each position, and entailed a final assessment.

We continued to invest in the issue of group identity and corporate values with activities dedicated to the topic, which concerned in particular leadership, coaching, feedback, trust, error management and mentoring, considered important levers to allow action to be taken corporate leadership model and increase employee performance. The investment in training courses on lean management was also confirmed, with a view to making internal processes increasingly efficient.

The services covered by the company welfare plan, structured to meet health, personal support, free time and savings, social responsibility needs, were consolidated, and new initiatives have been developed, which have involved an increasing number of people. The focus areas have been prevention in terms of health care, parenthood, and in particular fatherhood, physical fitness, remote working, mobility, sociality, legal and tax advice, caregivers, psychological support and "save time" solutions. The corporate volunteering initiative was confirmed, with the participation of 450 people who volunteered during working hours and days on the web.

We also invested in "environmental sustainability" through employee awareness and a series of specific initiatives.

Various forms of working flexibility continue to be active, in particular smart working, which benefited, at the end of 2022, over 85.5% of the Group's people. This new way of working was accompanied by an important training course on behavioural skills, psychological and physical health support, as highlighted in the introduction in the chapter on the pandemic.

A strong focus was maintained on Diversity & Inclusion initiatives, an area in which the Group has confirmed its certification of gender pay equity, the first banking Group in Italy to have obtained this recognition already in 2020.

13. RISK MANAGEMENT

The Credem Group has always strived to achieve a high level of quality in risk management, considered it fundamental and as a strategic objective in order to:

- Guarantee the safeguarding of company capital and ensure the utmost effectiveness and efficiency in the value creation process.
- Integrate the risk/return dimension into the decisional and operational processes of the different business areas.
- Ensure the consistency of operational processes with internal strategies, policies and regulations.

From June 2014, a structured reference framework was adopted, through the implementation of a process disciplined by a specific internal Group Risk Appetite Framework (RAF) Regulation. The RAF is assessed by the Parent Company's Board of Directors with relation to the business model and the strategic plan and envisages the approval of risk objectives and tolerance thresholds, in line with the ICAAP (Internal Capital Adequacy Assessment Process) and the internal control system. The Board of Directors of the Parent Company assesses all types of risk at consolidated level and approves the taking of the risks broken down by company and business units identified as relevant to the Group's risk contribution in the RAF.

The RAF identifies the risk appetite that the Bank intends to pursue at Group level and to maintain over time, both during the normal course of business and in particularly stressed market conditions. The RAF is implemented through a list of indicators (RAF Indicators or Level I Indicators), which consider all relevant risks, separately and jointly, and which cover the following areas: Capital, Liquidity, Asset Quality (credit, market and interest rates, operations) and Profitability. For each of the RAF indicators, the following are defined:

- The Risk Appetite (risk objective or risk appetite), which represents the propensity to risk that the Group is willing to assume in the medium term to pursue its strategic objectives.
- The Risk Tolerance (tolerance threshold), which represents the maximum permitted change in risk appetite; the tolerance threshold is set so as to assure that the bank makes sufficient profit margins to operate even in stressed conditions, within the maximum permitted risk.
- The Risk Capacity (maximum permitted level), which represents the maximum level of risk that the bank is technically able to assume without violating regulatory requirements or other constraints imposed by the Supervisory Authority.

As part of the monitoring activities, defined in accordance with the prudential supervisory rules established by the European Central Bank (known as the SREP process - Supervisory Review and Evaluation Process), the RAF Indicators are flanked by Level II indicators or "SREP indicators", namely operational indicators for which the RAF does not provide a definition of appetite and tolerance, but whose purpose is to strengthen monitoring and control activities. Similar to the RAF indicators, they cover the following areas: Liquidity, Asset Quality (credit, market and interest rate, operations) and Profitability. For several of the Level II indicators, warning thresholds are defined in any event, consistent with the RAF process and with the processes related to the same (budget, NPL plan, Risk Self-Assessment). As part of the action plan shared with the ECB on Climate & Environmental Risk, SREP indicators were defined which, starting from 2023, will make it possible to monitor exposure to climate-environmental risks.

At the beginning of 2020, a monthly monitoring of a significant subset of the RAF indicators was established in order to allow the EC and the Board of Directors to be updated in a timely and frequent manner on the impacts of the external COVID-19 situation. This monitoring was confirmed for both 2021 and 2022, expanding the subset of RAF indicators with reference to the Capital area.

In accordance with the RAF process, the trend of the risks assumed on average in 2022 is illustrated, distinguishing between the following risk families: market and interest rate, credit and operations:

- From the point of view of *the market risk of the trading book and the interest rate risk of the banking book*, there were no substantial changes in the overall risk profile. The management of financial risks takes place through the definition of a structure of limits, which represents a direct expression of the acceptable level of risk with reference to the individual business areas/lines, and in accordance with the provisions of the RAF. The specific or issuer risk is monitored by

means of concentration limits per sector and rating class, also in terms of credit spread sensitivity. All limits are monitored on a daily basis by the Risk Management department. Credembanca's average VaR on the trading book (confidence interval of 99%, 10-day holding period, multiplication ratio of 3) decreased compared to the previous year, while the operations remained at low levels. The main positions in debt securities (government securities and securities of financial issuers/covered bonds) are placed in the HTCS and HTC portfolios. For Credem Euromobiliare Private Banking, the capital requirement on market risks is negligible.

- With regard to interest rate risk, the Group has adopted a Policy for the interest rate risk of the banking book which, on a consistent basis with European legislation, uses the measurement metrics of the Economic Value (EV) sensitivity and of the Interest Margin sensitivity within the RAF. The interest rate risk of the banking book, measured through the sensitivity of VE, increased on average in 2022 compared to 2021, with an average of 4.5% of equity; the figure remains within the defined risk appetite framework. As regards the other companies, the most significant contribution to the interest rate risk of the group's banking book is generated by Credemleasing, which recorded an average sensitivity of economic value of 0.2% of equity, down from 2021 and below the company's risk appetite.

The following table illustrates the situation of the above-cited corporate risks:

CORPORATE RISKS	2022		2021	
	average	max	average	max
Banking Book rate risk vs Own Funds (Sensitivity method of VE 200 bps) - Banking Group	4.5%	8.5%	2.5%	5.4%
Generic market risk of the Trading Book - Credem (VaR method)	3.3	14.6	4.3	14.2
Issuer risk (standard Supervisory approach), € mln - Credem	0.6	0.8	0.4	0.9

As regards credit and counterparty risks, within the RAF and ICAAP management processes, the Group adopts a management model to estimate credit risk, aligned with AIRB metrics (internal parameters, PD, LGD and EAD), but which considers all of the guarantees in Credembanca and Credemleasing's loan portfolio as eligible.

CREDIT RISK	2022	2021
- Credembanca	1,140	1,168
- Credemleasing	89	90
- Other Companies	182	138
	1,411	1,396

The comparison with the previous year shows a limited increase linked to the increase in exposures to customers in the portfolios whose risk is calculated in line with the Standard methodology. The AIRB portfolios are affected by the entry into force of the TRIM models subject to inspection in 2021, which resulted in an overall benefit. The increase that is seen on average between 2021 and 2022 is partly mitigated by the reduction in the weighting coefficient of the Risk Weighted Assets (reduction linked to a methodological aspect). With regard to operational risk, the consolidated supervisory requirement, calculated using the TSA method, is around € 168 million.

The Enterprise Risk Management Service (ERISK) has also been entrusted with the identification, assessment, measurement and monitoring of climate and environmental risks (C&E). In line with the action plan communicated to the European Central Bank, changes were also made to the relevance analysis of the risks used by the Enterprise Risk Management function and at the basis of the main risk management processes (RAF, ICAAP, ILAAP, RRP, etc.), in particular in order to fully grasping the impact of climate and environmental risks on the main existing risk categories, the integration of the latter was assessed, identifying for each at least one new related risk sub-category.

Climate and environmental risk management

The Credem Group has launched a project aimed at increasing the level of monitoring of climate-related risks (hereinafter also "C&E Risks").

Climate and environmental risks can be divided into two main categories:

- **Physical risks:** financial impact deriving from the occurrence of acute (storms, floods, fires) or chronic (temperature changes) catastrophic events.
- **Transition risks:** financial loss that an organisation may incur as a result of the transition process to a low-carbon and climate-resilient economy (policy, legal, technological, market and reputational risks).

In relation to climate risks, a plan was defined in 2021 and the first development activities were launched, while in 2022, at the end of the *assessment* and *roadmap* design phase, the Group launched a project with the aim of implementing the evolution path in the management of C&E risk by organizing the activities in five areas: **Governance & Strategy, Risk Management, Credit, Finance and Financial Risks, Architecture & Data:**

- **Governance and Strategy**

Credem's mission pursues its sustainable success through the creation of long-term value for the benefit of Shareholders, taking into account the interests of other Stakeholders relevant to the Issuer. In this context, the Board of Directors, in its strategic supervision exercise, guides the Group in pursuing the aforementioned objective. In exercising its functions, the Board also makes use of the Group Sustainability Committee and other company committees / functions as shown in the table:

Corporate body/function	Main roles and responsibilities
Board of Directors	It oversees, directs and approves the sustainability strategy and the Non-Financial Statement. Furthermore, as part of its powers, it assesses and resolves on analyses, assessments and proposals - put forward by the specific designated Committees - on sustainability, monitoring, estimation and management of ESG risks and in particular C&E risks.
Group Sustainability Committee <i>(Management Committee)</i>	It carries out propositional and advisory functions on sustainability issues to promote the progressive integration of environmental, social and governance factors into company activities.
Group Risk and Sustainability Committee <i>(Board Committee)</i>	It contributes to the identification, measurement, management and monitoring of the main environmental, social and governance risks, taking into account the characteristic activities and the controls identified by the internal monitoring;
Risk Management Committee <i>(Interfunctional Committee)</i>	The Executive Committee supports the board in the monitoring of the overall risk taken by each company and of its monitoring within the strategies and methods defined by the Parent Company in the Risk Appetite Framework. With regard to risks deriving from ESG factors, the ERISK (Enterprise Risk Management) Function, which supports the Committee, is responsible for assessing these risks, through specific analyses aimed at measuring the Credem Group's exposure on a regular basis. In particular, with reference to the Environmental component, the aforementioned checks are carried out (specifically for climate risk) by adopting methods in line with the practices adopted by the <i>Regulator</i> and with the best practices observed on the market. In view of these assessments, the "RAF and Stress test Integration" (RSI) office is responsible for expressing a judgement of relevance, identifying criteria, establishing appropriate materiality thresholds and consequently adopting controls and actions aimed at managing and mitigating these risks. It monitors the level of exposure to climatic and environmental factors that may affect the Group's credit policies.
Group Credit Strategy Committee Governance and External Relations Service	It contributes to the sustainable success of the Group through effective and continuous Stakeholder engagement activities aimed at creating value in the medium-long term for Shareholders and other relevant Stakeholders.

Credit Service

It guarantees a gradual granularity of the analyses on the degree of exposure to the impacts generated by climatic and environmental factors on the sustainability of counterparties and credit portfolios.

Risk Management Function

It guarantees the control and supervision of the Chief Risk Officer and the Risk Management Function as a whole.

To ensure the progressive alignment of the Group's organisational structure with the monitoring of ESG risks, with particular reference to C&E risks, internal regulations have been implemented, as well as policies relating to the company functions most impacted at management and operational level.

In consideration of the growing awareness of the banking system on the role exercised in the context of the climate and environmental challenge, the Group is committed to defining a long-term sustainability strategy supported by strong, consistent and credible governance. The Parent Company considers it a priority to: define strategic KPIs, commit to defining emission reduction targets on its portfolio in line with the objective of the Paris Agreement and in line with credit policies and investment policies and expand the commercial offer with new ESG products/services. In 2022, in particular, the Group defined a first set of "ESG-Specific" KPIs in its RAF framework, initiated the initial discussions on the reduction targets of its portfolio; initiated the integration of the product/service catalogue for customers; integrated C&E risk factors in the Credit Strategy for the large corporate/corporate segments of the loan portfolio.

With reference to the RAF, the metrics were defined as part of the second-level SREP (Supervisory Review and Evaluation Process) indicators to monitor the exposures of the credit portfolio and investments to physical and transition risks, assessing their current and prospective concentration in sectors/geographical areas with high C&E risk.

- **Risk Management**

Within the regulatory and prudential supervisory framework, the process of integration and management of C&E risks represents an aspect of considerable importance both for the European Banking Authority (EBA) and for the European Central Bank (ECB). Supervised institutions are required to integrate C&E risks into the overall risk management system in order to monitor, mitigate and communicate them in a transparent manner.

The identification, assessment, measurement and monitoring of climate and environmental risks are managed by the ERISK Function, which also coordinates the measurement and monitoring of C&E risk factors on the main risks, in line with the risk map used for the analysis of materiality:

- Identification of ESG risks and materiality analysis of climate-related risks, the process was partially revised and updated in 2021 and enhanced in 2022 through a qualitative integration of the Group Risk Map with new risk sub-categories in order to fully grasp the impact of C&E, social and governance risks on the main existing risk categories. In any case, a stand-alone category "ESG risks" is associated with these sub-categories of existing risks. A dedicated analysis was prepared, on an annual basis, on the portfolios relating to loans and investments, as well as on the properties of the Group Companies to assess the relevance of the exposures to the aforementioned risks. During 2022, the Group refined the quantitative methodologies underlying the materiality analysis of these risks, with the aim of establishing the risks subject to assessment and the materiality of each of them with reference to each subsidiary. In particular, by updating the input data from the analysis of relevance for transition and physical risk; the automation of the assignment of judgements in the optimistic and pessimistic scenarios for the physical risk indicators "Floods" and "Hydrogeological risk" and the definition of the judgement, on a residual basis, according to the logic underlying the two scenarios mentioned above, improving or worsening the as-is rating by 1 notch.
- Measurement and monitoring of climatic-environmental risks: the relevance analysis is the first and fundamental step towards the definition of the methods of quantification, mitigation and control adopted for each of the risks considered relevant. The same concept of relevance, for each risk, is consistent with that used in the main risk management processes (ICAAP, ILAAP, RAF and Recovery Plan), in order to ensure maximum consistency in terms of: relevant risks, endowment capital and risk targets. In 2022, in relation to the C&E risk management processes, in addition to carrying out the regulatory *stress test* exercise with a view to C&E, the Group carried out the following activities:

- it defined “ESG-Specific” metrics within the RAF in order to monitor C&E risks;
- it updated the credit granting, pricing and monitoring framework for the corporate and large corporate portfolio;
- it defined a methodological framework for measuring credit risk with a view to C&E and related quantifications;
- it integrated the operational *and* reputational risk assessment processes and the related scenario analyses from a C&E perspective;
- it defined a methodology for the construction of a sectoral heatmap of the investments and started the integration of these metrics linked to market risk and ESG scoring within investment policies and market *risk* management reporting;
- it developed a first methodological approach for the analysis of the scenario in the field *Recovery Plan*;
- it planned to complete, with an approach to intermediate releases on individual risk verticals, the ICAAP process with a specific scenario analysis based on adverse climatic events that may impact the capital / liquidity structure of the Group through specific risk verticals sensitive to these events (First integration planned: ICAAP 2023).

- **Credit**

With reference to financing policies, various activities were carried out in 2022 that made it possible to collect ESG data and information from specialised *info providers* to cover the overall loan portfolio and to define, for the large corporate/corporate segment, a set of ESG metrics/KPIs for the assessment of counterparties with the introduction *of environmental scores* -transition risk *scores* - physical risk scores included within the related concession, *pricing* and monitoring processes. The Group Credit *Policy* was consequently supplemented by providing, among the fundamental principles for the disbursement of credit, a specific attention paid to ESG factors, with a focus on the degree of exposure to the impacts generated by C&E factors on the sustainability of the counterparties and the credit portfolios.

- **Finance and financial risks**

With reference to the investment portfolio and market risk, in 2022 a methodology was defined for the construction of a sector heatmap of the investment portfolio and activities are underway to integrate these metrics linked to market risk and ESG scoring to the internal investment policies and market risk management reporting.

- **Architecture and Data**

With reference to the metrics used for the assessment and governance of climate-related risks, the Group defined specific metrics, refined in 2022 also thanks to the climate stress test conducted for the ECB, through greater analytical calculation of the metrics themselves.

In particular, with reference to transition risk, the Group estimates the indirect emissions of greenhouse gases attributable to corporate activities, but which come from sources that are not owned or controlled by Credem. These emissions are often traceable to the value chain and consist of direct and indirect emissions from other organisations, which are partly allocated to the calculating company, based on specific attribution factors. In this context, the Group calculates and provides disclosure of emissions generated by indirect emissions related to financing and investments.

For further details on the activities assigned to the ERISK Function, please refer to the paragraph Climate and environmental risks in Part E of the Notes to the Financial Statements.

14. COMPLIANCE, ANTI-MONEY LAUNDERING and PRIVACY ACTIVITIES

The Compliance function continued its work as usual within a Group scope that includes banks, asset management companies, Euromobiliare Advisory SIM, Credemleasing, Credemfactor, Avvera and Credemvita.

It should be noted that following the incorporation of the DPO (Data Protection Office) function into the Compliance function on 1 October 2022, the Compliance Officer also assumed the role of Data Protection Officer. Starting from that date, Privacy therefore falls within the scope of the regulations directly overseeing the Compliance function and the companies in the scope also include -as regards Privacy - Euromobiliare Fiduciaria, Credemassicurazioni and Credemtel .

During 2022, the supervision of the function focused mainly on the implementation of the plans to remedy the findings emerged during the inspections on the transparency of transactions and fairness of relations with customers (Bank of Italy) and product governance and adequacy of transactions carried out on behalf of customers (Consob). The involvement of the function in the various project activities coordinated by the Parent Company was also particularly significant, with particular reference to the extraordinary transaction for the transfer of the Business Unit Private of Credito Emiliano S.p.A. business unit to Banca Euromobiliare S.p.A., the latter renamed from 21 November 2022 Credem Euromobiliare Private Banking, the evolution of the digital offer for retail banking, also through remote commercial relations with customers and the implementation of technical measures aimed at deleting personal data once the retention period has ended in accordance with the principles of the European GDPR regulation on privacy.

During 2022, the Parent Company's Anti-Money Laundering function carried out institutional monitoring activities for Credembanca and for all Group companies to which the anti-money laundering regulations apply, such as: analysis of regulatory changes, contribution to business projects and to the activation of new products, personnel training, monitoring of risky situations (including international sanctions), assistance, system and operating controls, self-assessment and reporting. The commitment to specific projects aimed at strengthening the controls also continued, also in light of the regulatory changes that have taken place. As part of the usual monitoring activities on customer transactions, specific controls were carried out on the emerging phenomena of the *money mule* (cases in which a subject transfers money received from a third party to others, obtaining a commission in exchange. In this practice, criminal organisations manage to involve people who are sometimes unaware (who can be prosecuted). The outcome of these audits confirmed an adequate level of robustness of the controls and of the overall system of controls. We also note the commitment to ensure compliance with international sanctions, especially as a result of the Russia-Ukraine conflict, which led to an increase in the level of attention and a greater number of controls, which became necessary (also to support customers) especially in the phase in which the sanction packages by the international Authorities have followed with great frequency.

15. INTERNAL AUDITING

The following table summarises the audits carried out, showing the percentage of measures generated by type of control:

AUDITING ACTIVITIES PROVIDED	2022	2021
a) BY COMPANY		
Distribution Networks	90.6%	90.6%
. Credito Emiliano	60.1%	64.2%
. Credem Euromobiliare Private Banking (*)	24.7%	21.4%
. Avvera	5.8%	5.1%
Other group companies	9.4%	9.4%
b) BY AREA OF INTERVENTION		
. “customer” finance, executive and fraud management	55.5%	55.6%
. governance, support and “property” finance	10.5%	11.4%
. loans, legislation, collections and payments	25.1%	24.1%
. information technology	6.2%	6.2%
. co-ordination and methodology	2.6%	2.6%

(*) In November 2022, Banca Euromobiliare adopted the new company name Credem Euromobiliare Private Banking. The Private Banking business unit was considered to be part of Credem as it will be transferred to the new Legal Entity from February 2023.

Activities relating to the networks (branches, business centres, financial advisors, agents) were focused on the compliance of the processes adopted in the disbursement of loans and the provision of investment services to customers, as well as compliance with legislative provisions, internal and safety regulations.

The commitment to monitoring the risks of the financial promotion network and the channel dedicated to private banking was confirmed, with particular focus on the *Private Hub*, through the use of automated monitoring systems which, by analysing transactional data and behaviour, identify potentially irregular situations to be checked with targeted control measures.

The supervision of the Corporate Centre is carried out using risk-based criteria, and seeks to assess the regularity and effectiveness of the production and management processes and the consistency of internal controls with respect to the level of risk of the underlying *businesses*.

In addition, particular attention was given to the monitoring of emerging risks deriving from military and geopolitical tensions between Russia and Ukraine to assess the impact on the main risks (operational, credit, capital, reputational, etc.) attributable to changes in existing processes, new restrictive measures, exposures to the countries involved in the conflict; as well as risks related to Cybersecurity, Data Governance, ESG, monitoring of outsourcers.

In 2022, the function continued to invest in the automation of compliance controls, to increase the level of efficiency and to guarantee wider coverage for analysis activities.

The activities performed by the function in question are periodically illustrated to the management bodies, as described in more detail (with particular reference to the duties of the Group Risk Committee) in the Annual Report on Corporate Governance to which the separate Report on Operations of Credem Banca refers.

Lastly, please note that transactions with related parties are discussed in Part H of the Explanatory notes to the consolidated financial statements.

16. MANAGER RESPONSIBLE FOR PREPARING THE COMPANY'S FINANCIAL REPORTS

Credem's Manager responsible for preparing the company's financial reports sets in place adequate administrative and accounting procedures for the preparation of the statutory financial statements and the consolidated financial statements, as well as of any other financial document.

The internal control model is based on internationally-recognised frameworks, specifically:

- The Internal Control Integrated Framework issued by the Committee of Sponsoring Organisations of the Treadway Commission (COSO - ERM), to define and assess the adequacy of the administrative and accounting procedures used to draw up the financial statements.
- The Control Objective for Information and related Technologies (COBIT) framework developed by the Information System Audit and Control Association (ISACA) to assess IT governance procedures.

With regard to the 2022 statutory and consolidated financial statements, the main activities performed by the office of the Manager in question regarded:

- Identifying and assessing, at Group level, Company Level Controls to verify the existence of a company scenario able to reduce the risk of error and of incorrect conduct as regards financial information.
- For companies that make a significant quantitative contribution at consolidated level and for any companies that are considered significant from a quality perspective, tests are conducted on a sample of controls that are part of administrative-accounting processes.
- Identifying and performing IT-General Controls through the AIT Audit department .

For further information on Credem's Manager responsible for preparing the company's financial reports and on the risk management and internal control system associated to the process of consolidated financial information, please refer to the "Report on corporate governance and ownership structures" drawn up pursuant to Article 123 bis of the Consolidated Financial Act, contained in a separate document, available at the registered office and published on the company website.

17. NON-FINANCIAL STATEMENT

The non-financial consolidated declaration of Credito Emiliano S.p.A., drawn up in accordance with Italian Legislative Decree no. 254/16, is a separate report (Non-financial declaration) with respect to this Report on Operations, as envisaged by Art. 5.3, letter b) of Italian Legislative Decree no. 254/16, and is available on the website at www.credem.it in the “Sustainability” section.

18. FORECAST ON OPERATIONS

Global growth is expected to slow down during the year. The latest inflation figures show a deceleration in the US and Europe, but the still high levels will drive further rate hikes by central banks. A modest economic trend is assumed in the first few months of the year in Europe and the United States. China, as in 2022, should grow below government targets. The effects of the end of the “zero-Covid” strategy are still unclear: while on the one hand the economy could benefit from the elimination of containment measures by stimulating consumption, on the other, the evolution of infections could block the production, distribution and service system.

The main prospective risks are in our view:

- Recessive effects of monetary policies.
- Further effects linked to the development of the war.
- Management of the energy crisis.
- End of the “zero Covid” strategy with possible effects on Chinese and consequently global economic growth.

The macroeconomic data projections available in February 2023 (Prometeia Brief) assume annual global GDP for this year at +2.3%, the US at +1.1% and the EMU at +0.7%.

With regard to the Italian economy, the main expected dynamics for 2023 are as follows:

- Gross domestic product could close at +0.7% YoY.
- Household spending should be penalized by inflation, which at least in the first months of the year, should remain at double digits, with a recovery in consumption in the second part of the year, when disposable income will benefit from gradually falling inflation. Spending should only record +0.9%.
- Investments for the machinery and plant component should achieve +0.2%.
The real estate component should close the year with +1.4%, thanks to the investments related to the NRRP.
- Exports should be penalized by the slowdown in global commerce (+2.1% in 2023).
- Inflation is expected to increase again in the first few months of 2023, and then fall back thanks to the dynamics of gas prices, with a closing assumption for 2023 of around +6%.

Moving on to the main banking aggregates:

- With regard to deposits, the allocative choices of households should change with lower deposits and greater interest in securities and deposits under management. Banks will increase the supply of time deposits and bonds to support medium-term deposits. Deposits should close the year with -0.5%, driven by the downturn in current accounts (-1.7% YoY in 2023);
- With regard to companies, investments not linked to the NRRP should slow down due to the deceleration effects of the economy. A figure of -0.3% is expected in 2023 for loans to businesses.
- In relation to households, the economic slowdown and the worsening of prospects of the real estate market will lead to a deceleration in loan volumes. A figure of +3.1% is expected in 2023 for loans to households.

Considering the scenario described above and the risks highlighted, banking management may be influenced by various factors:

- Rate curve dynamics and banking spread trends.
- Development of financial and stock markets (very sensitive to news on monetary policy manoeuvres, economic developments, geopolitical tensions and developments in the conflict in Ukraine).
- Evolution of the BTP-Bund spread.
- Dynamics of inflation.
- Measures implemented by the Government, European Authorities and monetary and supervisory institutions.
- Evolution of credit risk due to the repercussions of the geopolitical situation on borrowers.

- Impacts of numerous rules and regulatory measures that are affecting the European financial system;
- Digital transformation and sustainability.

With regard to the events that are affecting the company Eurovita, subject to provisional management by IVASS on 31 January 2023, it should be noted that the Group's networks are also distributors of its products.

With reference to the performance of the commissioner management and the temporary block of redemptions decided by the Commissioner, the Group is monitoring the evolution of the situation in order to protect the interests of customers, hoping for a positive solution given the direct presence of the sector Authority.

Within this challenging general framework, the main medium-term guidelines are confirmed for the Credem Group:

- Commercial development above the market average.
- Strengthening of wealth management and completion of the private banking hub within the dedicated Group Company renamed Credem Euromobiliare Private Banking.
- Search for a balance between operational efficiency and continuation of projects, in particular on omichannel and digital areas, to be competitive in the various *business* areas.
- Continuation of the ESG (Environmental, Social, Governance) integration process within processes, risk management and product definition.
- High credit quality
- Stability of the risk profile and capital levels.

In an external context as outlined above, the following evolution of the economic aggregates is assumed:

- The financial margin should continue to be supported by volumes and by the continuing rate growth at least in the first part of 2023.
- Fees may be affected by market volatility.
- Credit risk should remain limited overall with households and businesses that could be affected by the economic cycle.

The project to strengthen private banking within the Credem Group has developed over the last two years, with a progressive focus of the structures on a business model expressly dedicated to private customers.

The separation of Credem's Private Banking division from Commercial Banking, through the creation of a dedicated Business Unit, represented the preparatory phase for the evolution of the project, which ended in February 2023, when Credem's Private Banking Business Unit *was* transferred to Credem Euromobiliare Private Banking.

On 18 February 2023, through a corporate transaction that was configured as a "division transfer", the transaction authorized by the Supervisory Authorities was finalised and accompanied by a capital increase of Credem Euromobiliare Private Banking, entirely reserved to Credito Emiliano. The new resources are therefore functional to support the development of the investee and the maintenance of suitable capital requirements, in line with the initial ambitions of strengthening and growth of the business area within the Credem Group.

The new entity includes Banca Euromobiliare (100% Credem), with € 14.9 billion of assets and 399 professionals including private bankers and financial advisors, and the Private Banking Business Unit of Credem, with € 24 billion in assets managed by 291 private bankers.

19. ALTERNATIVE PERFORMANCE INDICATORS

Pursuant to Article 16 of Regulation 1095/2010/EU, the European Securities and Markets Authority (ESMA) has issued specific guidance on the criteria for the presentation of Alternative Performance Indicators (APIs) entered by European issuers in the regulated information, including therefore the Report on Operations, when such indicators are not defined or required by the financial reporting framework. These guidelines are aimed at promoting the usefulness and transparency of APIs, confirming a common approach towards their use, with improvements in their comparability, reliability and comprehensibility and consequent benefits for users of financial information. Consob has implemented the Guidelines in Italy and incorporated them into its supervisory practices.

As defined in the ESMA Guidelines, an Alternative Performance Indicator is an indicator of historical financial performance, financial position or cash flows, other than a financial indicator defined or specified in the applicable financial reporting framework. The APIs are usually derived from the items in the financial statements prepared in accordance with the regulations in force on financial reporting. What distinguishes them is that APIs are not defined within the framework of financial reporting, but their use is nevertheless widespread and their purpose is to convey a vision of the entity's performance that is closer to the management's vision than what it would result from the use of only the defined measures.

The indicators published in application of prudential measures, including the measures defined in the Regulation and the Directive on capital requirements (CRR / CRD IV), physical or non-financial indicators, and social and environmental indicators are not strictly included in the definition of API.

For a correct interpretation of the APIs, the following should be noted:

- They are constructed exclusively on the basis of the historical data of the Group and are not indicative of the future performance of the Group itself.
- They are not required by IFRS and, although derived from the Group's consolidated financial statements, are not audited.
- They should not be considered as a substitute for the indicators required by IFRS.
- The reading of these APIs must be carried out together with the financial information of the Group contained in the consolidated financial statements and in the related explanatory notes.
- The definitions used by the Group, as they do not derive from the reference accounting standards, may not be consistent with those adopted by other issuers and therefore comparable with them.
- They are prepared with continuity and uniformity of definition and representation for all the periods covered.

The indicators are calculated on the basis of the management reclassifications that have been highlighted in the previous paragraphs of the Report on Operations (for the reconstruction of the main economic aggregates, see in particular the legend in the paragraph relating to the consolidated income statement).

The APIs listed below are those that have been selected as they are most representative for the Group.

KEY:

Interest margin

- + Item 30 Net Interest Income
- + Item 70 Dividends and similar income (solely for the portion relating to dividends of equity securities in financial assets classified in HTCs)
- + Item 250 Gains/(losses) on equity investments excluding gains/losses on disposals/valuations
- Credemvita Net Interest Income

Non-interest margin

- + Item 60 Net fee and commission income
- + Item 80 Net profit (loss) from trading
- + Item 90 Net profit (loss) from hedging
- + Item 100 Gains (losses) on disposal or repurchase
- + Item 110 Net profit (loss) from financial assets and liabilities measured at fair value
- + Item 115 Net profit (loss) from financial assets and liabilities pertaining to insurance companies pursuant to IAS 39
- + Item 130 a) Net value adjustments for credit risk from financial assets measured at amortised cost (for the part relating to securities included under this category of financial assets)
- + Item 130 b) Net value adjustments for credit risk from financial assets measured at fair value through other comprehensive income
- + Item 160 Net premiums earned
- + Item 170 Net other operating income/charges from insurance activities
- + Item 230 Other operating income/charges (net of extraordinary items)
- + Item 70 Dividends and similar income (net of the portion relating to dividends of equity securities classified in HTCs)
- + Credemvita Net Interest Income

Operating profit

- + Net Interest and other banking income
- + Item 190 Administrative costs (personnel expenses and other administrative expenses)
- + Item 200 Net value adjustments to (recoveries on) property, plant and equipment
- + Item 210 Net value adjustments to (recoveries on) intangible assets

Profit before tax

- + Operating profit
- + Item 130 Net value adjustments/recoveries for credit risk (net of those included in the non-interest margin)
- + Item 140 Profits/losses from contractual changes without derecognitions
- + Item 200 Net provisions for risks and charges
- + Extraordinary income/charges:
- + Item 230 Other operating income/charges (only extraordinary items – imbalance of extraordinary items)
- + Item 270 Net value adjustments/recoveries on goodwill
- + Item 280 Gains/(losses) on disposal of investments
- + Item 320 Profit/(loss) after tax from discontinued operations

Equity: algebraic sum of 120

Valuation reserve

125 Valuation reserves pertaining to insurance companies 150 Reserves

160 Share Premium Reserve

170 Capital

180 Treasury shares (-)

200 Consolidated profit (loss) for the year net of dividends distributed (or resolved) by the Parent Company or by the consolidating company

Note that, due to the necessary rounding, some calculations in the tables shown could contain insignificant differences in the totals.

ALTERNATIVE PERFORMANCE INDICATORS		31/12/2022	31/12/2021
Operating expenses	A	-802	-783
Total revenues	B	1,473	1,337
Cost to income ratio	(A/B)	54.5%	58.5%
Financial margin	A	663	496
Total Assets	B	65,042	67,579
Interest margin over Total Assets	(A/B)	1.0%	0.7%
Non-interest margin	A	810	840
Total Assets	B	65,042	67,579
Margin "from services" over Total Assets	(A/B)	1.2%	1.2%
Financial margin	A	663	496
Net banking income	B	1,473	1,337
Interest margin over Net Interest and other banking income	(A/B)	45.0%	37.1%
Net profit	A	317	352
Total Assets	B	65,042	67,579
Profit on Total Assets (ROA)	(A/B)	0.5%	0.5%
Net non-performing loans	A	324	379
Shareholders' equity	B	3,211	3,459
Intangible assets	C	476	465
Texas ratio	(A/(B-C))	11.8%	12.7%
Shareholders' equity	A	3,211	3,459
Direct customer deposits	B	36,330	34,576
SE on Direct deposits	(A/B)	8.8%	10.0%
Shareholders' equity	A	3,211	3,459
Loans to customers	B	34,483	33,156
SE on Loans to customers	(A/B)	9.3%	10.4%
Shareholders' equity	A	3,211	3,459
Financial assets	B	34,483	33,156
SE on Financial assets	(A/B)	9.3%	10.4%
Shareholders' equity	A	3,211	3,459
Total Assets	B	65,042	67,579
Shareholders' equity on Total Assets	(A/B)	4.9%	5.1%
Net non-performing loans	A	324	379
Shareholders' equity	B	3,211	3,459
Net non-performing loans on shareholders' equity	(A/B)	10.1%	11.0%
Net non-performing loans	A	324	379
Receivables from customers	B	34,483	33,156
Net NPL ratio	(A/B)	0.9%	1.1%
Specific write-downs	A	412	440
Gross non-performing loans	B	736	819
Coverage ratio	(A/B)	56.0%	53.7%
Loans to customers	A	34,483	33,156
Direct customer deposits	B	36,330	34,576
Loans to customers on Direct customer deposits	(A/B)	94.9%	95.9%
Value adjustments to loans	A	-49	-32
Average loans to customers	B	33,819	31,227
Cost of credit	(A/B)	0.15%	0.10%
Net profit	A	317	352
Shareholders' equity (annual average net of dividends)	B	3,228	3,222
Return on equity (ROE)	(A/B)	9.8%	10.9%

CONSOLIDATED FINANCIAL STATEMENTS – REPORT ON OPERATIONS

20. ATTACHMENTS

Regarding the issue of risk, we provide (in %) the classification of performing loans relating to the “corporate regulatory function”, made according to the internal model approach:

CLASSIFICATION OF LOANS RELATING TO THE CORPORATE REGULATORY FUNCTION (INTERNAL MODEL)		2022	2021
C1	No risk issues at the moment nor, most likely, over the medium/long term	26.2	24.8
C2	No risk issues at the moment nor, most likely, over the medium term	35.0	30.9
C3	No risk issues at the moment nor, most likely, over the short term	22.6	21.9
C4	Risk compatible with possibility for reduction/slight worsening over the short term	10.3	12.0
C5	Risk situation with symptoms of worsening already evident	4.2	6.3
C6	Situation highlighting evidently problematic aspects	1.3	2.3
C7	Highly problematic situation with potential risk of default	0.3	1.6
C8	Highly problematic situation with short-term risk of default	0.2	0.3
		100.0	100.0

For a more detailed analysis of the applied method, please see the Explanatory notes to the consolidated financial statements, Part E, Section 2 - Risk of prudential consolidation - A.2. “Classification of exposures based on external and internal ratings”.

The same approach, applied to positions belonging to the “regulatory retail function” (substantially small businesses and private customers) gave the following results (in %):

CLASSIFICATION OF LOANS RELATING TO THE RETAIL REGULATORY FUNCTION		2022	2021
C1	No risk issues at the moment nor, most likely, over the medium/long term	1.4	1.6
C2	No risk issues at the moment nor, most likely, over the medium term	50.9	46.2
C3	No risk issues at the moment nor, most likely, over the short term	5.2	6.4
C4	Risk compatible with possibility for reduction/slight worsening over the short term	21.0	20.2
C5	Risk situation with symptoms of worsening already evident	12.1	14.6
C6	Situation highlighting evidently problematic aspects	7.0	3.4
C7	Highly problematic situation with potential risk of default	2.1	7.1
C8	Highly problematic situation with short-term risk of default	0.3	0.5
		100,0	100,0

For a more detailed examination of the breakdown of this aggregate by business segment and by geographical area please refer to Parts “L” and “E” of the Explanatory Notes to the Consolidated Financial Statements.

FINANCIAL
STATEMENTS
AT 31/12/2022

STRUCTURE AND CONTENT OF THE FINANCIAL STATEMENTS

The Group's consolidated financial statements comprise the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the cash flow statement, the explanatory notes to the consolidated financial statements and are accompanied by the report on operations, as envisaged by international accounting standards IAS/IFRS and by Banca d'Italia Circular no. 262 dated 22 December 2005, and subsequent updates and supplements, which have regulated the annual and consolidated accounts of credit entities and financial institutions.

The Group's consolidated financial statements are drawn up clearly and represent the capital situation, the financial situation and the economic result for the year in a truthful and correct manner.

The purpose of the Explanatory Notes to the Consolidated Financial Statements is to illustrate, analyse and in some cases supplement the information contained in the financial statements. They contain the information required by Banca d'Italia Circular no. 262 of 22 December 2005 and subsequent amendments and supplements. Furthermore, all additional information retained necessary to give a truthful and correct representation is also provided.

The figures shown in the tables of the Consolidated Financial Statements and the Explanatory Notes to the Consolidated Financial Statements are in thousands of euro, with the exception of Part L, which is drawn up in millions of euro.

With regard to the structure and content of the financial statements, reference should also be made to Part A1 "General criteria" below.

This document represents a supplementary version with respect to the official version compliant with the Delegated Regulation (EU) no. 2019/815 of the European Commission (ESEF Regulation - European Single Electronic Format) published on the website www.credem.it.

FINANCIAL STATEMENT S' SCHEMES

CONSOLIDATED BALANCE SHEET

Assets	31/12/2022	31/12/2021
10. Cash and cash equivalents	3,357,710	230,954
20. Financial assets measured at fair value through profit or loss	109,250	82,362
a) Financial assets held for trading	54,962	59,970
c) Other financial assets measured at fair value, as per mandatory requirements	54,288	22,392
30. Financial assets measured at fair value through other comprehensive income	6,199,150	6,593,183
35. Financial assets pertaining to insurance companies measured at FV pursuant to IAS 39	6,037,262	7,064,627
40. Financial assets measured at amortised cost	43,831,210	49,137,481
a) Due from banks	1,487,395	8,948,886
b) Loans to customers	42,343,815	40,188,595
45. Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	2,126,384	1,688,198
50. Hedging derivatives	1,090,239	211,101
60. Change in value of macro-hedged financial assets (+/-)	(197,853)	82,769
70. Equity investments	47,362	48,592
80. Reinsurance technical reserves	18,347	17,489
90. Property, plant and equipment	453,916	460,230
100. Intangible assets	476,473	465,095
of which:		
- Goodwill	291,342	291,342
110. Tax assets	614,658	416,641
a) Current	205,339	187,737
b) Deferred	409,319	228,904
120. Non-current assets and groups of assets held for sale and discontinued operations	-	5,807
130. Other assets	877,484	1,074,658
Total Assets	65,041,592	67,579,187

continued: CONSOLIDATED BALANCE SHEET

Liabilities and shareholders' equity	31/12/2022	31/12/2021
10. Financial liabilities measured at amortised cost	50,883,109	52,726,659
a) Due to banks	8,736,293	12,585,576
b) Due to customers	38,778,020	37,716,918
c) Debt securities issued	3,368,796	2,424,165
15. Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	111,755	111,894
20. Financial liabilities held for trading	36,257	33,148
35. Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	3,903,984	4,406,981
40. Hedging derivatives	874,058	408,084
50. Change in value of macro-hedged financial liabilities (+/-)	(203,886)	104,158
60. Tax liabilities	213,709	197,349
a) current	87,267	70,279
b) deferred	126,442	127,070
70. Liabilities included in disposal groups classified as held for sale	-	162
80. Other liabilities	1,415,671	1,628,574
90. Provision for staff termination indemnity	56,086	69,845
100. Provisions for risks and charges:	182,962	174,411
a) Commitments undertaken and guarantees given	7,056	8,044
b) Post-retirement benefit obligations	1,254	1,485
c) Other provisions for risks and charges	174,652	164,882
110. Technical reserves	4,356,382	4,257,810
120. Valuation reserves	(151,872)	87,226
125. Valuation reserves pertaining to insurance companies pursuant to IAS 39	(227,655)	(14,221)
150. Reserves	2,620,855	2,374,932
160. Share premium reserve	321,800	321,800
170. Share capital	341,320	341,320
180. Treasury shares (-)	(10,072)	(4,025)
190. Minority interests (+/-)	159	653
200. Profit (loss) for the period (+/-)	316,970	352,427
Total liabilities and shareholders' equity	65,041,592	67,579,187

CONSOLIDATED INCOME STATEMENT

Item	31/12/2022	31/12/2021
10. Interest income and similar revenues	797,798	584,077
of which: interest income calculated using the effective interest rate method	774,417	556,242
20. Interest expense and similar charges	(143,812)	(94,447)
30. Net interest income	653,986	489,630
40. Fee and commission income	762,644	823,948
50. Fee and commission expenses	(162,115)	(189,007)
60. Net fee and commission income	600,529	634,941
70. Dividends and similar income	2,075	166
80. Net profit (loss) from trading	11,166	14,390
90. Net profit (loss) from hedging	3,686	(46)
100. Gains (Losses) on disposal or repurchase of:	44,956	37,392
a) Financial assets measured at amortised cost	31,506	3,135
b) Financial assets measured at fair value through other comprehensive income	13,450	34,257
110. Net profit (loss) from financial assets and liabilities measured at fair value through profit or loss	(1,894)	1,735
b) Other financial assets measured at fair value, as per mandatory requirements	(1,894)	1,735
115. Profit (Loss) from financial assets and liabilities pertaining to insurance companies pursuant to IAS 39	129,864	151,868
120. Net interest and other banking income	1,444,368	1,330,076
130. Net value adjustments/recoveries for credit risk of:	(55,666)	(28,220)
a) Financial assets measured at amortised cost	(55,836)	(28,723)
b) Financial assets measured at fair value through other comprehensive income	170	503
140. Profits/losses from contractual changes without derecognitions	114	(829)
150. Net profit from financial activities	1,388,816	1,301,027
160. Net premiums earned	549,966	479,851
170. Net other operating income/charges from insurance activities	(563,279)	(500,495)
180. Net profit from financial and insurance activities	1,375,503	1,280,383
190. Administrative costs	(973,080)	(949,898)
a) Personnel expenses	(563,448)	(550,682)
b) Other administrative expenses	(409,632)	(399,216)
200. Net provisions for risks and charges	(14,131)	(13,021)
a) For credit risk relating to commitments undertaken and guarantees given	(2,864)	(2,839)
b) Other net provisions	(11,267)	(10,182)
210. Net value adjustments to (recoveries on) property, plant and equipment	(44,489)	(43,909)
220. Net value adjustments to (recoveries on) intangible assets	(53,775)	(49,303)
230. Other operating income/charges	150,287	225,578
240. Operating expenses	(935,188)	(830,553)
250. Gains (Losses) on equity investments	7,855	6,337
280. Gains (Losses) on disposals of investments	13,421	10,014
290. Profit (loss) before tax from continuing operations	461,591	466,181
300. Income tax for the period from continuing operations	(144,605)	(113,588)
310. Profit (loss) after tax from continuing operations	316,986	352,593
330. Profit (loss) for the period	316,986	352,593
340. Profit (Loss) for the period attributable to minority interests	(16)	(166)
350. Parent Company's profit (loss) for the period	316,970	352,427
Item	31/12/2022	31/12/2021
Basic Earnings per Share (basic EPS)	0.93	1.05
Diluted Earnings per Share (diluted EPS)	0.93	1.05

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Item	31/12/2022	31/12/2021
10. Profit (loss) for the period	316,986	352,593
Other income after tax without reversal to Income Statement	10,008	(12,412)
20. Equity securities measured at fair value through other comprehensive income	2,753	(11,623)
70. Defined benefit plans	7,255	(789)
Other income after tax with reversal to Income Statement	(467,329)	(35,836)
120. Cash flow hedges	(95,376)	(27,354)
Financial assets (other than equity securities) measured at fair value through other		
140. comprehensive income	(153,715)	(8,105)
Financial assets pertaining to insurance companies measured at amortised cost		
145. in accordance with IAS 39	(213,434)	288
160. Share of valuation reserves of equity investments valued at equity	(4,804)	(665)
170. Total other income after tax	(457,321)	(48,248)
180. Comprehensive income (Items 10+170)	(140,335)	304,345
190. Consolidated comprehensive income attributable to minority interests	16	166
200. Consolidated comprehensive income attributable to Parent Company	(140,351)	304,179

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Balance at 31.12.2021	Initial balance changes	Balance at 01.01.2022	Allocation of previous year's results		Changes during the year										Group shareholders' equity at 31.12.2022	Minority interests at 31.12.2022
						Changes in reserves	Transactions on shareholders' equity								Comprehen sive income for the period 31.12.2022		
				Reserves	Dividends and other allocations		Issue of new shares	Purchase of treasury shares	Extraordinary dividend distribution	Changes in equity instruments	Derivativ es on treasury shares	Stock options	Changes in shareholdings				
Share capital	341,363	-	341,363	-	-	-	--	-	-	-	-	-	(32)	-	341,320	11	
- shares Ordinary	341,363	-	341,363	-	-	-	--	-	-	-	-	-	(32)	-	341,320	11	
- other shares	-	--	-	-	-	-	--	-	-	-	-	-	-	-	-	-	
Share premiums issue	321,801	-	321,801	-	-	-	--	-	-	-	-	-	-	-	321,800	1	
Reserves	2,375,396	-	2,375,396	250,298	-	3,783	-	(2,530)	-	-	-	-	(1,151)	(4,804)	2,620,855	137	
- profit	2,375,396	-	2,375,396	250,298	-	3,783	-	(2,530)	-	-	-	-	(1,151)	(4,804)	2,620,855	137	
- other	-	--	-	-	-	-	--	-	-	-	-	-	-	-	-	-	
Valuation reserves	72,984	-	72,984	-	-	-	--	-	-	-	-	-	-	(452,517)	(379,527)	(6)	
Equity instruments	-	--	-	-	-	-	--	-	-	-	-	-	-	-	-	-	
Treasury shares	(4,025)	-	(4,025)	-	-	-	-	(6,047)	-	-	-	-	-	-	(10,072)	-	
Net profit (loss)	352,593	-	352,593	(250,298)	(102,295)	-	--	-	-	-	-	-	-	316,986	316,970	16	
Group shareholders' equity	3,459,459	-	3,459,459	-	(102,295)	3,783	-	(8,577)	-	-	-	-	(673)	(140,351)	3,211,346	-	
Shareholders' equity of non- controlling interests	653	-	653	-	-	-	--	-	-	-	-	-	(510)	16	-	159	

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Balance at 31.12.2020	Initial balance changes	Balance at 01.01.2021	Allocation of previous year's results		Changes during the year										Group shareholders' equity at 31/12/2021	Sharehold ers' equity of non- controlling interests at 31/12/2021
						Changes in reserves	Transactions on shareholders' equity								Comprehen sive income for the year 31/12/2021		
				Reserves	Dividends and other allocations		Issue of new shares	Purchase of treasury shares	Extraordinary dividend distribution	Changes in equity instruments	Derivativ es on treasury shares	Stock options	Changes in sharehold ings				
Share capital	332,427	-	332,427	-	-	-	8,928	-	-	-	-	-	-	-	341,320	43	
- shares ordinary	332,427	-	332,427	-	-	-	8,928	-	-	-	-	-	-	-	341,320	43	
- other shares	-	--	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Share premiums reserve	283,053	-	283,053	-	-	-	38,748	-	-	-	-	-	-	-	321,800	1	
Reserves	2,203,127	-	2,203,127	135,434	-	40,869	-	(3,438)	-	-	-	-	69	(665)	2,374,932	464	
- profit	2,203,127	-	2,203,127	135,434	-	40,869	-	(3,438)	-	-	-	-	69	(665)	2,374,932	464	
- other	-	--	-	-	-	-	-	X	-	-	-	-	-	-	-	-	
Valuation reserves	121,161	-	121,161	-	-	(594)	X	X	-	-	-	-	-	-	73,005	(21)	
Equity instruments	-	--	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Treasury shares	(7,463)	-	(7,463)	-	-	-	-	3,438	-	-	-	-	-	-	(4,025)	-	
Profit (loss) for the year	201,729	-	201,729	(135,434)	(66,295)	-	-	-	-	-	-	-	352,593	-	352,427	166	
Group shareholders' equity of non-controlling interests	3,133,588	-	3,133,588	-	(66,295)	40,275	47,676	-	-	-	-	-	36	304,179	3,459,459	-	
Shareholders' equity	446	-	446	-	-	-	-	-	-	-	-	-	41	166	-	653	

CONSOLIDATED CASH FLOW STATEMENT (Indirect method)

A. OPERATING ACTIVITIES	Amount	
	31/12/2022	31/12/2021
1. Management	480,599	282,846
- profit (loss) for the year (+/-)	316,970	352,427
- capital gains/losses on financial assets held for trading and on other assets/liabilities measured at fair value through profit or loss (-/+)	259,355	3,253
- capital gains/losses on hedging operations (-/+)	(3,686)	46
- net value adjustments/recoveries for credit risk (+/-)	84,409	58,493
- net value adjustments to (recoveries on) property, plant and equipment and intangible assets (+/-)	98,264	93,212
- net provisions for risks and charges and other expenses/income (+/-)	14,131	13,021
- not cashed net premiums (-)	(484)	(806)
- other insurance income/charges not collected (-/+)	(2,819)	(2,418)
- taxes, duties and tax credits not paid or collected (+/-)	65,134	67,904
- net value adjustments/recoveries after tax for discontinued operations (-/+)	-	-
- other adjustments (+/-)	(350,675)	(302,286)
2. Cash flow from (used in) financial assets	5,330,832	(10,604,654)
- financial assets held for trading	(252,518)	(43,279)
- financial assets measured at fair value	-	-
- other assets measured at fair value, as per mandatory requirements	(33,549)	(501)
- financial assets measured at fair value through other comprehensive income	(463,319)	(3,178,570)
- financial assets measured at amortised cost	4,718,131	(6,730,837)
- other assets	1,362,087	(651,467)
3. Cash flow from (used in) financial liabilities	(2,474,939)	10,457,613
- financial liabilities measured at amortised cost	(1,536,435)	9,165,899
- financial liabilities held for trading	3,109	14,885
- financial liabilities measured at fair value	-	-
- other liabilities	(941,613)	1,276,829
Net cash flow from (used in) operating activities	3,336,492	135,805
B. INVESTMENT ACTIVITIES		
1. Cash flow from:	1,867	15,215
- sales of equity investments	-	-
- collected dividends on equity investments	-	-
- sales of property, plant and equipment	1,867	15,215
- sales of intangible assets	-	-
- sales of divisions	-	-
2. Cash flow used in:	(103,261)	(141,644)
- purchases of equity investments	(250)	(821)
- purchases of property, plant and equipment	(44,885)	(77,799)
- purchases of intangible assets	(58,126)	(63,024)
- purchases of subsidiaries and divisions	-	-
Net cash flow from (used in) investment activities	(101,394)	(126,429)
C. FUNDING ACTIVITIES		
- issue/purchase of treasury shares	(6,047)	51,114
- issue/purchase of equity instruments	-	-
- dividend distribution and other	(102,295)	(66,295)
- sale/purchase of third-party control	-	-
Net cash flow from (used in) funding activities	(108,342)	(15,181)
NET CASH FLOW FROM (USED IN) FUNDING ACTIVITIES IN THE YEAR	3,126,756	(5,805)

CONSOLIDATED FINANCIAL STATEMENTS – CASH FLOW STATEMENT

RECONCILIATION

<i>Item</i>	Amount	
	31/12/2022	31/12/2021
Cash and cash equivalents at the beginning of the year	230,954	236,759
Net increase (decrease) in cash and cash equivalents	3,126,756	(5,805)
Cash and cash equivalents: effect of exchange rate variations	-	-
Cash and cash equivalents at the end of the year	3,357,710	230,954

With regard to the disclosures, as set forth in paragraph 44 B of IAS 7, it should be noted that changes in liabilities arising from financing activities (cash generated) relate mainly to cash flows.

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Part A – Accounting policies

Part B - Information on the Consolidated Balance Sheet

Part C - Information on the Consolidated Income Statement

Part D - Consolidated Statement of Comprehensive Income

Part E – Information on risks and hedging policies

Part F – Information on consolidated shareholders' equity

Part G – Business combinations involving companies or business divisions

Part H – Related party transactions

Part I – Share-based payments

Part L – Segment reporting

Part M – Leases

The Explanatory notes to the consolidated financial statements are drawn up in thousands of euro, with the exception of Part L, which is drawn up in millions of euro.

PART A

ACCOUNTING POLICIES

A.1 - GENERAL CRITERIA

Section 1 - Statement of compliance with international accounting standards

The Consolidated Financial Statements have been drawn up in full compliance with all International Accounting Standards (IAS/IFRS) issued by the International Accounting Standard Board and the related interpretations from the International Financial Reporting Interpretation Committee in force at 31 December 2015 and approved by the European Commission under the procedure established in the EU regulation no. 1606/2002 of 19 July 2002, as well as the provisions issued pursuant to Art. 9 of Italian Legislative Decree no. 38/2005 and Art. 43 of Italian Legislative Decree of 18 August 2015, no. 136.

It should also be noted that Banca d'Italia, having the powers to define the financial statements and the Explanatory Notes to the consolidated financial statements, issued the 7th update of Circular no. 262/2005 "Bank financial statements: schedules and rules for completion" on 29 October 2021.

The Banca d'Italia, with its communication of 21 December 2021, updated the additions to the provisions governing banks' financial statements (Circular no. 262 of 2005) to provide the market with information on the effects that the COVID-19 and the measures to support the economy have had on the strategies, objectives and policies of risk management, as well as on the economic-equity position of banks.

In relation to the temporary nature of the COVID-19 emergency and support measures, the additions to the related balance sheet provisions remain in force until otherwise communicated by Banca d'Italia.

The accounting standards adopted for the preparation of these financial statements, with reference to the phases of classification, recognition, measurement and derecognition of financial assets and liabilities, as well as for the methods of recognition of revenues and costs, have not changed with respect to those adopted for the preparation of the 2021 Financial Statements of the Credem Group.

Section 2 - General criteria for the preparation of the Consolidated Financial Statements

The consolidated financial statements have been drawn up on the basis of the "Instructions for the drawing up of the separate financial statements and the consolidated financial statements of banks and financial companies parent company of banking groups" issued by Banca d'Italia by means of Provision dated 22 December 2005 and subsequent updates.

The Consolidated Financial Statements comprise the Balance Sheet, the Income statement, the Statement of Comprehensive Income, the Statement of Changes in Shareholders' Equity, the Cash Flows Statement and the Explanatory Notes to the Consolidated Financial Statements and the related comparative information at 31 December 2021. The report is also accompanied by a Report on Operations, on the economic results achieved and on the Credem Group's capital and financial position.

The Financial Statements have been drawn up under the general standards established by IAS1 and the specific accounting standards approved by the European Commission and described in Part A.2 of these Explanatory Notes to the Consolidated Financial Statements, and also in compliance with the general principles established by the Systematic Framework for the drafting and presentation of accounts produced by the IASB.

No exemptions have been made from the application of IAS/IFRS.

In compliance with the provisions of Art. 5, paragraph 2 of Italian Legislative Decree no. 38 of 28 February 2005, the Financial Statements have been drawn up using the euro as the reporting currency, and are based on the adoption of the following general standards for the preparation of Financial Statements established by IAS 1:

- Going concern. Directors consider the assumption of a going concern to be appropriate, as, in their opinion, there are no uncertainties relating to events or circumstances, which, considered individually or as a whole, could cast doubts over the continuation of the business. As a result, assets, liabilities and "off-balance sheet" transactions are valued in accordance with the operational features, since they are expected to continue in operation for the foreseeable future.
- Accrual basis of accounting. Costs and revenues are recognised, irrespective of the time of their monetary settlement, according to the principles of economic accrual and correlation.
- Consistency of presentation. The presentation and classification of the items are kept constant over time

in order to ensure the comparability of the information, unless their change is required by an International Accounting Standard or an Interpretation or makes the representation of values more appropriate, in terms of significance and reliability. If the presentation or classification criteria are changed, the new criterion, where possible, applies retroactively; in this case, the nature and reason for the change is indicated, as well as the pertinent items. The formats established by Banca d'Italia for the financial statements of banks, outlined in Circular no. 262 of 22 December 2005 and subsequent amendment and integrations, have been used for the presentation and classification of the items.

- Materiality and aggregation. All the significant groups of items with a similar nature or function are reported separately. Items with a different nature or function, if significant, are presented individually.
- No offsetting. Financial assets and liabilities, and costs and revenues are not offset against each other, unless required or permitted by an international accounting standard or an interpretation or by the schedules produced by Banca d'Italia for the financial statements of banks.
- Comparative information. The comparative information from the previous period is presented for all figures included in the comparative Financial Statements. The amendments to the comparative data are made only when considered to be of a significant amount.

Where applicable, interpretative documents supporting the application of accounting standards in relation to the impacts of COVID-19, issued by European regulatory and supervisory bodies and by standard setters, were taken into account. These include, inter alia:

- the EBA communication of 25 March 2020 "Statement on the application of the prudential framework regarding Default, Forbearance and IFRS 9 in light of COVID-19 measures";
- the communication from ESMA of 25 March 2020 "Public Statement. Accounting implications of the COVID-19 outbreak on the calculation of expected credit losses in accordance with IFRS 9";
- the IFRS Foundation document of 27 March 2020 "IFRS 9 and COVID-19 - Accounting for expected credit losses applying IFRS 9 Financial Instruments in the light of current uncertainty resulting from the COVID-19 pandemic";
- the letter of the ECB of 1 April 2020 "IFRS 9 in the context of the coronavirus (COVID-19) pandemic" addressed to all significant institutions;
- the EBA guidelines of 2 April 2020 "Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis";
- the communication from ESMA dated 20 May 2020 "Implications of the COVID-19 outbreak on the half-yearly financial reports";
- the EBA guidelines dated 2 June 2020 "Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis";
- the communication from ESMA dated 28 May 2020 "European common enforcement priorities for 2020 annual financial reports";
- the EBA guidelines of 2 December 2020 "Guidelines amending Guidelines EBA/GL/2020/02 on legislative and non legislative moratoria on loan repayments applied in the light of the COVID-19 crisis";
- the letter of the ECB of 4 December 2020 "Identification and measurement of credit risk in the context of the coronavirus (COVID-19) pandemic" addressed to all significant institutions;
- the communication from ESMA dated 29 October 2021 "European common enforcement priorities for 2021 annual financial reports";
- the communication from ESMA of 13 May 2022 "*Implications of Russia's invasion of Ukraine on half-yearly financial reports* concerning the effects of the invasion of Ukraine by Russia on the half-yearly financial reports;
- the communication from ESMA of 28 October 2022 "*European common enforcement priorities for 2022 annual financial reports*", which highlights the priorities relating to disclosure on annual reports.

Accounting standards

Main accounting standards and interpretations approved by the European Union whose application has become mandatory as of 2022

On 14 May 2020, the IASB published some amendments to the following IFRS, applicable from 1 January 2022: Amendments to IFRS 3 Business Combinations: updates the reference in IFRS 3 to the Conceptual Framework in the revised version, without this entailing changes to the provisions of the standard Amendments to IAS 16 Property, Plant and Equipment - "Proceeds before Intended Use": does not allow to deduct from the cost of the fixed asset the amount received from the sale of goods produced before the asset was ready for use. These sales revenues and the related costs will be recognised in the income statement Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets "Onerous Contracts - Costs of Fulfilling a Contract": clarifies which cost items must be considered to assess whether a contract will be loss-making

Annual Improvements 2018 - 2020: changes were made to the following accounting standards: Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter, Amendment to IFRS 9 Financial Instruments – “Fees in the ‘10 per cent’ test for derecognition of financial liabilities”, to IAS 41 Agriculture and the Illustrative Examples that accompany IFRS 16 Leases.

Main accounting standards and interpretations approved by the European Union but that do not apply at 31 December 2022 and for which the Bank and the Group have not opted for early application, where such is envisaged.

On 18 May 2017, the IASB published IFRS 17 - Insurance Contracts, a new comprehensive standard relating to insurance contracts that covers recognition and measurement, presentation and disclosure. IFRS 17 replaces IFRS 4 - Insurance Contracts, which was issued in 2005. IFRS 17 applies to all types of insurance contracts regardless of the type of entity that issues them, as well as to some guarantees and financial instruments with discretionary participation characteristics. IFRS 17 requires the presentation of comparative balances. The date of entry into effect is scheduled for 1 January 2023.

On 25 June 2020, the IASB published the document Amendments to IFRS 17 Insurance Contracts for: reduce costs by simplifying some requirements of the Standard; making financial performance easier to explain; facilitating the transition by postponing the date of entry into force of the Standard to 2023 and providing additional support to reduce the effort required for the first-time adoption of IFRS 17.

On 9 December 2021, the IASB issued the document Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information. The amendment provides insurers with an option aimed at improving the relevance of the information to be provided to investors during the first application of the new standard. The standards are applicable from 1 January 2023.

On 7 May 2021, the IASB published the document Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction. The document specifies how deferred taxes on transactions such as leasing and decommissioning obligations must be accounted for. The standards are expected to be applicable from 1 January 2023.

On 12 February 2021, the IASB published the following documents:
Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies;
Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates.
The amendments are aimed at improving disclosure on accounting policies in order to provide more useful information to investors and other primary users of the financial statements, as well as to help companies distinguish between changes in accounting estimates and changes in accounting policies. The standards are expected to be applicable from 1 January 2023.

IFRS accounting standards, amendments and interpretations not yet approved by the European Union

On 23 January 2020 and 15 July 2020, the IASB published the documents Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current - deferral of effective date. No changes were made to existing rules, but clarifications are provided on the classification of payables and other liabilities as current (due or potentially due within the year) and non-current. The amendments also provide clarification on the classification of the payables that a company may settle through conversion into equity. The scheduled date of application of the amendments has been set at 1 January 2023.

The IASB also published, on 19 November 2021, the new Exposure Draft Non-current Liabilities with Covenants, which proposes amendments to the IAS 1 Presentation of Financial Statements with the aim of clarifying the classification in the financial statements of long-term payables subject to compliance with covenants.

On 22 September 2022, the IASB published the document Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback, clarifying how a sale and leaseback transaction is recorded which includes variable payments based on performance or on the use of the asset involved in the transaction. The IASB envisaged the date of entry into effect as of 1 January 2024.

IFRS 14 Regulatory Deferral Accounts. The European Community decided not to launch the endorsement process for the provisional version of the standard IFRS 14 Regulatory Deferral Accounts, issued on 30 January 2014, and decided to await the final version of the accounting standard.

Contents of the Financial Statements

Balance Sheet, Income Statement and Statement of Comprehensive Income

The balance sheet and income statement are made up of items, sub-items and additional information (the “of which” in the items and sub-items). In the income statement, revenues are presented as positive numbers without signs and costs as negative numbers in brackets. Positive and negative income components included in the statement of comprehensive income are presented in the same way.

The financial statements provide corresponding comparative figures of the balance sheet of the previous year, while the income statement figures and the statement of comprehensive income figures refer to the same period of the previous year.

Statement of Changes in Shareholders' Equity

The statement of changes in shareholders' equity has been drawn up in accordance with the provisions of Circular no. 262/2005 of Banca d'Italia, as amended. The statement presents the breakdown and movements for the shareholders' equity accounts for the period covered by the financial statements and the previous period, split between share capital, capital reserves, profit reserves, asset and liability valuation reserves and net profit or loss. Treasury shares in the portfolio, if present, are deducted from shareholders' equity. Equity instruments other than ordinary shares have not been issued.

Cash Flow Statement

The Cash Flow Statement provides information that enables users to assess changes in the company's assets, its financial structure (including liquidity and solvency) and its ability to influence the size and the timing of cash flows with a view to adapting them to circumstances and opportunities.

IAS 7 establishes that the cash flow statement may be drawn up using either the “direct” or “indirect” method.

As envisaged by the instructions of Circular no. 262/05, Banca d'Italia therefore proposes two alternative cash flow statement schedules, in which the cash flows related to operating activities are shown with the direct and indirect method, without indicating a preference for either, leaving the decision to the party preparing the financial statements.

The cash flow statement for the reference period of the financial statements and for that of the previous year was prepared using the indirect method, according to which cash flows from operating activities are represented by the result for the year, adjusted for the effects of non-monetary transactions.

Cash flows are broken down into those deriving from operating activities, those generated from investing activities and those generated from funding activities.

The cash inflows generated during the period are presented in the statement as positive numbers without signs, and the cash outflows as negative numbers in brackets.

Contents of the Explanatory Notes to the Consolidated Financial Statements

The Explanatory Notes to the Consolidated Financial Statements contain the information required by Circular no. 262/2005 of Banca d'Italia, as amended and supplemented, and the additional information required by international accounting standards.

In compliance with the provisions of Art. 5 of Italian Legislative Decree no. 38 of 28 February 2005, the Financial Statements have been drawn up using the euro as the reporting currency: the financial statement schedules are drawn up in units of euro while the Explanatory Notes are in thousands of Euro.

Section 3 – Scope and methods of consolidation

The Consolidated Financial Statements of the Credem Group include the Financial Statements of Credito Emiliano S.p.A. and the companies it directly controls. Companies operating in different business segments than that of the Parent Company have also been included within the scope of consolidation. Similarly, Special Purpose Entities or Vehicles (SPE/SPV) have also been included when an effective controlling interest exists, irrespective of whether equity investments are held.

Companies are considered subsidiaries when the Parent Company, directly or indirectly, holds more than

half of the voting rights or when it has a lower portion of voting rights, but has the power to appoint the majority of directors of the investee company or determine its financial or operating policies. The assessment of the number of voting rights also takes into account “potential” rights if they are currently exercisable or convertible into effective voting rights at any time. Companies are considered to be subject to joint control if their voting rights and the control of their economic activities are equally shared by Credem, directly or indirectly, and another party. An equity investment is classed as being under joint control when, even though voting rights are not equally shared, control over the investee company’s economic activities or business policies is shared with other parties by virtue of contractual agreements.

Companies are considered associated, that is, subject to significant influence, when the Parent Company, directly or indirectly, holds at least 20% of the voting rights (including “potential” voting rights as defined above) or when – even with a lower amount of voting rights – it has the power to determine the financial and management policies of the investee company by virtue of specific legal relationships such as participation in shareholders’ agreements.

Subsidiaries are consolidated on a line-by-line basis, whereas non-controlling interests and joint ventures are consolidated using the equity method.

Criteria and principles of consolidation

The following criteria were adopted in the preparation of the consolidated financial statements:

- upon first consolidation, the book value of equity investments in line-by-line or proportionally consolidated companies is offset against the shareholders’ equity of said companies (or rather the portion of shareholders’ equity that said equity investments represent). Accounting for purchases in companies takes place according to the “purchase method”, as defined by IFRS 3, with recognition of the assets, liabilities and contingent liabilities of companies acquired at fair value at the acquisition date, which is the moment in which effective control of the acquired company is achieved. Therefore, the financial results of a subsidiary acquired during the period are included in the consolidated financial statements starting from its acquisition date. Similarly, the financial results of a subsidiary that has been sold are included in the consolidated financial statements until the date in which control ceases;
- any surpluses in the book value of equity investments, as per the previous point, compared to the corresponding portion of shareholders’ equity, adjusted to the fair value of assets or liabilities, are recorded as goodwill under “Intangible assets” if positive and to the Income Statement if negative;
- any purchases of additional equity investments subsequent to the acquisition of control, are specifically regulated by IAS 27; any positive or negative differences, as defined above, that arise following said acquisition are recorded directly to equity;
- the adequacy of the goodwill value (impairment test) is assessed on the date of the financial statements (or each time there is evidence of impairment). To this end, the cash generating unit that produces the cash flow and to which goodwill is attributed is identified. The amount of the impairment is calculated as the negative difference, if any, between the goodwill value recorded and its recoverable amount, equal to the greater of fair value of the cash generating unit, net of any sales costs, and the asset’s relative value in use. The subsequent value adjustments are recorded in the income statement;
- asset, liability and income statement items are acquired on a “line-by-line basis”;
- debit and credit positions, off-balance sheet transactions and income, charges, profits and losses arising from relations between companies consolidated on a line-by-line basis cancel each other out;
- the portions of shareholders’ equity and profit for the year pertaining to the “minority” shareholders of the consolidated companies, are included in specific liability items in the balance sheet and in the income statement, respectively;
- the approved separate financial statements of the single companies were used for consolidation of the companies on a line-by-line basis, adjusted, and, if necessary, to comply with international accounting standards used in the preparation of the consolidated financial statements;
- the book value of significant equity investments held by the Parent Company, or by other Group companies, regarding companies consolidated at equity is compared to the relative portion of shareholders’ equity of the investee companies. Any excess in the book value – resulting from first-time adoption in the consolidated financial statements – is included in the book value of the investee company. The changes in equity value that took place in the years subsequent to the year of first time adoption are recorded under item 250 of the consolidated income statement (“gains (losses) on equity investments”), to the extent in which said changes refer to profits or losses of the investee companies;
- if there is evidence that the value of an investment may have undergone impairment, the recoverable amount of the investment is estimated, taking into account the present value of future

cash flows that the investment may generate, including the final disposal value of the investment. If the recovery amount is lower than the book value, the difference is recorded in the income statement;

- for the consolidation of equity investments in associated companies, where available, the draft financial statements at 31 December 2022, approved by the respective Board of Directors, were used; alternatively the figures from the last approved financial statements (usually those at 31 December 2021) were used.

Equity investments in subsidiaries and associated companies (consolidated under the equity method)

Company Names	Regis	Type of ratio	Shareholding Ratio		Availability of votes %
			Participating company	% share	
A. Businesses					
A.1 Consolidated line-by-line					
1. Credemleasing S.p.A.	Reggio Emilia	1	Magazzini Generali delle Tagliate	99.90% 0.10%	
2. Credemfactor S.p.A.	Reggio Emilia	1	Credito Emiliano	99.00%	
3. Credem Private Equity SGR S.p.A.	Reggio Emilia	1	Credemleasing	1.00%	
			Credito Emiliano	87.50%	
4. Euromobiliare Asset Management SGR S.p.A.	Milan	1	Credem Euromobiliare Private Banking	12.50%	
			Credito Emiliano	100.00%	
5. Euromobiliare Advisory SIM S.p.A.	Milan	1	Credito Emiliano	100.00%	
6. Credemtel S.p.A.	Reggio Emilia	1	Credito Emiliano	100.00%	
7. Avvera S.p.A.	Reggio Emilia	1	Credito Emiliano	100.00%	
8. Magazzini Generali delle Tagliate S.p.A.	Reggio Emilia	1	Credito Emiliano	100.00%	
9. Credem Euromobiliare Private banking S.p.A.	Reggio Emilia	1	Credito Emiliano	100.00%	
10. Euromobiliare Fiduciaria S.p.A.	Milan	1	Credito Emiliano	100.00%	
11. Credemvita S.p.A.	Reggio Emilia	1	Credito Emiliano	100.00%	
12. Sata S.r.l.	Modena	1	Credemtel	100.00%	
13. Blue Eye Solutions S.r.l.	Montechiarugolo	1	Credemtel	75.00%	
14. Credem CB S.r.l.	Conegliano	1	Credito Emiliano	70.00%	
A.2 Consolidated using the equity method					
1. Credemassicurazioni S.p.A.	Reggio Emilia	2	Credito Emiliano	50.00%	
2. Andxor S.r.l.	Cinisello Balsamo	3	Credemtel	40.00%	
3.SBC Fintech Milan 2224 S.r.l.	Milan	3	Credemtel	19.68%	
4. Gruppo Santamaria S.p.A.	Catania	3	Avvera	10.00%	

Key

Type of relationship:

1 = majority of the voting rights of the Ordinary Shareholders' Meeting

2 = joint control

3 = associated companies

Avvera S.p.A. holds 10% of Gruppo Santamaria S.p.A. "GSM". The share capital of GSM is held by Avvera through special "B Shares", which in addition to the rights attributed by Law to ordinary shares, also have the following rights:

- the right to designate, for appointment, a member of the Board of Directors;
- the right to designate, for appointment, as a member of the Board of Statutory Auditors, a Standing Auditor, who will act as Chairman, and an Alternate Auditor;
- presentation to the Shareholders' Meeting of a proposal to revoke the independent auditor engaged to audit the accounts of GSM;
- the right to condition a series of resolutions of the shareholders' meeting to its favourable vote, such as amendments to the Articles of Association, the increase or decrease of share capital, mergers and spin-offs, the determination of change of the remuneration of directors and statutory auditors, the approval of incentive plans for directors, executives and employees.

Since within GSM, there are no director votes which prevail over those of other directors, the appointment of company representatives does not give either shareholder any predominance over company decisions.

In this context, for GSM:

- Avvera does not hold the majority of voting rights, and is not able to take corporate decisions alone, as it is does not have the practical ability to unilaterally direct the relevant activity of the investee, for which the agreement of the other shareholders is always necessary;
- With regard to specific topics, Avvera has the power to veto the decisions of the other shareholders, meaning that without the favourable vote of Avvera, also the other shareholders in possession of the remaining 90% of the share capital cannot influence the company.

With regard to GSM, Avvera's position is therefore that of:

- of a party which is exposed to variable returns and which in any event has rights to said possible returns;
- which has the ability to influence said returns only by exercising its power to veto the decisions of the other shareholders.

Section 4 - Significant events subsequent to the reporting period

See the detailed description in the Report on Operations, in the chapter "Forecast on operations and significant events subsequent to year end".

Pursuant to IAS 10, the Financial Statements were authorised for publication by the Board of Directors of the Bank on 9 March 2023.

Section 5 - Other matters

Risks, uncertainties and impacts of the COVID-19 epidemic and Russia/Ukraine Conflict

• COVID-19 effects

A progressive normalisation of the health situation has allowed a parallel slow return to the more ordinary ways of carrying out banking activities.

During 2022, the Group maintained the controls identified to deal with the evolution of the pandemic from the initial stages (enhancement of digital channels, development of early warning systems on credit and institutionalisation of quarterly rolling forecast systems in processes planning...).

The activities were carried out in compliance with all current regulations, following their constant updating over time. In this regard, please note the:

- Protocol signed between the Government and the Social Partners to combat the spread of Covid-19, signed on 30 June 2022 and disclosed to all employees together with the main prevention measures to be maintained in the exercise of working activities;
- Law Decree no. 24 of 25 March 2022, which provided for "Urgent provisions for overcoming measures to combat the spread of the COVID-19 epidemic";
- the Circular of the Ministry of Health of 31 December 2022, which made some substantial changes to the isolation regime in the event of illness from Covid-19 or close contact with a positive subject;
- Law no. 197 of 29 December 2022, the so-called Budget Law, which envisages until 31 March 2023 for public and private employees in conditions of fragility according to current legislation, the possibility of carrying out work in agile mode.

Smart working, starting from September and without prejudice to the categories highlighted above, has returned to being a hybrid mode of work, based on physical presence alternating with remote work, and no longer an emergency tool.

After the extension granted until the end of 2021, the state moratoria also expired in the first half of 2022. The easing of the “COVID-19 measures” did not result in the Group showing any significant signs of deterioration in the economic situation.

- *Implications of the Ukraine conflict*

In consideration of the escalation of military and geopolitical tensions, the Group has put in place various preventive measures to capture, manage and possibly mitigate the indirect effects of potential repercussions on the Group's business and results.

Following the guidance of ESMA, which:

- on 13 May 2022 published the Public Statement "Implications of Russia's invasion of Ukraine on half-yearly financial reports", the absence of significant exposures to countries involved in the conflict is emphasised for the Credem Group.
- on 28 October 2022, published the Public Statement "European common enforcement priorities for 2022 annual financial reports", which highlights the priorities relating to disclosure on annual reports,

Note that the Credem Group has no significant exposures to countries involved in the conflict. The impacts on the yearly results are mainly due to the negative trend of the financial markets which have been affected by the situation of instability. The decrease in capitalisation consequently determined a modest impact on fee and commission income, which continues to benefit from the important initial stock of assets under management. The market recovered and in the second half of the year.

With regard to asset quality, since the beginning of the conflict, the Group has increased its supervision through customer segmentation mechanisms and the relative levels of risk in relation to the greater exposure in the sectors most directly affected or most exposed to geopolitical risks. or impacted by the increase in the prices of raw materials.

The repercussions of the scenario on the main economic and equity figures are reviewed on a quarterly basis to take into account any deterioration or anomalies that have not yet become evident, allowing the Group to maintain excellent asset quality.

From an operational point of view, following the developments in the sanctioning framework, the Group has adopted a restrictive approach towards operations involving Russia, Belarus and Ukraine, providing for: blocks on transactions and the acquisition of new customers, geographic, commodity and financial restrictions with stringent relevance thresholds.

The restrictive measures launched by the Authorities have been applied: starting from 12 March, in compliance with the rule that provides for the prohibition of providing financial messaging services to exchange financial data with the listed parties and their subsidiaries, it has deactivated the SWIFT network towards some Russian and Belarusian listed banks.

The EBA's intervention was also widely disseminated, which on 11 March drew the attention of supervised entities to the correct application of the restrictive measures, while at the same time preserving temporary protection for Ukrainian displaced persons, highlighting the possibility that they have access to open and use payment accounts with basic services.

In support of the victims of the war in Ukraine, the Board of Directors of Credem, on 7 March, approved an allocation in several instalments to the Italian Red Cross and the Reggiana Solidarity Foundation.

The picture one year on from the start of the conflict is still unpredictable, therefore the Group maintains an even more careful and flexible management of banking activities and is ready to adapt quickly to changes in the context.

Other information

Business combinations

Business combinations are governed by the international accounting standard IFRS 3 “Business combinations”.

The transfer of control of a company (or of a group of integrated activities and assets, conducted and managed as a unit) constitutes a business combination.

For this purpose, control is deemed to be transferred when the investor is exposed to variable returns, or holds rights to such returns, arising from its relationship with the investee, and at the same time has the ability to affect returns by exercising its power over that entity.

IFRS 3 requires that an acquirer be identified for all business combinations. The latter must be identified in the person who obtains control over another entity or group of assets.

The acquisition must be accounted for on the date the acquirer actually obtains control over the enterprise or business it has acquired. When the transaction takes place through a single exchange transaction, the date of the exchange usually coincides with the acquisition date. However, it is always necessary to check for any agreements between the parties that may involve a transfer of control before the date of the exchange.

The consideration transferred as part of a business combination must be determined as the sum of the fair value, at the date of the exchange, of the assets sold, the liabilities incurred or assumed and the equity instruments issued by the acquirer in exchange for control.

In transactions involving payment in cash (or when payment through financial instruments similar to cash has been concurred by the party), the price is the agreed consideration, discounted if necessary in the event of an instalment payment with reference to a period longer than the short term; in the event that payment is made through an instrument other than cash, i.e. through the issue of equity instruments, the price is equal to the fair value of the means of payment net of costs directly attributable to the equity issue transaction.

Business combinations are accounted for using the "purchase method", whereby the identifiable assets acquired (including any intangible assets not previously recognised by the acquiree) and liabilities assumed (including contingent liabilities) are recognised at their fair values at the acquisition date.

The excess of the consideration transferred (represented by the fair value of the assets transferred, the liabilities incurred or the equity instruments issued by the acquirer) over the fair value of the assets and liabilities acquired is recognised as goodwill; if, on the other hand, the latter exceed the consideration amount, the minority interest and the fair value of the shares already held, the difference is recognised in the income statement.

The business combination may be accounted for provisionally by the end of the period in which the combination is carried out and must be completed within twelve months of the acquisition date.

Mergers are the most comprehensive form of business combination, as they involve the legal and economic unification of the entities involved.

Mergers, whether they "by consolidation", companies merging into a new legal entity or "by acquisition" with the confluence of a company into another existing company, are treated according to the previously described criteria, in particular:

- if the transaction involves the transfer of control of an enterprise, it is treated as a business combination pursuant to IFRS 3;
- if the transaction does not involve the transfer of control, it is accounted for by giving priority to the continuity of the values of the company being acquired. In fact, business combinations of entities under common control do not fall within the scope of application of IFRS 3, nor are they governed by other IFRSs; therefore they are defined by reference to the requirements of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

Revocation of the option for domestic tax consolidation regime

In the course of 2022, the intention not to renew it was decided.

The effect of the non-renewal, for the tax period 2022 and subsequent years, means that the tax obligations with reference to the payment of the taxes due by way of IRES, are carried out with reference to each company for its own taxable income considered individually and they will no longer be transferred to Credemholding.

The provisions for IRES (corporate income tax) are now recorded under the item "current tax liabilities".

Audit

Pursuant to Italian Legislative Decree no. 39/2010 and EU Regulation no. 537/2014, the consolidated financial statements are audited by E&Y S.p.A., entrusted with this mandate, in implementation of the resolution adopted by the Shareholders' Meeting of 30 April 2013, until the year ending 2022.

Use of estimates and assumptions in the preparation of the financial statements

In compliance with the IFRS, company management must formulate valuations, estimates and assumptions that influence the application of the accounting standards and the amounts of assets, liabilities, costs and revenues recorded in the financial statements, as well as on disclosures regarding potential assets and liabilities. The estimates and related assumptions are based on past experience and other factors considered reasonable in the specific cases, and have been adopted to estimate the book value of assets and liabilities that cannot be easily inferred from other sources.

Specifically, estimation processes have been adopted to support the recorded value of some of the most significant items of value recorded in the Financial Statements at 31 December 2022, as provided by the accounting standards and the specific regulations described above. These processes are primarily based on the estimated future recoverability of the values recorded in the financial statements according to the current regulations in force, and were implemented with a view to business continuity, therefore, not considering assumptions of forced settlement of the items being measured.

The processes adopted compare the values recorded at 31 December 2022. The measurement process proved to be particularly complex given the continuing uncertainty evident in the macroeconomic scenario and in the markets, which has led both to high levels of volatility in the financial parameters used for measurement purposes and to an indication of continuing significant deterioration of credit quality.

Therefore, the parameters and information used to verify the aforementioned values are highly influenced by these factors that could change rapidly and are not currently predictable, hence consequent effects on future book values cannot be excluded.

The estimates and assumptions are regularly revised. Any changes resulting from said revisions are recognised in the period in which the revision is made if the same relates to that period only. In the event in which the revision relates to both current and future periods, the change is recognised in the period in which the revision is made and in relative future periods.

The main specific cases in which the use of subjective estimates is required by management regard:

- quantifying the impairment of receivables and, in general, of other financial assets and equity investments;
- using valuation models to measure the fair value of financial instruments not listed on active markets;
- estimating the recoverable value of goodwill;
- the quantification of the staff termination indemnity, personnel provisions and provisions for risks and charges;
- the estimates and assumptions on the recoverability of deferred taxes;
- the estimates made as part of the Purchase Price Allocation (PPA) process.

These valuations are mainly linked to both developments in the domestic and international socio-economic spheres, and to financial market trends, which in turn influence interest rates, price fluctuations, actuarial bases and, more generally, the creditworthiness of counterparties.

A.2 – MAIN ITEMS OF THE FINANCIAL STATEMENTS

The criteria for recognising, classifying, measuring and derecognising the income components of financial assets and liabilities set out below relate to the banking group, while the criteria adopted by the subsidiary insurance companies are examined in a specific chapter at the end of this section.

1 - Financial assets measured at fair value through profit or loss

Recognition criteria

Financial assets are initially recognised at the settlement date for debt and equity securities at the date of disbursement for loans and at the subscription date for derivative contracts.

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

Classification criteria

This category includes financial assets other than those classified under financial assets measured at fair value through other comprehensive income and under financial assets measured at amortised cost. The item, in particular, includes:

- financial assets held for trading, essentially represented by debt and capital securities and the positive value of derivative contracts held for trading purposes;
- financial assets that must be measured at fair value, represented by financial assets that do not meet the requirements for valuation at amortised cost or fair value through other comprehensive income. These are financial assets whose contractual terms do not exclusively provide for repayment of principal and interest on the amount of capital to be repaid (so-called SPPI test that has not been passed) or that are not held within the framework of a business model whose objective is the possession of assets aimed at collecting contractual cash flows ("Hold to Collect" business model) or whose objective is achieved through the collection of contractual cash flows and through the sale of financial assets ("Hold to Collect and Sell" business model);
- financial assets measured at fair value, i.e. financial assets thus defined at the time of initial recognition and where the conditions exist. In relation to such cases, an entity may irrevocably designate a financial asset as measured at fair value through profit or loss if, and only if, it eliminates or significantly reduces a measurement inconsistency.

This item therefore contains:

- debt securities and loans that are included in the trading business model (i.e. not covered by the "Hold to Collect" or "Hold to Collect and Sell" business models) or that do not pass the SPPI test;
- equity instruments - not classifiable as controlling, associated or of joint control - held for trading purposes or for which it was not decided, at the time of initial recognition, to designate them at fair value through other comprehensive income;
- units of UCITS.

The item also includes derivative contracts, recorded among financial assets held for trading, which are represented as assets if the fair value is positive and as liabilities if the fair value is negative. It is possible to offset positive and negative present values arising from operations in place with the same counterparty only if the legal right to offset the amounts recognised in the accounts currently exists and if the intention is to settle the positions being offset on a net basis.

Derivatives also include those embedded in complex financial contracts - in which the primary contract is a financial liability - which have been recognised separately because:

- their economic characteristics and risks are not closely related to the characteristics of the underlying contract;
- the embedded instruments, even if separate, meet the definition of a derivative;
- the hybrid instruments to which they belong are not measured at fair value with the relative changes recorded in the income statement.

Reclassifications

According to the general rules established by IFRS 9 on the reclassification of financial assets (with the exception of equity securities, for which no reclassification is allowed), reclassifications of financial assets to other categories are not allowed unless the entity changes its business model for managing financial assets following external or internal changes that are relevant to the entity's operations and can be demonstrated to third parties. In such cases, which are expected to be highly infrequent, financial assets may be reclassified from the category measured at fair value through profit or loss to one of the other two categories provided for by IFRS 9 (financial assets measured at amortised cost or financial assets measured at fair value through other 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 financial asset is determined on the basis of its fair value on the date of reclassification and this date is considered as the date of initial recognition for the allocation to the various stages of credit risk (stage assignment) for the purposes of impairment.

Measurement criteria

Subsequent to initial recognition, financial assets measured at fair value through profit or loss are measured at fair value. The effects of applying this measurement approach are recorded in the Income Statement. Market quotations are used to determine the fair value of financial instruments listed in an active market. In the absence of an active market, commonly adopted estimation methods and valuation models are used, which take into account all risk factors related to instruments and are based on market data such as: valuation of listed instruments with similar characteristics, discounted cash flow calculations, option pricing models, values recorded in recent comparable transactions, etc. For equity securities and derivative instruments involving equity securities that are not listed in an active market, the cost criterion is used as the estimate of fair value only in a residual manner and in limited circumstances, i.e. in the event that all valuation methods previously mentioned are not applicable, or in the presence of a wide range of possible fair value valuations, in which the cost represents the most significant estimate.

Derecognition criteria

Financial assets are derecognised from the financial statements only if the sale involved the transfer of all risks and benefits related to them. Conversely, whenever a significant part of the risks and benefits related to the financial assets sold have been maintained, these continue to be recognised in the financial statements, even if legal ownership of the assets has effectively been transferred.

If it is not possible to ascertain the essential transfer of risks and benefits, the financial assets will be derecognised from the financial statements if no type of control has been maintained over them. Conversely, the maintenance of even partial control will result in keeping the assets in the financial statements at an amount equal to the residual involvement, measured by the exposure to changes in value of the assets sold and to variations in the cash flows of the same.

Lastly, financial assets are derecognised from the financial statements if the contractual right to receive the relative cash flows has been retained, with the simultaneous assumption of an obligation to pay said flows, and only said flows, without significant delay to other third parties.

Criteria for the recognition of income

Interest income on securities and the spreads and margins on derivatives classified under this category, but operationally linked to financial assets or liabilities measured at fair value, are recorded on an accruals basis in the profit and loss items relating to interest.

The differentials and margins of the other contracts are recognised in the "Net profit (loss) from trading". Dividends are recognised on an accruals basis as of the date of adoption of the distribution resolution by the shareholders' meeting and are stated in the item "Dividends and similar income".

The profits and losses realised on sales or redemptions or capital gains/losses deriving from changes in fair value are recorded in the income statement for the period in which they manifest and are classified in the item "Net profit (loss) from trading", except for the portion relating to derivative contracts operationally linked to financial assets or liabilities measured at fair value, which is recorded under "Net profit (loss) from financial assets and liabilities measured at fair value".

2.1 - Financial assets measured at fair value through other comprehensive income (FVOCI with recycling)

Recognition criteria

Financial assets are initially recognised at the settlement date for debt securities and at the date of disbursement for loans. Financial assets are initially recognised at fair value, considering the transaction costs and revenues directly attributable to the instrument itself.

Classification criteria

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

- the financial asset is held according to a business model whose objective is achieved through the collection of contractually envisaged cash flows and through selling ("Hold to Collect and Sell - HTCS" business model), and
- the contractual terms of the financial asset envisage, on certain dates, cashflows represented solely by payments of principal and interest on the amount of principal to be repaid (so-called "SPPI test" passed).

In particular, this item includes:

- debt securities that are part of a Hold to Collect and Sell business model and that have passed the SPPI test;
- loans that are part of a Hold to Collect and Sell business model and that have passed the SPPI

test. **Reclassifications**

According to the general rules established by IFRS 9 on the reclassification of financial assets (with the exception of equity securities, for which no reclassification is allowed), reclassifications of financial assets to other categories are not allowed unless the entity changes its business model for managing financial assets following external or internal changes that are relevant to the entity's operations and can be demonstrated to third parties.

In such cases, which are expected to be highly infrequent, financial assets may be reclassified from the category measured at fair value through other comprehensive income to one of the other two categories provided for by IFRS 9 (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. In the event of reclassification from the category in question to that of amortised cost, the accrued profit (loss) recognised in the valuation reserve is recognised as an adjustment to the fair value of the financial asset at the reclassification date. In the case of reclassification in the category of fair value through profit or loss, the accrued profit (loss) previously recorded in the valuation reserve is reclassified from shareholders' equity to profit (loss) for the year.

Measurement criteria

Subsequent to initial recognition, assets classified at fair value through other comprehensive income are measured at fair value, with the recognition through profit or loss of impacts derived from the application of amortised cost, the effects of impairment and any exchange rate, while other profits or losses deriving from a change in fair value are recognised in a specific shareholders' equity reserve until the financial asset is derecognised. On disposal, in whole or in part, the accrued profit or loss in the valuation reserve is transferred, in full or in part, to the income statement.

Fair value is determined on the basis of the criteria already illustrated for Financial assets measured at fair value through profit or loss.

Financial assets measured at fair value through other comprehensive income - whether in the form of debt securities or loans - are subject to the impairment test required by IFRS 9, in the same way as assets measured at amortised cost, with the consequent recognition in the income statement of an adjustment to cover expected losses. More specifically, on instruments classified in stage 1 (i.e. on financial assets at origination, unless impaired, and on instruments for which there has not been a significant increase in credit risk since the date of initial recognition), a one year expected loss is recognised at the date of initial recognition and at each subsequent reporting date. On the other hand, for instruments classified in stage 2 (performing instruments for which there has been a significant increase in credit risk since the date of initial recognition) and in stage 3 (non-performing exposures), an expected loss is recognised for the entire residual life of the financial instrument.

Derecognition criteria

Financial assets are derecognised from the financial statements only if the sale involved the transfer of all risks and benefits related to them. Conversely, whenever a significant part of the risks and benefits related to the financial assets sold have been maintained, these continue to be recognised in the financial statements, even if legal ownership of the assets has effectively been transferred.

If it is not possible to ascertain the essential transfer of risks and benefits, the financial assets will be derecognised from the financial statements if no type of control has been maintained over them. Conversely, the maintenance of even partial control will result in keeping the assets in the financial statements at an amount equal to the residual involvement, measured by the exposure to changes in value of the assets sold and to variations in the cash flows of the same.

Lastly, financial assets are derecognised from the financial statements if the contractual right to receive the relative cash flows has been retained, with the simultaneous assumption of an obligation to pay said flows, and only said flows, without significant delay to other third parties.

Criteria for the recognition of income

Interest income, calculated on the basis of the I.R.R. method, is recorded on an accrual basis under the item "Interest income and similar revenues", while profits and losses arising from a change in fair value are recognised in a specific shareholders' equity reserve until the financial asset is written off or an impairment is recognised. For debt securities, upon disposal or realisation of impairment, the accrued profit or loss is transferred into the income statement.

Should the reasons for the impairment cease to exist following an event that occurred subsequent to the recognition of the impairment, write-backs are carried out and posted to the income statement, in the case of debt securities. In any event, the total write-back cannot exceed the difference between the book value and the amortised cost of the instrument had there been no prior adjustments.

2.2 Financial assets measured at fair value through other comprehensive income (FVOCI without recycling)

Recognition criteria

The initial recognition of the financial asset occurs on the settlement date for equity securities. Financial assets are initially recognised at fair value, considering the transaction costs and revenues directly attributable to the instrument itself.

Classification criteria

This item includes equity instruments, not held for trading purposes, for which the option to designate at fair value through other comprehensive income was exercised at the time of initial recognition.

More specifically, this item includes the equity investments, not classified as controlling, associated or of joint control, which are not held for trading purposes, for which the option to measure at fair value through other comprehensive income has been exercised.

Reclassifications

In accordance with the general rules set out by IFRS 9 on the reclassification of financial assets, no reclassification is permitted for equity securities.

Measurement criteria

Subsequent to initial recognition, capital instruments chosen for classification in this category are measured at fair value and the amounts recorded as a contra entry to shareholders' equity (Statement of comprehensive income) must not be subsequently transferred to the income statement, even in the event of disposal. The only component relating to the equity securities in question that is recorded in the income statement is represented by the relative dividends.

Fair value is determined on the basis of the criteria already illustrated for Financial assets measured at fair value through profit or loss.

For equity securities included in this category, not listed in an active market, the cost criterion is used as an estimate of fair value only in a residual manner and in limited circumstances, i.e. in the event that all valuation methods previously mentioned are not applicable, or in the presence of a wide range of possible fair value valuations, in which the cost represents the most significant estimate.

Derecognition criteria

Financial assets are derecognised from the financial statements only if the sale involved the transfer of all risks and benefits related to them. Conversely, whenever a significant part of the risks and benefits related to the financial assets sold have been maintained, these continue to be recognised in the financial statements, even if legal ownership of the assets has effectively been transferred.

If it is not possible to ascertain the essential transfer of risks and benefits, the financial assets will be derecognised from the financial statements if no type of control has been maintained over them. Conversely, the maintenance of even partial control will result in keeping the assets in the financial statements at an amount equal to the residual involvement, measured by the exposure to changes in value of the assets sold and to variations in the cash flows of the same.

Lastly, financial assets are derecognised from the financial statements if the contractual right to receive the relative cash flows has been retained, with the simultaneous assumption of an obligation to pay said flows, and only said flows, without significant delay to other third parties.

Criteria for the recognition of income

Dividends are recorded under “Dividends and similar income” when the right to receive the payment arises, while the gains or losses resulting from a change in the fair value of equity securities are booked to a specific equity reserve and not recognised in the income statement in the event of the transfer or derecognition of the equity security.

3 - Financial assets measured at amortised cost

Recognition criteria

Financial assets are initially recognised at the settlement date for debt securities and at the date of disbursement for loans. Financial assets are initially recognised at fair value, considering the transaction costs and revenues directly attributable to the instrument itself.

In particular, with regard to loans, the date of disbursement normally coincides with the date of signing of the contract. If such coincidence does not occur, at the time of signing the contract, a commitment to disburse funds is recorded, which expires on the date of disbursement of the loan. Loans are recognised on the basis of their fair value, equal to the amount disbursed, or subscription price, including costs/revenues directly attributable to the individual loan and definable from the beginning of the transaction, even if paid successively. Costs that have the aforementioned characteristics, but are reimbursed by the debtor counterparty or are classifiable as normal internal administrative costs, are excluded.

Classification criteria

This category includes financial assets (particularly loans and debt securities) that meet both of the following conditions:

- the financial asset is held according to a business model whose objective is achieved through the collection of cash flows envisaged in the contract (“Hold to Collect” business model - “HTC”), and
- the contractual terms of the financial asset envisage, on specific dates, cash flows represented solely by payments of principal and interest on the amount of capital to be repaid (so-called “SPPI test” passed).

More particularly, the following are covered by this item:

- loans to banks in the various technical forms that meet the requirements set out in the previous paragraph;
- loans to customers in the various technical forms that meet the requirements set out in the previous paragraph;
- debt securities fulfilling the conditions set out in the previous paragraph.

This category also includes operating loans connected with the provision of financial services and activities, as defined by the Consolidated Banking Law (TUB) and Consolidated Financial Act (TUF) (e.g. for distribution of financial products and servicing activities).

Reclassifications

According to the general rules established by IFRS 9 on the reclassification of financial assets, reclassifications of financial assets to other categories are not allowed unless the entity changes its business model for managing financial assets following external or internal changes that are relevant to the entity's operations and can be demonstrated to third parties. In such cases, which are expected to be highly infrequent, financial assets may be reclassified from the category measured at amortised cost to one of the other two categories provided for by IFRS 9 (Financial assets measured at fair value through other comprehensive income or Financial assets measured at fair value through profit or loss). The transfer value is 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. Profits and losses resulting from the difference between the amortised cost of a financial asset and its fair value are recognised in the income statement in the event of reclassification under Financial assets measured at fair value through profit or loss and in Shareholders' equity, in the specific valuation reserve, in the event of reclassification under Financial assets measured at fair value through other comprehensive income.

Measurement criteria

Subsequent to their initial recognition, financial assets under examination are measured at amortised cost, using the effective interest rate method. In these terms, the asset is recognised in the financial statements at an amount equal to its originally recognised value less capital repayments, plus or minus the accrued amortisation (calculated using the aforementioned effective interest rate method) of the difference between this initial amount and the amount at maturity (typically attributable to the costs/revenues directly attributable to the individual asset) and adjusted by any provision to cover expected losses. The effective interest rate is determined by calculating the rate that equates the present value of future flows of the asset, in terms of capital and interest, to the amount disbursed, including costs/revenues related to the same financial asset. This accounting method, which uses a financial approach, makes it possible to distribute the economic effect of costs/revenues directly attributable to a financial asset over its expected residual life.

The amortised cost method is not used for assets - measured at historical cost - whose short duration makes the effect of the discounting principle negligible, for those without a set maturity and for revocable loans.

The measurement criteria for provisions to cover expected losses are closely linked to the inclusion of the instruments in question in one of the three stages (credit risk stages) envisaged by IFRS 9, the last of which (stage 3) includes impaired financial assets and the remaining (stages 1 and 2) include performing financial assets.

With reference to the accounting representation of the aforementioned valuation effects, the value adjustments relating to this type of asset are recorded in the Income Statement:

- on initial recognition, for an amount equal to the expected loss at twelve months;
- on subsequent measurement of the asset, where the credit risk is not significantly greater than that initially recognised, in relation to changes in the amount of adjustments for expected losses over the following twelve months;
- on subsequent measurement of the asset, where the credit risk is significantly greater than that initially recognised, in relation to the recognition of value adjustments for expected losses relating to the entire envisaged residual life of the asset as contractually required;
- on subsequent measurement of the asset, where - after a significant increase in the credit risk has occurred with respect to the initial recognition - the "significance" of such an increase has subsequently ceased to exist, in relation to the adjustment of the accrued value adjustments to take account of the change from an expected loss over the entire residual life of the instrument (lifetime) to a loss over twelve months.

If the financial assets in question are performing, they are subjected to an assessment, aimed at defining the value adjustments to be recorded in the financial statements, at the level of individual credit relationships (or "securities tranches"), on the basis of the risk parameters represented by probability of default (PD), loss given default (LGD) and exposure at default (EAD), derived from AIRB models and suitably adjusted to take account of the provisions of IFRS 9.

If, in addition to a significant increase in 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 "impaired", similar to all other transactions with the same counterparty - and the current value of estimated future cash flows, discounted at the original effective interest rate. Within this context, a specific method was developed for the accounting treatment to be applied to a portfolio of bad loans that, having matured to a significant vintage, are also measured with a view to disposal. This methodology considers different scenarios and estimates the recoverable amount of the exposures based on the combination and probability of occurrence of these scenarios, as well as their estimated cash flows. Impaired assets include financial

instruments with an assigned status of bad loan, unlikely to pay or past due/over drawn for more than ninety days, in accordance with the current regulations of Banca d'Italia, consistent with the IAS/IFRS regulations and European supervisory provisions.

The envisaged cash flows take into account the expected recovery times and the presumed realisable value of any guarantees.

The original effective rate of each asset is unvaried over time, even if there has been a restructuring of the agreement which has led to a change in the contractual rate and even if the loan becomes, in practice, contractually non-interest-bearing.

Should the reasons for the impairment cease to exist following an event that occurred subsequent to the recognition of the impairment, write-backs are carried out and posted to the income statement. The write-back may not exceed the amortised cost of the financial instrument had there been no prior adjustments. Reversals of impairments related to the passing of time are recognised in the net interest income.

In some cases, during the lifetime of the financial assets in question and, in particular, of the loans, the original contractual conditions are subsequently modified by the parties to the contract. When, during the lifetime of an instrument, the contractual clauses are subject to modification, it is necessary to verify whether the original asset should continue to be recorded in the financial statements or whether, on the contrary, the original instrument should be derecognised and a new financial instrument recorded.

In general, changes in a financial asset lead to its derecognition and recognition of a new asset when they are "substantial". The assessment of the "substantiality" of the change must be made by considering both qualitative and quantitative elements. In fact, in some cases, it may become clear, without resorting to complex analysis, that the changes introduced substantially modify the characteristics and/or contractual flows of a given asset while, in other cases, further analysis (including quantitative) will have to be carried out to assess the effects of the changes and to verify the need to proceed or not with the derecognition of the asset and the recognition of a new financial instrument.

Qualitative-quantitative analyses aimed at defining the "substantiality" of contractual changes made to a financial asset must therefore consider:

- the purposes for which the changes were made: e.g. renegotiations for commercial reasons and concessions for counterparty financial difficulties;
- the former, aimed at "keeping" the customer, involve a debtor who is not in financial difficulty. This category includes all renegotiations aimed at adjusting the cost of the debt to market conditions. These operations involve a change in the original conditions of the contract, usually required by the debtor, which relates to aspects connected to the cost of the debt, with a consequent economic benefit for the debtor. It is generally accepted that, whenever the bank renegotiates in order to avoid losing its customer, such renegotiation should be considered as substantial since, if it were not carried out, the customer could borrow from another intermediary and the bank would experience a decrease in expected future revenues;
- the latter, carried out for "credit risk reasons" (forbearance measures), are attributable to the Company's attempt to maximise the recovery of the cash flows of the original loan. The underlying risks and benefits, subsequent to the changes, are not normally substantially transferred and, consequently, the accounting representation that provides the most relevant information for the reader of the financial statements (except for that explained later on the subject of objective elements) is that created by "modification accounting" - which implies the recognition in the income statement of the difference between the book value and the present value of the modified cash flows discounted at the original interest rate - and not through derecognition;
- the presence of specific objective elements ("triggers") that affect the characteristics and/or contractual flows of the financial instrument (such as, for example, a change in currency or a change in the type of risk to which it is exposed, when correlated to equity and commodity parameters), which are expected to result in derecognition considering their impact (expected to be significant) on the original contractual flows.

Derecognition criteria

Financial assets are derecognised from the financial statements only if the sale involved the transfer of all risks and benefits related to them. Conversely, whenever a significant part of the risks and benefits related to the financial assets sold have been maintained, these continue to be recognised in the financial statements, even if legal ownership of the assets has effectively been transferred.

If it is not possible to ascertain the essential transfer of risks and benefits, the financial assets will be derecognised from the financial statements if no type of control has been maintained over them. Conversely, the maintenance of even partial control will result in keeping the assets in the financial statements at an amount equal to the residual involvement, measured by the exposure to changes in value of the assets sold and to variations in the cash flows of the same.

Lastly, financial assets are derecognised from the financial statements if the contractual right to receive the relative cash flows has been retained, with the simultaneous assumption of an obligation to pay said flows, and only said flows, without significant delay to other third parties.

Criteria for the recognition of income

Income is allocated to the relevant items of the income statement as follows:

- Interest income from loans and securities is allocated to the item “Interest income and similar revenues” on an accrual basis, based on the effective interest rate;
- The gains and losses from the disposal of loans and of securities are allocated to the item “Gains/(losses) on disposal/repurchase of financial assets measured at amortised cost”;
- Impairment losses, losses due to derecognition and reversals of loans and securities are allocated to the item “Net value adjustments/recoveries for credit risk relating to financial assets measured at amortised cost”.
- The interest due to the passing of time is recorded under “Interest income and similar revenues”.

4 - Hedging transactions

The Group avails itself of the option, provided for at the time of the introduction of IFRS 9, to continue to fully apply the provisions of IAS 39 on hedge accounting (in the carved out version approved by the European Commission) for each type of hedge (both for specific hedges and macro-hedges).

Recognition criteria

Hedging derivatives, like all derivatives, are initially recorded and subsequently measured at fair value.

Classification criteria: types of hedging

Risk hedging transactions are aimed at neutralising potential changes in fair value or cash flows attributable to a specific risk and identifiable on a specific item or group of items should that particular risk occur.

The following types of hedging are used:

- fair value hedging: the objective is to hedge exposure to changes in the fair value (attributable to different types of risk) of assets and liabilities recorded in the financial statements or portions thereof, of groups of assets/liabilities, of irrevocable commitments and of portfolios of financial assets and liabilities, including core deposits, as permitted by IAS 39 approved by the European Commission. Macro-hedges are designed to reduce fluctuations in the fair value, attributable to interest rate risk, of a monetary amount deriving from a portfolio of financial assets or liabilities. Net amounts deriving from the imbalance of assets and liabilities may not be subject to macro-hedging;
- cash flow hedging: aims to hedge exposure to variations in future cash flows attributable to specific risks associated with financial statement items. This type of hedge is essentially used to stabilise the interest flow from floating-rate deposits to the extent that the latter finances fixed-rate loans. In certain circumstances, similar transactions are carried out in relation to certain types of floating-rate loans.

Only instruments involving a counterparty external to the Group may be measured as hedging instruments. Given the Group's decision to continue to apply IAS 39 in full for hedging transactions, it is not possible to designate equity securities classified as financial assets measured at fair value through other comprehensive income (FVOCI) as hedged for price or exchange rate risk, since such instruments do not impact the income statement, even in the event of sale (except for dividends that are recognised in the income statement).

Measurement criteria

Hedging derivatives are measured at fair value. More specifically:

- in the case of fair value hedging, the variation in fair value of the item hedged is offset with the variation in fair value of the hedging instrument. This offsetting is recognised by recording the value variations in the income statement, for both the item hedged (as regards variations produced by the underlying risk factor) as well as the hedging instrument. Any differences, which represent the partial ineffectiveness of the hedge, constitute the net economic result. In the case of macro-hedges, changes in the fair value with reference to the risk coverage of hedged assets and liabilities respectively, are recognised in the balance sheet under item 60. "Change in value of macro hedged financial assets" or 50. "Change in value of macro-hedged financial liabilities";
- in the case of cash flow hedging, changes in the fair value of the derivative are booked to comprehensive income, to the extent that the hedge is effective, and are recognised in the income statement only when, with regard to the hedged item, there is a change in the cash flows to be offset or when the hedge is ineffective;
- hedges of a net foreign currency investment are accounted for in the same way as cash flow hedges.

The derivative instrument is designated as a hedging instrument if there is official documentation regarding the connection between the instrument hedged and said hedging instrument, and if it is effective at the moment in which the hedging begins and throughout the life of the same.

Hedging effectiveness depends on the extent to which fair value variations of the hedged instrument or the relative expected cash flows are offset by those of the hedging instrument. Consequently, effectiveness is higher if the variations are higher, taking into account the intended goal of the company at the time in which the hedge was established. A hedge is effective when the variations in fair value (or cash flow) of the financial hedging instrument almost entirely neutralise, i.e. within the limits established by the range 80-125%, changes in the fair value of the hedged instrument resulting from the risk component being hedged.

The valuation of the effectiveness is carried out at the end of each year or interim period, by using:

- prospective tests, which justify the application of hedge accounting, demonstrating its expected effectiveness;
- retrospective tests, which highlight the degree of hedging effectiveness achieved during the related period, or measure, how much the actual results differ from the perfect hedge.

Only the instruments involving a counterparty external to the Group may be measured as hedging instruments. Therefore, any results involving internal transactions carried out between different entities of the bank are eliminated from the consolidated financial statements.

Prospective termination of hedge accounting

If the tests do not confirm the effectiveness of the hedge, from that moment, the accounting of the hedging transactions, in accordance with the above, is suspended and the derivative contract is reclassified among trading instruments. Furthermore, the hedging transactions are terminated when the hedging instrument reaches maturity, is sold, disposed of or exercised, or the bank revoked the designation.

For fair value hedges, the financial instrument hedged is no longer adjusted for any changes in fair value and any adjustment to the book value of a hedged financial instrument for which the effective interest criteria is used, must be amortised in the income statement. In the event of the termination of a macro-hedging relationship, the cumulative revaluations/write-downs recognised in item 60. "Change in value of macro hedged financial assets" or 50. "Change in value of macro-hedged financial liabilities" are recorded in the income statement under interest income or expense for the remaining duration of the original hedging relationships, without prejudice to verification of the prerequisites for such adjustments.

For cash flow hedges, the overall gain or loss of the hedging instrument that has been recognised under other comprehensive income components from the year in which the hedge was effective, must remain separated in shareholders' equity until such time as the planned transaction takes place. If the planned transaction is no longer expected to take place, any related overall gain or loss on the hedging instrument that was recognised in the statement of comprehensive income from the year in which the hedge was effective must be reclassified from shareholders' equity to the profit (loss) for the year as an adjustment from reclassification. Nevertheless, a planned transaction that is no longer highly likely, could still be possible.

Criteria for the recognition of income

Income is allocated to the relevant items of the income statement as follows:

- the differentials accrued on derivative instruments used to hedge interest rate risks (in addition to the interest income on the positions being hedged) are allocated to the item "Interest income and similar revenues" or "Interest expenses and similar charges";
- capital gains and losses deriving from the valuation of hedging derivatives and positions subject to fair value hedging are allocated to the item "Net profit (loss) from hedging";
- gains and losses arising from the valuation of cash flow hedge derivatives (the effective portion) are allocated to a specific shareholders' equity valuation reserve "Cash flow hedging", net of deferred taxes. The ineffective portion of these gains and losses is recorded in the income statement under the item "Net profit (loss) from hedging". If the hedged instrument is cancelled, matures or is extinguished then the reserve is immediately reversed to the income statement at the same time as the cancellation of the hedged element.
- in the case of cash flow hedging, changes in the fair value of the derivative are booked to comprehensive income, to the extent that the hedge is effective, and are recognised in the income statement only when, with regard to the hedged item, there is a change in the cash flows to be offset or when the hedge is ineffective.

5 - Equity Investments

Recognition criteria

Equity investments are recognised as of the settlement date. Interest holdings are initially recognised at cost, inclusive of the costs and revenues directly attributable to the transaction.

Classification criteria

This item includes stakes held in jointly-controlled and associated companies.

Companies are considered to be subject to joint control if their voting rights and the control of their economic activities are equally shared by Credem, directly or indirectly, and another party. An equity investment is classed as being under joint control when, even though voting rights are not equally shared, control over the investee company's economic activities or business policies is shared with other parties by virtue of contractual agreements.

Companies are considered as associated, that is subject to significant influence, when the Parent Company, directly or indirectly, owns at least 20% of the voting rights (including "potential" voting rights) or when - even with a lower amount of voting rights - it has the power to determine the financial and management policies of the investee company by virtue of legal relationships such as participation in shareholders' agreement.

Certain equity stakes exceeding 20% are considered as not being subject to significant influence when the Group, directly or indirectly, only holds rights over a portion of the returns on investment, does not have influence over management policies and may only exercise limited governance rights to safeguard its economic interests.

Measurement criteria

Equity investments in associated companies or jointly-controlled companies are measured using the equity method.

If there is evidence that the value of an investment may have undergone impairment, the recoverable amount of the investment is estimated, taking into account the present value of future cash flows that the investment may generate, including the final disposal value of the investment.

If the recoverable amount is lower than the book value, the difference is recognised in the income statement. Should the reasons for the impairment cease to exist following an event that occurred subsequent to the recognition of the impairment, write-backs are carried out and posted to the income statement; these cannot exceed the amount of the impairment losses previously recognised.

Derecognition criteria

Equity investments are derecognised when the contractual rights on the cash flows from the assets themselves expire or when the financial asset is sold, essentially transferring all the risks and benefits related to it.

Criteria for the recognition of income

Negative initial recording differences, realised gains and losses on equity investments, impairment losses and write-backs are allocated to the income statement item "Gains (losses) on investments", while dividends collected are allocated to the item "Dividends and similar income" at the time the right to receive the related payment arises.

6 - Property, plant and equipment

Recognition criteria

Property, plant and equipment are initially recognised at cost, which includes, in addition to the purchase price, all additional charges directly attributable to the purchase and start-up of the asset.

Extraordinary maintenance expenses, which lead to an increase in the future economic benefits, are recognised as an increase in the value of the assets, while other ordinary maintenance costs are recognised in the income statement.

Classification criteria

Property, plant and equipment includes land, instrumental property, real estate investments, valuable art and antiquities, technical plants, fixtures and furnishings and equipment of any kind expected to be in use for more than one period. Property, plant and equipment held for use in the production or supply of goods and services are classified as "assets for business use" in accordance with IAS 16. Property held for investment purposes (to earn rentals or for capital appreciation) is classified as "assets held for investment purposes" in accordance with IAS 40.

This item also includes tangible assets classified in accordance with IAS 2 - Inventories, which refers to assets deriving from calling in guarantees or from purchases in auctions that the company intends to sell in the near future, without carrying out major restructuring works, and which do not qualify for classification in the previous categories, and to the real estate portfolio of the Group's real estate companies, including building sites, properties under construction, properties completed for sale and real estate development initiatives, held with a view to disposal.

Property, plant and equipment also includes goods used as part of financial lease contracts, even if legal ownership of the same belongs to the leasing company.

Measurement criteria

Property, plant and equipment are measured at cost, subtracting any depreciation and impairment.

Property, plant and equipment are systematically depreciated on a straight-line basis over their useful lives. Depreciable value is represented by the cost of the assets net of their residual value at the end of the depreciation process, if significant. Property is depreciated to an extent considered appropriate to represent the deterioration of assets over time following their use, taking into account extraordinary maintenance costs, which are added to the value of the assets

The following are not depreciated:

- land, when acquired separately or incorporated into the value of the buildings, since it has an indefinite life;
- valuable art and antiquities and other historical, artistic and decorative assets, since their useful life cannot be estimated and their value normally increases over time.

If there is any indication that an asset measured at cost may be impaired, its book value is compared with its recoverable amount. Any adjustments are recognised in the income statement.

Should the reasons for the impairment cease to exist, a write-back is recognised, which cannot exceed the value of the asset, net of depreciation, had the impairment not occurred.

Property, plant and equipment recognised in accordance with IAS 2 are measured at the lower between cost and net realisable value, without prejudice to the comparison between the book value of the asset and its recoverable amount, where there is any indication that the asset may be impaired. Any adjustments are recognised in the income statement.

Derecognition criteria

Property, plant and equipment is derecognised from the balance sheet upon disposal, or when the asset is permanently removed from use, and no future economic benefits are expected from its disposal.

Criteria for the recognition of income

Income is allocated to the relevant items of the income statement as follows:

- periodic depreciation, impairment and reversals are allocated to the item “Net value adjustments to (recoveries on) property, plant and equipment”;
- the gains and losses from disposals are allocated to the item “Gains/(losses) on disposal of investments”.

7 - Intangible assets

Recognition criteria

Intangible assets are recognised as such if they may be identified and arise from legal or contractual rights. The above-mentioned assets are recognised at purchase cost, inclusive of related charges. Subsequent expenses incurred to raise their value or their initial productive capacity are added to this cost. Goodwill represents the positive difference between the charges incurred upon acquisition of the underlying corporate assets and the relevant share of the fair value of the assets and liabilities acquired. If the difference proves to be negative (badwill) or in the event that the goodwill is not justified by the equity investment's future income capacity, said difference is recognised directly in the income statement.

Classification criteria

The intangible assets portfolio includes long-term intangible factors of production represented, in particular, by software, benefits associated to customer relationships and goodwill.

Measurement criteria

Short-term intangible assets are measured on the basis of cost net of amortisation and of impairment losses. Amortisation lasts for the useful life of the goods to be amortised and is based on the straight line method. If there is significant evidence of the existence of impairment the intangible assets undergo an impairment test, with any impairment recorded. Subsequent write-backs cannot exceed the amount of the previously recorded impairment losses.

Goodwill is not amortised but is periodically subjected to an impairment test. Any negative differences between the recoverable amount of each cash-generating unit (CGU) that a particular goodwill belongs to and the book value of its shareholders' equity constitutes impairment. The recoverable amount of a CGU – which represents an estimate of its economic value – refers to the greater of its value in use (the present value of expected cash flows) and its exchange value (estimated disposal value net of transaction costs). Any subsequent write-backs cannot be recognised.

Derecognition criteria

Intangible assets are derecognised from the Financial Statements when their economic life has been fully exhausted, or at the time of disposal or when future economic benefits are no longer expected.

Criteria for the recognition of income

Income is allocated to the relevant items of the income statement as follows:

- periodic depreciation, impairment and reversals are allocated to the item "Net value adjustments to (recoveries on) property, plant and equipment".
- goodwill impairment is allocated to the item "Impairment (losses) on goodwill". The recognition of any subsequent write-backs is not permitted.

8 - Non-current assets and groups of assets held for sale and discontinued operations

Non-current assets or groups of assets/liabilities for which a disposal process has been initiated and their disposal is considered highly probable are classified under the asset item "Non-current assets and groups of assets held for sale and discontinued operations" and in the liability item "Liabilities included in disposal group classified as HFS". These assets/liabilities are measured at the lower of their book value and their fair value net of disposal costs, with the exception of certain types of assets (e.g. financial assets falling within the scope of IFRS 9), for which IFRS 5 specifically requires that the relevant accounting standard's valuation criteria be applied.

Income and expenses (net of taxes), attributable to discontinued operations or recognised as such during the year, are shown in the income statement as a separate item.

9 - Current and deferred taxes

Recognition, measurement and derecognition criteria

Income taxes, calculated in compliance with national tax legislation, are recorded as costs on an accruals basis, in line with the method of recording of costs and revenues that generated them in the financial statements. Therefore, they represent the balance of current and deferred taxes relating to the income for the year. In particular, these items include the net balance between current tax liabilities for the year, calculated on the basis of a prudent forecast of the tax charge due for the year, determined on the basis of current tax regulations, and current tax assets, represented by advances and other tax receivables for withholding taxes incurred or other tax receivables from previous years for which Group companies have requested offsetting with taxes from subsequent years.

Current tax assets also include tax receivables for which Group companies have requested reimbursement from the relevant tax authorities, as well as amounts paid provisionally during litigation with the tax authorities. The risk inherent in these proceedings, in the same way as the risks inherent in proceedings that did not require provisional payments, is assessed according to the criteria of IAS 37 in relation to the probability of the employment of economic resources to fulfil them.

Deferred taxation is determined according to the balance sheet liability method, taking into account the tax effect of temporary differences between the book value of assets and liabilities and their tax value that will determine taxable or deductible amounts in future periods. For these purposes, "taxable temporary differences" are those that will give rise to taxable amounts in future periods and "deductible temporary differences" are those that will give rise to deductible amounts in future periods.

Deferred tax assets are recognised against all deductible timing differences, of unused tax credits and losses that can be carried forward, to the extent that it is likely that there will be sufficient future taxable income to permit the use of the deductible timing differences and of the tax credits and losses carried forward, with the exception of cases in which:

- the deferred tax asset related to the deductible timing differences originates from the initial recognition of an asset or liability in a transaction that does not represent a business combination and, at the time of said transaction, does not influence the financial results or the tax results;
- in the case of deductible timing differences associated to equity investments in subsidiaries, associates and joint ventures, the deferred tax assets are recognised only to the extent that it is likely that they will be

carried forward in the foreseeable future and that there will be sufficient taxable income to enable the recovery of said timing differences.

Deferred tax liabilities are recognised on all taxable timing differences, with the following exceptions:

- the deferred tax liabilities originate from the initial recognition of goodwill or of an asset or liability in a transaction that does not represent a business combination and, at the time of said transaction, does not influence the financial results or the tax results;
- the reversal of taxable timing differences associated with equity investments in subsidiaries, associates and joint ventures, can be controlled, and it is likely that it will not occur in the foreseeable future.

Deferred taxation is calculated by applying the tax rates established by current legislation to taxable timing differences for which there is a probability of effective incurrence of taxes and to deductible timing differences for which there is a reasonable certainty that there will be future taxable amounts at the time the relative tax deductibility arises (the so-called probability test).

If the deferred tax assets and liabilities relate to items that have affected the income statement, the contra entry is represented by income taxes.

Where prepaid and deferred taxes relate to transactions that directly affect shareholders' equity without affecting the income statement (such as adjustments made on first-time adoption of IAS/IFRS, valuations of financial instruments recorded at fair value through other comprehensive income or cash flow hedging derivatives), they are recorded as a contra entry to shareholders' equity, affecting specific reserves where required (e.g. valuation reserves).

Latent tax on balance sheet items eligible for tax relief that are "taxable in all cases of use", are recorded in the financial statements as a reduction of shareholders' equity. Unrecognised taxes relating to balance sheet items eligible for tax relief that are "taxable only for distribution", are not recorded in the financial statements, since the size of the available reserves already subject to taxation makes it likely that no transactions will be carried out that may entail taxation.

Criteria for the recognition of income

Tax assets and liabilities are allocated to the income statement (item "Tax expense (recovery) on income from continuing operations"), except for those arising from transactions where their effect is directly attributable to shareholders' equity (in which case they are allocated to shareholders' equity) or from business combination transactions (in which case they form part of the calculation of the value of goodwill).

10 - Provisions for risks and charges

Recognition, classification and derecognition criteria

Provisions for risks and charges are liabilities of uncertain amounts or expiry recognised in the Financial Statements when the following simultaneous conditions occur:

- there is a current obligation at the balance sheet date which derives from a past event; said obligation must be of a legal nature (contained within a contract, regulation or other legal provision) or implicit (arises at the moment in which the company generates the expectation by third parties that it will meet its commitments, even if these do not fall under legal obligations);
- a financial disbursement is likely in order to produce economic benefits to fulfil the obligation;
- a reliable estimate of the amount of the obligation can be determined.

"Provisions for risks and charges" include provisions relative to long-term benefits and employee benefits following termination of the employment contract as described by IAS 19, in addition to the provisions for risks and charges described by IAS 37.

Measurement criteria

Where the time factor is significant, the allocations are discounted using current "risk-free" market rates. The allocation is recognised in the income statement.

Criteria for the recognition of income

Allocations/reversals of provisions for risks and charges, as well as the effects of the passage of time, are allocated to the item "Net provisions for risks and charges".

Pension funds and other post retirement benefit obligations

Pension funds are set up to implement company agreements and qualify as defined benefit plans. The

liability relating to these plans and the related current service cost are determined on the basis of actuarial assumptions by applying the projected unit credit method, which provides for the projection of future disbursements on the basis of historical statistical analyses, the demographic curve and the financial discounting of these flows on the basis of a market interest rate. The contributions paid during each period are considered as separate units, recognised and measured individually for the purposes of determination of the final obligation. The rate used for discounting is determined on the basis of the market yields recorded on the assessment dates of high-quality corporate bonds, taking into account the average residual life of the liability. The present value of the obligation at the balance sheet date is also adjusted by the fair value of any assets of the plan.

Actuarial profits and losses (i.e. changes in the present value of the obligation arising from changes in actuarial assumptions and experience adjustments) are recognised in the statement of comprehensive income.

Provisions for risks and charges against commitments undertaken and guarantees given

The sub-item of provisions for risks and charges under review includes provisions for credit risk recognised in respect of commitments to disburse funds and guarantees issued that fall within the scope of application of the impairment rules pursuant to IFRS 9. For these cases, the same methods of allocation among the three stages (credit risk stages) and calculation of the expected loss shown with reference to financial assets measured at amortised cost or at fair value through other comprehensive income are adopted.

The aggregate also includes provisions for risks and charges set up in view of other types of commitments undertaken and guarantees given which, by virtue of their specific characteristics, do not fall within the scope of application of impairment pursuant to IFRS 9.

Other provisions

Other provisions for risks and charges include provisions made for legal or employment obligations or for disputes, including those tax-related, arising from a past event for which it is probable that economic resources will be required to fulfil the obligations, provided that a reliable estimate can be made of the amount involved.

Consequently, a provision is recognised if, and only if:

- there is a current obligation (legal or implicit) as a result of a past event;
- it is probable that resources capable of providing economic benefits will be required to fulfil the obligation; and
- a reliable estimate of the amount resulting from fulfilment of the obligation can be made.

The amount recognised as a provision represents the best estimate of the expenditure required to fulfil the obligation existing at the balance sheet date and reflects risks and uncertainties that inevitably characterise a plurality of facts and circumstances. To take account of the time element, provisions are discounted using current market rates. Provisions and increases due to time factors are recorded in the income statement.

The provision is removed when it becomes unlikely that the use of resources embodying economic benefits will be required to fulfil the obligation or when the obligation is fulfilled.

The item also includes long-term employee benefits, charges for which are calculated using the same actuarial criteria as those described for pension funds. Actuarial profits and losses are all immediately recognised in the income statement.

11 - Financial liabilities measured at amortised cost

Recognition criteria

The initial recognition of said financial liabilities occurs on the date the contract is signed, which normally coincides with the collection of the amounts or issue of the debt securities.

The initial recognition is carried out on the basis of fair value of the liabilities, normally equal to the amount collected or issue price, increased by any costs/revenues directly attributable to the single collection or issue transaction. Internal administrative costs are excluded.

Classification criteria

“Deposits from banks”, “Deposits from customers” and “Debt securities issued” include the various forms of inter-bank and customer funding, repurchase agreements with the obligation to repurchase at maturity, provisions collected via certificates of deposit and bonds and other outstanding funding instruments, net of any amounts repurchased.

Also included are payables entered by the company as lessee in the context of lease transactions.

Measurement criteria

After the initial recording, financial liabilities are measured at amortised cost using the effective interest rate method.

Short-term liabilities, for which the time factor is negligible, are an exception to this, and they remain recognised at the value collected.

Derecognition criteria

Financial liabilities are derecognised from the financial statements when they expire or are paid off. Derecognition occurs even upon repurchase of previously issued bonds. The difference between the book value of the liability and the amount paid to purchase it is recognised in the income statement.

The re-placement of securities on the market following their repurchase is considered a new issue, with recognition of a new issue price.

12 - Financial liabilities held for trading

Recognition criteria

Financial instruments in question are recorded at the date of subscription or issue 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 liability specifically includes derivative trading contracts with a negative fair value, as well as implicit derivatives with a negative fair value in complex contracts - where the primary contract is a financial liability - but not strictly correlated to the same. Furthermore, liabilities originating from technical overdrafts generated by securities trading are also included.

Measurement criteria

All trading liabilities are measured at fair value and any resulting profits or losses are recognised in the income statement.

Derecognition criteria

Financial liabilities held for trading are derecognised from the financial statements when the contractual rights to the related cash flows expire or when the financial liability is sold, substantially transferring all the risks and benefits of ownership.

13 - Financial liabilities measured at fair value

Recognition criteria

These liabilities are recorded on the issue date to the extent of their fair value, including the value of any embedded derivative and net of placement commission paid.

Classification criteria

This item reports financial liabilities measured at fair value with offsetting entry in the income statement, based on the options made available to companies (so-called “fair value option”) by IFRS 9 and in compliance with the cases provided for by the relevant legislation.

Measurement criteria

These liabilities are measured at fair value with the result recorded in accordance with the following rules provided for by IFRS 9:

- changes in fair value that are attributable to changes in creditworthiness must be recognised in the statement of comprehensive income (Shareholders' equity);

- the remaining changes in fair value must be recorded in the income statement.

The amounts reported in the statement of comprehensive income are not subsequently reclassified in the income statement. This method of accounting must not be applied when recognition of the effects of creditworthiness on shareholders' equity results in or accentuates an accounting mismatch in the income statement. In this case, profits and losses associated with the liability, including those resulting from changes in its creditworthiness, must be recognised in the income statement.

Derecognition criteria

Financial liabilities measured at fair value are derecognised from the financial statements when the contractual rights to the relative cash flows expire or when this is terminated, namely when the obligation specified in the contract has been fulfilled or cancelled or has expired.

14 - Foreign currency transactions

Recognition criteria

Foreign currency transactions are initially recognised, in the account currency, by applying to the foreign currency amount the exchange rate at the transaction date.

Classification criteria

Foreign currency transactions consist of all the assets and liabilities denominated in a currency other than the euro.

Derecognition criteria

The criteria indicated for the corresponding financial statement items are applied. The exchange rate used is the rate at the settlement date.

Measurement criteria

At the end of every year or interim period, financial statement items in foreign currency are measured as follows:

- monetary items are converted at the exchange rate at the closing date;
- non-monetary items measured at historical cost are converted at the exchange rate at the transaction date;
- non-monetary items measured at fair value are converted by using the exchange rates at the closing date.

The exchange rate differences resulting from settlement of monetary items or from the conversion of monetary items at rates other than the initial conversion rates, or than the conversion rates of the prior financial statements, are recorded in the income statement during the period in which they are incurred.

When a profit or loss relative to a non-monetary item is recognised under shareholders' equity, the relative exchange rate difference is also recognised under shareholders' equity. Conversely, when a profit or loss is recognised in the income statement, the relative exchange rate difference is also recognised there.

Criteria for the recognition of income

The exchange rate differences resulting from settlement of monetary items or from the conversion of monetary items at rates other than the initial conversion rates, or at the conversion rates of the prior Financial Statements, are recorded in the income statement during the period in which they are incurred under the item "Net profit (loss) from trading".

When a profit or loss relative to a non-monetary item is recognised under shareholders' equity, the relative exchange rate difference is also recognised under shareholders' equity. Conversely, when a profit or loss is recognised in the income statement, the relative exchange rate difference is also recognised there.

15 - Insurance assets and liabilities

Products with insurance content

Products for which insurance risk is considered significant include: first segment temporary life insurance policies, annuity and mixed policies with an option to elect at maturity a life contingent annuity at rates granted at inception, certain types of Unit-Linked policies and non-life policies. For these products, the IAS/IFRS substantially confirm the provisions of Italian accounting standards on insurance. IFRS 4, in brief,

provides for:

- the recording of gross premiums in the income statement among income; these include all amounts matured during the financial year following the stipulation of insurance contracts net of cancellations; similarly, premiums ceded to reinsurers are recorded as costs for the financial year;
- against income for gross premiums, the amount of commitments to the policyholders, calculated analytically for each contract in accordance with local accounting standards, is allocated to the insurance reserves. In accordance with IFRS 4, the Group tests the adequacy of the value of the liabilities recorded through the Liability Adequacy Test (LAT);
- products with an insurance content included within separate management products are measured by applying shadow accounting, that is, by allocating the differences between the book value and the market value, relating to securities classified as available for sale, for the policyholders share of insurance reserves, and for the amount attributable to the insurance companies to shareholders' equity. However, if securities are measured at fair value through profit or loss, the difference between the book value and the market value is recognised through profit or loss, causing the policyholders' share of the insurance reserves to change;
- in calculating shadow accounting, the Group uses, for each business activity, the average retrocession rate and the minimum guaranteed rate defined on the basis of the contractual conditions of the various products linked to the management;
- liabilities for products with discretionary participation features are represented overall overall without distinction between the guaranteed component and the discretionary component.

Financial products included in separate management products

Financial products that do not have significant insurance risk but are included in separate management products, and therefore provide for discretionary participation features, include the majority of life insurance policies and first class mixed policies, as well as fifth class capitalisation policies. They are accounted for in accordance with IFRS 4 or, in short:

- products are shown in the financial statements in essentially the same way as provided for by local accounting standards, with premiums, payments and changes in insurance reserves shown in the income statement;
- shadow accounting is applied to products with an insurance content included within the separate management products, and which therefore provide for discretionary participation features, as already described in the previous paragraph;
- in calculating shadow accounting, the Group uses, for each business activity, the average retrocession rate and the minimum guaranteed rate defined on the basis of the contractual conditions of the various products linked to the management;
- liabilities for products with discretionary participation features are represented overall without distinction between the guaranteed component and the discretionary component.

Financial products not included in separate management products

Financial products that do not present a significant insurance risk and are not included in separate management products, and therefore do not include discretionary participation features, are recognised as financial liabilities and are measured at fair value, based on the fair value option, or at amortised cost. These financial products essentially comprise index-linked policies as well as some Unit-Linked policies, and policies with specific funding of assets not included in separate management products. These products are accounted for according to the principles set out in IAS 39, as summarised below:

- index and Unit-Linked policies classified as investment contracts are measured at fair value, while products with specific funding of assets not included in separate management products are measured at amortised cost;
- The income statement does not reflect premiums relating to these products, but only the revenue components, represented by charging and commissions, and the cost components, consisting of fees and other charges; it also reflects the costs and revenues represented by changes in the fair value of the liabilities arising from these contracts. More specifically, the international accounting standards contained in IAS 39 and IFRS 15 require that, for liabilities designated at fair value, revenues and costs relating to the products in question are identified and separated into two components of (i) origination, to be charged to the income statement at the time of issue of the product, and (ii) investment management service, to be allocated over the life of the product, depending on how the service is provided. In addition, in the case of products with specific funding of assets not included in separate management products, the incremental revenues and costs are included in the calculation of the amortised cost;

- any insurance component inherent in index and Unit-Linked products, if separable, is subject to independent valuation and accounting.

16 - Other information

Accounting treatment of transactions with reference to Tax credits pursuant to Italian Decree Law no. 18/2020 ("Cura Italia") and Italian Decree Law no. 34/2020 ("Rilancio")

Italian Decree Law no. 18/2020 (known as "Cura Italia") and Italian Decree Law no. 34/2020 (known as "Rilancio") converted into law, with amendments, respectively by Italian Law no. 27 of 24 April 2020 and by Italian Law no. 77 of 17 July 2020 introduced tax incentive measures for the expenses incurred for investments (e.g. eco and seisma bonus): these tax incentives apply to households and businesses, are commensurate with a percentage of the expenditure incurred and are disbursed in the form of loans tax or tax deductions (convertible on option into tax credits).

In the context of these transactions, there is the possibility for the beneficiary to transfer these incentives to third parties who may use them to offset taxes and contributions, according to the same rules provided for the original beneficiary, or may further transfer them (in whole or in part) to third parties. None of the credits in question can be reimbursed (in whole or in part) directly by the State and there is no possibility to carry forward or request reimbursement for the portion not offset in the year of reference for reasons of inability to pay.

As set out in Banca d'Italia/Consob/Ivass Document no. 9 of January 2021, the main characteristics of the tax credits introduced by the Decrees are:

- the possibility of using offsetting in a limited period of time;
- transferability to third parties
- non-reimbursement (by the tax authorities).

According to this Document, for the beneficiary, once purchased from a third party, the peculiarities of the receivables do not allow them to be immediately attributable to a specific international accounting standard. In this respect, the Bank has established an accounting policy for the accounting treatment of these types of tax credits in accordance with paragraphs 10 and 11 of IAS 8, in order to define the method of initial recognition, measurement and subsequent classification, taking into account the cost incurred by the transferee for the acquisition of the credits, their characteristics of usability and the need to recognise, on an accrual basis, the income obtained.

As provided for in Banca d'Italia/Consob/Ivass Document no. 9 of January 2021, in order to define the accounting treatment to be adopted to the tax credits under review, reference will be made to certain provisions contained in the IFRS 9 accounting standard for financial instruments.

Recognition criteria

The first registration of a tax credit under Italian Decree Law no. 18/2020 ("Cura Italia") and Italian Decree Law no. 34/2020 ("Rilancio") takes place on the date of acceptance of the credit in the Bank's tax drawer. The recognition takes place at the price of the acquisition transaction from the beneficiary and must discount:

- a) the time value of money and
- b) the ability to use it within the relative time limit.

This price meets the requirement of IFRS 9 that financial assets and financial liabilities be recognised initially at fair value, which must be assimilated to a level 3 fair value in the fair value hierarchy under IFRS 13.

Marginal costs directly attributable to the acquisition of the tax credit are subject to potential inclusion in the calculation of fair value, considering that the marginal cost is a cost that would not have been incurred if the entity had not acquired the tax credit (such as commission paid to agents, consultants and brokers, in accordance with paragraph B5.4.8 of IFRS 9).

Costs that have the aforementioned characteristics, but are reimbursed by the debtor counterparty or are classifiable as normal internal administrative costs, are excluded.

Classification criteria

As provided for in Banca d'Italia/Consob/Ivass Document no. 9 of January 2021, taking into account that these purchased tax credits do not represent, under international accounting standards, tax assets, government grants, intangible assets or financial assets, the most appropriate classification, for the purposes of presentation in the financial statements, is the residual classification under item 120 of the balance sheet "Other Assets", in line with paragraphs 54 and 55 of IAS 1 "Presentation of Financial Statements".

Measurement criteria

Subsequent to initial recognition, tax credits under Decree Law no. 18/2020 ("Cura Italia") and Italian Decree Law no. 34/2020 ("Rilancio") that are held for use in offsetting taxes and contributions (under the same rules as the original beneficiary) are measured at amortised cost, using the effective interest rate method.

As provided for in Banca d'Italia/Consob/Ivass Document no. 9 of January 2021, for the subsequent valuation of tax credits under Decree Law no. 18/2020 ("Cura Italia") and Decree Law no. 34/2020 ("Rilancio") at amortised cost, the following is considered:

- the time value of money;
- the use of an effective interest rate, originally determined in such a way that the discounted cash flows associated with the estimated future compensation over the expected life of the tax credit equal the purchase price of the tax credits.
- the flows of use of the tax credit through offsetting.

In order to calculate the effective interest rate, the expected offsets are then estimated taking into account all terms related to the tax credit, including the fact that, after assessing the possibility of any impact on the income statement of a new assignment to a third party, the unused tax credit in each offsetting period will be lost.

This accounting method, which uses financial logic, distributes the economic effect of the costs/revenues throughout the expected residual life of the loan.

Using the amortised cost method, with respect to the calculation of the gross carrying amount of the tax credit, estimates of cash flows are periodically reviewed and the gross carrying amount is adjusted to reflect actual and restated cash flows; in making those adjustments, the new cash flows are discounted at the original effective interest rate. This accounting will therefore make it possible to recognize the income "pro-rata" temporis over the life of said tax credit, as well as to immediately recognize any losses of the transaction.

It follows that, should the revised estimates of the use of the tax credit by offsetting result in a need to adjust the gross carrying amount of the tax credit to reflect estimated, actual and restated uses, the gross carrying amount of the tax credit will be recalculated as the present value of the revised estimates of uses of the tax credit by offsetting, discounted at the original effective interest rate. This restatement, taking into account the lack of refundability by the counterparty (i.e. the Treasury), would therefore include a write-down resulting from a possible non-use of the purchased tax credits.

Derecognition criteria

Tax credits are derecognised when the rights of offsetting the credits expire or when the tax credits are transferred with substantially all risks and rewards.

Criteria for the recognition of income

As required by Banca d'Italia/Consob/Ivass Document no. 9 of January 2021, the presentation of income and expenses arising from the purchase and use of tax credits under Italian Decree Law no. 18/2020 ("Cura Italia") and Italian Decree Law no. 34/2020 ("Rilancio") reflects the management method adopted.

In the case of tax credits held for use in offsetting taxes and grants measured at amortised cost, the interest component is recognised in income statement item 10 "Interest income" and changes in value due to changes in the estimated timing of expected cash flows are also recognised as interest income or interest expense, in accordance with paragraph B5.4.6 of IFRS 9.

Any adjustments resulting from the fact that the receivables have not been fully recovered through offsetting, after assessing the possibility and possible impact on the income statement of a new transfer of the receivables to a third party, are recognised under item 130 of the income statement "Net value adjustments/recoveries for credit risk relating to financial assets measured at amortised cost".

In the event of their sale to third parties, any gains/losses between the value of the sale and the net book value of the receivables at the date of sale are recognized under item 100 of the income statement "Gains/(losses) on disposal/repurchase of financial assets measured at amortised cost".

Treasury shares

Any treasury shares held are recorded as a reduction of shareholders' equity. Similarly, their original cost and the profits or losses deriving from their subsequent sale are recorded as movements in shareholders' equity.

Accruals and deferrals

Accruals and deferrals relating to accrued costs and income on assets and liabilities are accounted for as adjustments to the assets and liabilities to which they refer.

Expenses for improvements to third-party assets

Costs for renovating properties that are not company-owned are capitalised in view of the fact that for the duration of the lease contract the utilising company has control of the assets and may draw future economic benefits from them. These costs, classified under "Other assets" in accordance with Banca d'Italia instructions, are depreciated for a period not exceeding the duration of the lease.

Provision for staff termination indemnity

The provision for staff termination indemnity is a "post-employment benefit" classified as:

- a "defined contribution plan" for portions of staff termination indemnity accrued from 1 January 2007 (date of entry into force of the supplementary pension reform pursuant to Italian Legislative Decree no. 252 of 5 December 2005), in the case of an option taken by the employee for the supplementary pension, and in the case of allocation to the treasury fund at the INPS (National Social Security Institution). For these portions, the amount recorded under personnel expenses is determined on the basis of the contributions due without the application of actuarial calculation methods;
- "Defined-benefit plan" and is therefore recorded on the basis of its actuarial value determined using the projected unit credit method, for the portion of the provision for staff termination indemnity accrued up to 31 December 2006.

These portions related to the defined benefit plan are recorded on the basis of their actuarial value determined using the projected unit credit method, without pro-rata application of the rendered service, since the current service cost of the staff termination indemnity has almost entirely accrued and its revaluation, for the years to come, is not considered to give rise to significant employee benefits. For discounting purposes, the rate used is determined with reference to the market yield of high-quality corporate bonds, taking into account the average residual duration of the liability, weighted on the basis of the percentage of the amount paid and advanced, for each maturity, compared to the total to be paid and advanced until the final settlement of the entire bond.

The costs of servicing the plan are recognised under personnel expenses, while actuarial profits and losses are recognised in the statement of comprehensive income.

Share-based payments

Share-based compensation plans for employees, which are settled in shares and not in cash, are recorded in the income statement, with a corresponding increase in shareholders' equity, on the basis of the fair value of the financial instruments attributed at the assignment date, dividing the expense over the period envisaged by the plan.

In the presence of options, their fair value is calculated using a model that takes into account not only information such as the strike 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, but also the specific characteristics of the existing plan. The valuation model makes a separate assessment of the option and the probability that the conditions under which the options were assigned will be met.

The combination of the two values provides the fair value of the instrument assigned.

Any reduction in the number of financial instruments assigned is accounted for as a derecognition of part of the same.

Employee benefits

Employee benefits refer to all types of remuneration paid by the company in exchange for the work carried out by employees. Employee benefits are divided into:

- short-term benefits (not including benefits due to employees upon termination of employment and remuneration benefits in the form of share capital) that are expected to be settled in full

within twelve months of the end of the period in which employees render the service and are recognised entirely in the income statement upon maturity (this category includes, for example, wages, salaries and "extraordinary" services);

- post-employment benefits payable after the termination of employment that obligate a company to make future payments to its employees. These include the provision for staff termination indemnity and pension funds, which in turn are divided into defined contribution plans, defined benefit plans and company pension funds;
- long-term benefits, other than those mentioned above, that are not expected to be settled in full within twelve months after the end of the financial year in which the employees render their services. The cost is allocated over the years of service for which the beneficiary worked based on the actuarial value calculated using the "Projected Unit Credit" method. Actuarial gains and losses are recognised in the income statement.

Impairment testing on goodwill

Goodwill recorded following acquisitions must be tested for impairment at least once a year and in any event, if there are signs of impairment. For the purposes of the test, once the goodwill has been allocated to a cash-generating unit (CGU), the book value and the recoverable amount of said units is compared, represented by the higher of fair value, net of any sale costs, and value in use. The disclosure in Section 10 of the assets in the Explanatory notes to the consolidated financial statements provides further information.

Recognition of revenues and costs

The bank recognises revenues for an amount that reflects the fee to which the entity believes it has a right in exchange for the transfer of goods or services to the customer.

IFRS 15 - Revenue from Contracts with Customers, has replaced IAS 18 - Revenue, IAS 11 - Construction Contracts, and interpretations SIC 31, IFRIC 13 and IFRIC 15.

The standard establishes a model for the recognition of revenues and applies to all contracts with customers, with the exception of contracts that fall within the scope of IFRS 4, IFRS 9, IFRS 16, therefore for insurance contracts and financial instruments and lease contracts. The standard introduces a five-stage model that applies to the accounting of revenues deriving from contracts with customers:

- identification of the contract with the customer;
- identification of the performance obligation of the contract;
- pricing;
- allocation of the price to the performance obligation of the contract;
- criteria for recognition of revenue when the entity meets each performance obligation.

The standard involves the exercising of judgement by entities, taking into account all relevant facts and circumstances in applying each stage of the model to contracts with their customers. The standard specifies also the recognition of incremental costs associated with obtaining a contract and costs directly associated with the completion of a contract. The bank exercises a judgement that takes into account all relevant facts and circumstances when applying the five-step model, introduced by IFRS 15, to its customer contracts.

Revenues may be recognised:

- at a particular point in time, when the entity fulfils its obligation to transfer the promised asset or service to the customer, or
- over time, as the entity fulfils its obligation to transfer the promised asset or service to the customer.

The asset is transferred when, or during, the period in which, the customer acquires control of it. More specifically:

- for financial instruments classified as HTC and HTCS, interest is recognised on a pro rata basis with reference to the contractual interest rate or the effective one in the event of application of the amortised cost. The interest income (or interest expenses) item also includes positive (or negative) differentials or margins, accrued up to the reporting date of the financial statements, in relation to financial derivatives:
 - hedging interest-bearing assets and liabilities;
 - classified in the balance sheet in the trading portfolio, but linked to financial assets and/or liabilities measured at fair value (fair value option);
 - associated with assets and liabilities classified in the trading portfolio and which provide for the settlement of differentials or margins at different maturities;

- overdue interest, if contractually included, is recognised in the income statement only when it is actually collected;
- dividends are recognised in the income statement in the year in which their distribution is approved;
- commission for revenues from services is recognised, on the basis of the existence of contractual agreements, in the period in which the same services were provided. Commissions considered in the amortised cost for the calculation of the effective interest rate are recorded under interest;
- revenues from the sale of financial instruments, determined by the difference between the amount paid or received in the transaction and the fair value of the instrument, are recorded in the income statement when the transaction is recognised, if the fair value can be determined by reference to official prices available on active markets, or for assets and liabilities measured using valuation techniques that refer to parameters observable on the market other than quotations of the financial instrument (Level 1 and Level 2 of the fair value hierarchy). If the reference parameters used for the valuation cannot be observed on the market (Level 3) or if the instruments themselves have reduced liquidity, the financial instrument is recorded at an amount equal to the transaction price; the difference with respect to the fair value is recognised in the income statement over the duration of the transaction;
- profits and losses deriving from the trading of financial instruments are recognised in the income statement at the time of completion of the sale, on the basis of the difference between the amount paid or received and the book value of the instruments;
- revenues deriving from the sale of non-financial assets are recognized at the time the sale is completed, or when the obligation to pay to the customer is fulfilled.

Costs incurred to obtain the contract

The costs incurred to obtain the contract are the costs that the entity incurs to obtain the contract with the customer, and that it would not have incurred if it had not obtained the contract. The Group recognises the costs incurred to fulfil the contract as assets only if these meet all of the following conditions: they are incremental - the bank incurs them to obtain the contract with the customer, and would not have incurred then if it had not obtained the contract; they are expected to be recovered.

Costs are recognised in the Income Statement on an accruals basis; costs relating to the receipt and fulfilment of contracts with customers are recognised in the Income Statement in the periods in which the related revenues are recorded.

Purchased or originated credit impaired assets

In accordance with the IFRS 9 accounting standard, loans considered impaired from the moment of their initial recognition in the financial statements, because of the high associated credit risk, are defined as Purchased or Originated Credit Impaired (POCI) Asset. Consequently, if at the time of initial recognition a credit exposure recognised in item 30 "Financial assets valued at fair value through the comprehensive income" or in item 40 "Financial assets valued at amortised cost", is impaired, it is qualified as Purchased or Originated Credit Impaired (POCI) asset.

For the purposes of calculating interest income, from initial recognition and throughout the expected life of the instrument, the effective interest rate adjusted for credit risk is applied to the amortised cost of the financial asset (so-called "Credit Adjusted Effective Interest Rate" or "CEIR"), even in the event of an improvement in the credit risk of the financial asset (see IFRS 9, paragraphs 5.4.1-5.4.2). The adjusted CEIR is the interest rate which, upon initial recognition, discounts estimated future cash flows (including credit losses) at the amortised cost of the POCI financial asset. For the purpose of calculating the CEIR, it is necessary to estimate the expected cash flows by considering:

- all contractual terms of the financial asset (e.g. prepayments of principal, extensions, etc.), all fees and basis points paid or received between parties to a contract that are integral to the effective interest rate, transaction costs and all other premiums or discounts;
- the lifetime expected losses.

At the reporting date, the Group, in line with the provisions of IFRS 9 paragraphs 5.5.13-5.5.14, recognises in the income statement, as an offsetting entry to the financial asset, the cumulative changes in expected losses arising from changes in estimates of future cash flows as an impairment gain or loss over the life of the receivable since initial recognition. For the purposes of discounting the expected loss, the CEIR is used as a discount factor.

This circumstance implies that a POCI asset will always be valued according to the “lifetime expected credit loss” model. The direct consequence is that once POCI status is assigned to a financial asset, it can never be reclassified to non-POCI stages and must always be subject to the “lifetime” impairment model. The positive change in the expected losses over the entire life of the loan must be recognised in the income statement even if the amount of these losses is less than the amount used to determine the internal rate of return for the calculation of amortised cost at the date of initial recognition.

As regards the accounting of interest income, it continues to be calculated on the basis of amortised cost (net of value adjustments), applying the CEIR to it and stated as a balancing entry to the financial asset.

The POCI receivables recognized in the Group's financial statements, consistently with the provisions of the IFRS 9 Principle, are divided into two types of:

- Purchased credit impaired financial assets (hereinafter, also “PCI”), credit exposures already impaired at the time of purchase, including in the context of business combinations;
- Originated impaired financial assets (hereinafter, also Originated Credit Impaired “OCI”), credit exposures originated in the case of restructuring transactions of impaired exposures that have resulted in the provision of new finance or have introduced material changes to the original contractual terms.

For the CREDEM Group the only case attributable to the PCI is that deriving from the business combination of the Cassa di Risparmio di Cento. With reference to the impaired loans acquired as part of the business combination transaction, it should be noted that compliance with the accounting treatment illustrated above was obtained from a substantial standpoint through the recognition in interest income, pro-rata temporis, of the reversal effect of the lower values attributed to impaired loans at the time of the Purchase Price Allocation. This approach is considered a reasonable approximation of the “credit-adjusted effective interest rate”, since the contractual interest rate is, in fact, supplemented by the higher yield resulting from the lower value attributed to the receivables acquired.

TLTRO refinancing operations

TLTRO III operations (Targeted Longer Term Refinancing Operations) aim to preserve favourable bank credit conditions and support the defined stance of monetary policy.

Some of the parameters that characterise these operations, established by the ECB on 6 June 2019, were subsequently revised for improvement, most recently on 10 December 2020, in light of the economic impact resulting from the protraction of the COVID-19 emergency and, finally, on 27 October 2022 to re-establish price stability in the medium term.

The loan that can be obtained from each bank depends on the amount of the loans granted to non-financial companies and households (so-called eligible loans) at certain reporting dates. The operations are carried out on a quarterly basis, starting from September 2019 and each operation has a duration of three years.

The interest rate for each operation is set at a level equal to the average interest rate on the Eurosystem's main refinancing operations (MROs), except for the period from 24 June 2020 to 23 June 2022 (“special interest rate period”), where a lower rate of 50 basis points applies. Banks that grant suitable loans above a reference value (“benchmark in lending”) can benefit from a reduction in the interest rate. In detail, the improved rate applied will be equal to the average rate on deposits with the central bank (Deposit Facility or DFR), for the entire duration of the respective operation, with the exception of the “special interest rate period” to which the further reduction of 50 basis points is to be added. The Bank, having exceeded the reference value, benefited from the reduction in the interest rate mentioned above.

Interest is settled in arrears at the maturity date of each TLTRO III operation or at the time of early repayment.

On 27 October 2022, the Governing Council of the ECB - in addition to a further increase in rates, as part of a rate hike started from July 2022 - decided to recalibrate the conditions applicable to TLTRO III loans. Specifically, the measure kept the method of calculating the interest rate unchanged until 22 November 2022. According to such method, in the “ordinary” periods (i.e. periods other than the “special interest rate periods” defined above) the interest rate applicable were equal to the average of the rates calculated over the entire duration of the instrument, entailing a change in the rate that would be determined by applying the rate in force only in the ordinary periods; from 23 November 2022 (until the expiry or early redemption date of each respective TLTRO III outstanding),

the interest rate is indexed to the average of the reference interest rates of the ECB applicable for each transaction in that period (equal to the DFR rate for banks that have reached the defined benchmarks).

On 6 January 2021, ESMA issued a Public Statement with the aim of promoting transparency in banks' IFRS financial statements with respect to the accounting treatment of TLTRO III operations.

The Credem Group has determined the accounting treatment applied to these loans on the basis of the provisions of IFRS 9 for floating-rate financial instruments - considering the refinancing conditions defined by the ECB as variable market rates as part of monetary policy measures of the Eurosystem - with recognition of interest, applicable from time to time, to be estimated on the basis of the probability of being able to achieve the objectives set in terms of net lending.

Therefore, the actions for the recalibration of the conditions of the instrument by the ECB are considered as an modification of a variable rate pursuant to par. B5.4.5 of IFRS 9 with a prospective adjustment of the rate, in consideration of the fact that the ECB has the possibility to modify the rates at its discretion in the definition of the monetary policy rates (as it did in April and December 2020 with the introduction of the "special interest rate period" and, more recently, in October 2022 in the terms highlighted above).

Following the increases in interest rates approved by the Governing Council of the ECB starting from July 2022, it was necessary to redetermine the effective interest rate applicable to each transaction starting from the date of review of the rates, with the aim of restarting the benefit resulting from the peculiar mechanism of the average of the rates in the reference period of the benefit itself. Lastly, the recalibrations to the conditions applicable to the TLTRO III loans defined on 27 October 2022 resulted in the recognition of the residual benefit until the date of amendment of the contractual conditions (i.e., until 22 November 2022). Therefore, starting from 23 November 2022, interest on TLTRO III loans is recognised on the basis of the DRF rate in force.

Determining the fair value of financial assets and liabilities

General aspects

Financial instruments designated at fair value include financial assets and liabilities held for trading, financial instruments designated at fair value, derivative instruments and, lastly, instruments classified as available for sale.

The IFRS 13 standard defines fair value as the price that would be received for selling an asset or paid for transferring a liability in an orderly transaction in the main market (or more advantageous) at the measurement date under current market conditions (namely closing price), regardless of that fact that said price can be directly observed or that it is estimated using a different valuation technique.

The departments involved in the process of determining the fair value include administrative departments, the Finance front office and the Risk Management departments.

The administrative departments, which are directly in charge of drawing up financial disclosures, are responsible for monitoring the rules used to determine fair value in compliance with the accounting standards used.

The Finance department offices, in turn, have expertise regarding the valuation techniques applied and oversee the IT systems used in the process of determining fair value.

Lastly, the Risk Management department offices are required to validate the valuation techniques used, including the related models and the parameters used. These offices verify the potential presence of an active market and analyse the potentially available sources. In general, the Group determines the fair value of financial assets and liabilities using valuation techniques chosen on the basis of the type of instruments held and of the information available at the time of valuation.

On the basis of the information available at the time of the valuation, financial instruments are divided into those whose price is listed on an active market and those for which an active market does not exist at the time of valuation.

The fair value hierarchy attributes maximum priority to the prices listed (non-adjusted) on active markets for identical assets or liabilities (Level 1 data) and minimum priority to non-observable inputs (Level 3 data). Level 1 inputs are the prices listed (non-adjusted) on active markets for assets and liabilities identical to those to which the entity may access on the valuation date. A listed price on an active market provides the most reliable proof of the fair value and, when available, must be used to measure the fair value without any adjustment.

Level 2 inputs are inputs other than the listed prices included in Level 1, directly or indirectly observable for the asset or liability.

Similarly, all other variables used in valuation techniques that cannot be corroborated on the basis of observable market data are not considered observable.

The presence of active markets and the use of listed prices (Mark to Market)

In general terms, the process for applying Mark to Market valuation is highly automated. All listed financial instruments held (shares, bonds and derivative financial instruments) are valued, where there are active markets, using the respective listed prices (Mark to Market valuations) to determine the daily P&L.

With regard to the main Information Providers, a distinction is made between:

- Market parameters to which a Refinitiv RIC is associated: in this case the price is retrieved in real time by Refinitiv through the ATS platform;
- Instruments to which both a Refinitiv and a Bloomberg contribution can be associated. In detail, rules have been implemented within the ATS that allow comparison between sources and the selection of the one deemed valid in terms of liquidity, daily update and delta spread. The ATS module considers a primary source for each category of instrument and assigns the level of fair value associated with each parameter;
- EOD parameters: market parameters updated once a day (e.g. cap and floor volatility) available from the ICE provider.

If the information from Refinitiv and Bloomberg is unavailable, other independent Information Providers are used.

If an asset or a liability designated at fair value has a monetary price and a letter price (for example, a figure originating from a market with direct and assisted exchanges), to measure the fair value, the price that falls within the bid-ask spread must be used, which is more representative of the fair value in these specific circumstances, regardless of how said datum is classified in the fair value hierarchy (Level 1, 2 or 3). The use of the monetary price is permitted for asset positions and the letter price for liability positions, although this is not compulsory. The Group mainly uses the monetary price for its asset positions and the letter price for its liability positions.

Generally, listed prices are acquired automatically, on a daily basis, by downloading the information from leading independent Information Providers.

Use of valuation techniques (Mark to Model)

In determining the fair value of financial instruments, the Mark to Model technique is used if the analysis shows that there are no listed prices for the instruments held on the main market (or more advantageous). The valuation techniques used to measure the fair value must maximise the use of relevant observable inputs and minimise the use of non-observable inputs.

Level 2 inputs are inputs other than the listed prices included in Level 1, directly or indirectly observable for the asset or liability.

Level 2 inputs include:

- the prices listed on active markets for similar financial assets and liabilities;
- the prices listed on non-active markets for identical or similar financial assets and liabilities;
- data other than the listed prices observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, implicit volatility and credit spreads);
- inputs corroborated by the market.

Non-observable inputs, Level 3, must be used to measure fair value when the relevant observable inputs are not available, therefore permitting situations of poor market activity for the asset or liability on the measurement date. Nevertheless, the purpose of the fair value measurement remains the same, namely a closing price on the measurement date from the perspective of a market operator who holds the asset or the liability. Therefore, non-observable inputs must reflect the assumptions that market operators would use to establish the price of the asset or the liability, including assumptions about risk. Adjustments to Level 2 inputs change according to specific aspects of the asset or liability. These aspects include the following:

- the condition or location of the asset;
- the extent to which the inputs refer to elements that are comparable to the asset or liability; and
- the volume or level of activity in the markets in which the inputs are observed.

The use of significant non-observable inputs or adjustments of a Level 2 input that is significant for the entire measurement of the instrument could mean that the fair value measurement will be classified as Level 3 in the fair value hierarchy.

The objective of the use of a valuation technique is to estimate the price at which a regular sale of an asset or transfer of a liability would take place between market operators on the valuation date, under current market conditions. Three valuation techniques that are widely used are the market valuation method, the cost method and the income method. An entity must use valuation techniques that are consistent with one or more of these methods to measure fair value.

The following are examples of the main parameters observable on the market that are used for the most common valuation techniques applied:

- risk-free yield curve. Based on records historicised in the Front Office application (Murex) a risk-free euro yield curve is obtained, by bootstrapping the implicit rates in deposits, swaps and Forward Rate Agreements;
- exchange rates. The Murex system automatically acquires, on a daily basis, the spot fixing ECB exchange rates from the infoprovider Reuters;
- volatility curves. Volatility curves obtained from external sources previously identified (ICE) are mapped and historicised in the Front Office application (Murex); it should be noted that own transactions by the Group predominantly focus on interest rate instruments.

Otherwise, when valuation techniques are based primarily on parameters that cannot be observed on the market, internal estimation processes are carried out. This applies in a limited way only to cases where market data is not available or is not considered reliable.

The use of valuation techniques that apply data observable on the market or data estimated internally involves the use of valuation models employing these parameters.

The income method converts future amounts (for example, cash flows or revenues or costs) into a single present amount (namely discounted). When the income method is used, the fair value measurement reflects the present expectations of the market relating to said future amounts.

By way of example, these valuation techniques include:

- net present value techniques;
- option pricing models, such as the Black-Scholes-Merton formula, which incorporate techniques to calculate the present value and reflect both the temporal and the intrinsic value of an option.

However, when proprietary models are used, the reliability of such models is tested by comparing the valuations of similar listed instruments provided using these techniques with the related listed prices (back testing). The reliability of these techniques is also verified ex post by monitoring the results obtained over time.

Closed real estate funds

In order to take into account the unavailability of continuous valuations of unlisted closed-end real estate funds, due to illiquidity, the absence of a liquid market and the specificity of the underlying asset, the methodology used to identify the fair value attributable to the company's share capital is based on the most up-to-date NAV available (normally referring to the end of the previous six months) adjusted to reflect the low liquidity of the asset.

Liabilities issued by the company

To determine the fair value of liabilities issued by the company, the company's issuer risk must be taken into account.

The creation of one or more credit spread curves is necessary, as part of the fair value option, in order to value instruments not traded on active markets¹ with a full fair value. Compared to simple discounting on the risk-free curve of cash flows generated by the instrument, the concept of full fair value includes an ulterior adjustment that takes into account issuer risk: the adjustment, or credit spread, takes the form of an additional spread on the risk-free curve and varies in size depending on the different maturities. Furthermore, given that the credit spread relative to an issuer expresses an indication of the probability and extent of repayment of the issue, it differs based on the issue's seniority: a senior issue will have a lower credit spread than a subordinated issue.

¹ Instruments traded in active markets are attributed the market price.

Application of the fair value option to financial liabilities requires that the amount of fair value changes attributable to changes in the credit risk of the instrument be highlighted.

The risk factors due to creditworthiness are incorporated into the discounting curve (used to calculate the fair value), applying a spread to the risk-free curve that takes into account issuer risk.

Using this valuation method makes it possible to separate the various components of risk: interest rate risk and credit risk. Regarding creditworthiness, credit risk was broken down into risk due to variations in creditworthiness over the last year and variations since the issue of the security (or FTA of the IAS).

The factors considered in the calculation are:

- the risk-free market rate recorded at the valuation date;
- the credit spread recorded at the initial issue date of the security;
- the credit spread recorded during the year prior to the current valuation date;
- the credit spread recorded at the valuation date.

By comparing the market fair value at the valuation date with the fair value calculated using the credit risk recorded upon issue (or the previous year), it is possible to determine the variations in fair value attributable solely to the variations in credit risk over the last year and from the moment of issue.

The curves adjusted for the creditworthiness of the issuer are obtained by adding a credit spread that reflects the creditworthiness of said issuer to zero-coupon rates (or risk-free rates). Said curves are used to measure the value of bonds that are not listed on active markets.

By measuring all of the instruments relating to a single issuer (as well as those issued by the Group) at fair value, three curves can be constructed:

- a senior curve;
- a subordinate curve;
- a covered curve.

To calculate senior credit spreads, if there are senior liquid issues on the market, the credit spreads implicit in the listed prices of the issues in question are used.

More specifically, for Credem, the securities belonging to the EMTN programme of our issues and of comparable issuers with similar characteristics such as sector and ratings are used as reference to trace the maturity structure of the curve.

More specifically, the calculation of the credit spread is made starting from a benchmark curve of an Italian bank (obtained from the issuer Intesa Sanpaolo) on which an average restriction is applied for senior and subordinated liquid issues of comparable issuers. The covered curve is calculated using a spline-fitting method of prices of comparable issues, which meet the defined liquidity criteria.

Criteria for determining the fair value of financial assets and liabilities not measured at fair value on a

recurring basis The disclosures required by IFRS 13 are shown below.

For asset and liability credit transactions not measured at fair value on a recurring basis, the fair value, shown in the tables contained in the Explanatory Notes, has been calculated according to the following criteria:

- for financial assets and liabilities on demand, with short-term maturities (within 12 months) or undetermined maturities, the book value is considered; the same reasoning is applied to non-performing loans;
- for floating-rate securities and fixed-rate, short-term securities (within 12 months), the book value was considered an approximation of the fair value;
- for medium to long-term financial assets and liabilities, the valuation was carried out by discounting the future cash flows. This operation was carried out using risk-free rates and, for assets, by correcting the future cash flows, taking into account the counterparty risk through PD (Probability of Default) and LGD (Loss Given Default) parameters;
- for medium- to long-term, fixed-rate securities, the valuation was carried out by discounting the future cash flows adjusted for the issuer risk associated with Credem.

For these instruments, calculating the fair value is also based on the use of internal parameters that cannot be directly observed on the market, and is calculated only for the purpose of meeting disclosure requirements, and has no impact on the balance sheet or income statement.

Financial conglomerate and the option to defer the application of IFRS 9 for the insurance sector - Option for the Deferral Approach

The Credem Group, as from October 2017, was included by the Supervisory Authority among the financial conglomerates, in other words, among the parties which carry out significant activities both in the banking and investment services sector, and in the insurance sector. Consequently, as a financial conglomerate with a banking prevalence, the Credem Group has decided to take advantage of the EU exemption from the amendment to IFRS 4 issued by the IASB, which provides for the option of applying the Deferral Approach (or Temporary Exemption), by virtue of which the financial assets and liabilities of Credemvita (the subsidiary insurance company) will continue to be recorded in the financial statements in accordance with the provisions of IAS 39, pending the entry into force of the new international accounting standard on insurance contracts (IFRS 17), expected in 2023. The postponement of the adoption of IFRS 9 by insurance companies therefore requires the application, as from 1 January 2018, of two different accounting standards for financial assets and liabilities in the consolidated financial statements of the Group. In light of the autonomy given by Banca d'Italia concerning the methods with which to represent this decision and its effects on the financial statements, the Group decided to introduce specific items in the official schedules of the consolidated financial statements provided for by the 6th update of Circular no. 262 and to provide the related disclosures in the Explanatory Notes to the consolidated financial statements in compliance with the requirements of IFRS 7, as well as the amendment to IFRS 4, which aims to represent the requirements in order to benefit from the temporary exemption and to ensure comparison between insurers applying the temporary exemption and entities that apply IFRS 9.

More specifically, the following items have been added to the consolidated financial statements, as required by the 6th update of Circular no. 262:

- Balance Sheet – Assets: “Item 35. Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39”, which includes financial assets held for trading, financial assets measured at fair value, financial assets available for sale, and any derivatives with a positive fair value, as defined in accordance with IAS 39;
- Balance Sheet – Assets: “Item 45. Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39”, which includes financial assets held to maturity, due from banks, and loans to customers, as defined in accordance with IAS 39;
- Balance Sheet – Liabilities: “Item 15. Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39”, which includes due to banks, due to customers, and debt securities issued, as defined in accordance with IAS 39;
- Balance Sheet – Liabilities: “Item 35. Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39”, which includes financial liabilities held for trading, financial liabilities measured at fair value, and derivatives with a negative fair value, as defined in accordance with IAS 39;
- Balance Sheet – Liabilities: “Item 125. Valuation reserves pertaining to insurance companies”, which includes valuation reserves for financial assets available for sale;
- Income Statement: “Item 115. Profit (Loss) from financial assets and liabilities pertaining to insurance companies pursuant to IAS 39”, which includes all income statement components attributable to the insurance subsidiary with the exception of net premiums and the balance of other operating income/charges from insurance activities, which converge under their own item, of commissions that are represented together with similar bank items and “Net value adjustments (recoveries) pertaining to insurance companies pursuant to IAS 39”, which are recognised in item 135, opened for this very purpose;
- Income Statement: “Item 135. Net value adjustments (recoveries) pertaining to insurance companies pursuant to IAS 39”, which includes any adjustments/recoveries.

During the first half of 2022, Credemvita continued to implement the IFRS 17 accounting standard. The Project is organised into the following sections:

- A. Business model design and development;
- B. Adaptation to IFRS 17 and IFRS 9 accounting standards;
- C. Quantitative impact simulations;
- D. Target operating model and PMO;
- E. IT accounting implementations;
- F. Data Workshops to define the most effective architecture among the application systems involved in the process of producing the financial statements according to the IFRS 17/9 accounting standards.

The first two were completed, while the remaining sections are in the process of being finalised with the aim of implementing, through dedicated platforms, the defined methodologies as well as defining the new closing processes.

The design and development of the models took into account the guidelines of the IFRS 9 and IFRS 17 accounting standards, as well as the latter approved in the IFRS 17 version "Insurance Contracts" with Commission Regulation (EU) no. 2021/2036 of 19 November 2021, seeking full regulatory compliance.

The disclosure on the transition to IFRS 17 and IFRS 9 is provided on the basis of the joint Bank of Italy, Consob and IVASS press release of 27 October 2022, including known or reasonably estimated information, relevant to assess the possible impact that the application of the new Standard or the new Interpretation will have to the financial statements.

The implementation of the standard passes through the phases of:

- "Classification of policies" in order to identify those subject to IFRS 17 rules, unlike those that can be traced back to IFRS 9 rules due to their prevailing financial content;
- "Aggregation" in unit of account, and
- "Assessment" of these through the option, provided by the standard, of selecting from among three different assessment models,
 - General Model
 - Variable Fee Approach
 - Premium allocation Approach, depending on the characteristics of the policies.

In order to "Classify" its policy portfolio, Credemvita adopted a qualitative-quantitative approach through a specific decision-making tree for which the granularity underlying the choices considered the contract in its entirety and the use of a Contract type by Contract type approach, i.e. by product/type of contract.

It follows that:

(1) a qualitative approach led to the identification of the following groups of policies as contracts with significant insurance risk:

- A. Pure risk tariff forms not linked to Separate Management (having underlying technical/demographic guarantees such as individual and collective TCM, TCM associated with mortgages or loans)
- B. Tariff forms for pension segments I and V (IPPs)
- C. Non-pension Segment I or Segment V tariff forms linked to Separate Management (with conditions in the event of a claim or contractual premium conditions with significant insurance content):

(2) a qualitative approach led to the identification of the following groups of policies as contracts with insurance risk:

- A. Tariff forms for pension segments I and V
- B. Non-pension Segment I or Segment V tariff forms linked to Separate Management (such as capitalisation, deferred capital with counter-insurance in the form of return of the pure premium, lifetime, etc.)
- C. Hybrid tariff forms of non-pension Segment I and Segment III (Multi-segment),
- D. Tariff forms for pension segments III and VI,
- E. Stand-alone Unit Linked tariff forms with capital increase in the event of death.

These tariff forms are classified directly as insurance if there is an option to convert to an annuity and the conversion coefficient is defined at issue; otherwise, as long as there is a compulsory complementary guarantee or at least an additional guarantee in the event of death inherent in the tariff, a significance test is carried out, otherwise the conditions for classifying the tariff form as insurance are not met and it is necessary to verify the possibility of a classification as a service or investment contract.

Credemvita's decision, for the purposes of defining a scenario with commercial substance with which to carry out the insurance risk significance test, is to identify, before placing the type of contract taken as reference, a standard policy deemed representative of the tariff form to be classified at least in terms of age, duration of coverage, premium paid and any additional guarantees provided (for example, mandatory complementary guarantee and/or additional guarantee in the event of death). Credemvita has identified a quantitative threshold of significance of the insurance risk in line with market practices under consolidation. Hence:

- (1) the decision to classify as investment contracts with discretionary participation features (investment with DPF) the tariff forms of Segment I or of Segment V connected to Separate Management as well as

the non-pension Multi-segment tariff forms in the event that these have not previously been classified as insurance.

- (2) the decision to classify stand-alone unit-linked tariff forms as pure investment contracts, in the event that they have not previously been classified as insurance.

With reference to the assessment of the possible separability of the non-insurance components from the main contract, in relation to the stand-alone Unit Linked tariff forms and the Multi-segment tariff forms, Credemvita's decision is not to separate the investment components from the insurance components, but to consider the contract in its entirety for the purposes of classification in the financial statements.

With reference to the subject of the "Aggregation" of contracts in account units, it is specified that in relation to the transition rules to IFRS 17 for the business in force at the transition date in case of application of one of the alternative approaches to the Full Retrospective Approach (FRA), i.e. the Modified Retrospective Approach, (MRA) or Fair Value Approach (FVA), paragraph C10 of Appendix C of the Standard allows the non-application of the requirement of maximum annual cohorts.

This exception is allowed by the Standard according to different criteria depending on the adoption of the MRA and the FVA. In particular, if the MRA approach is chosen for the non-application of the requirement of maximum annual cohorts, paragraph C8 of the Standard requires demonstration of the unavailability of the reasonable and sustainable information necessary for compliance with the requirement of maximum annual cohorts provided for by paragraph 22 of the Standard. If the FVA approach is chosen, paragraph C23 of the Standard directly allows the non-application of the requirement of maximum annual cohorts, without any demonstration. In order to comply with the cohort requirement with reference to the new business, the decision, with the exception of the portfolios relating to the Segregated and Multi-segment Management, is to include within the same group, the contracts issued no more than one year apart by taking the calendar year as a reference.

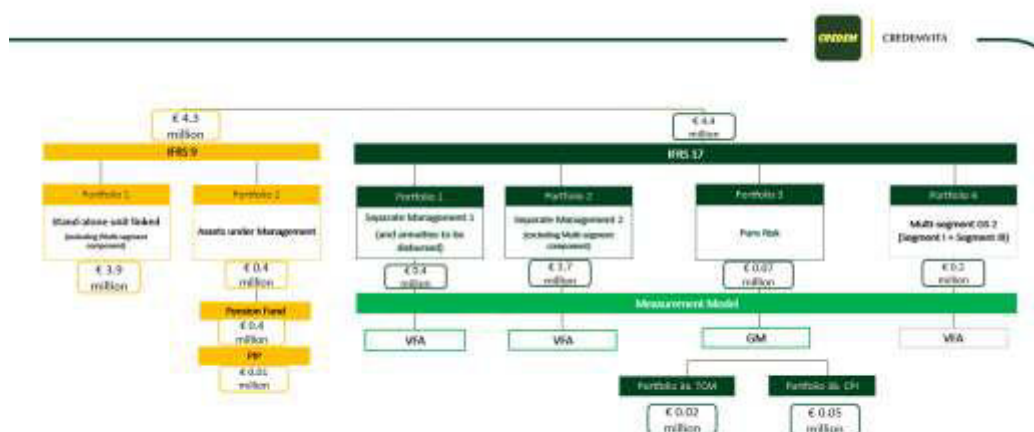
The decision, with reference to the Separate Management and Multi-segment portfolios characterised by intergenerational mutuality, is to make use of the exception to this requirement by inserting contracts issued more than one year apart within the same group.

The assets underlying Separate Management are managed jointly for all the policies connected to it and therefore independently of the different annual cohorts that have arisen over time.

The logic behind Separate Management entails a mutualisation of returns and risks between generations of policies issued in different years.

The definition of annual cohorts in this area makes it impossible or extremely difficult (unless methodological simplifications are carried out) to separately determine the returns (and the related cash flows) to be attributed to the different cohorts that are part of the same Separate Management.

In light of the classification of its policy portfolio as described above and of the defined aggregation choices, the Company has also determined the "Valuation" model to be applied among the three envisaged by the standard, as represented below



More specifically, it was decided to aggregate the policies into 6 macro portfolios, 2 attributable to the IFRS 9 valuation model whose perimeter is represented by stand-alone Unit Linked policies (portfolio 1) and by Pension Fund and IPP products (portfolio 2 Assets under Management) and 4 attributable to the IFRS 17 valuation models.

Among the latter, in particular, portfolios 1, 2 and 4 are valued with the Variable Fee Approach (VFA) model, while portfolio 3 is measured with the General Model.

With regard to the main methodological choices that the Company is evaluating, among others, it is useful

to specify the approach followed with reference to the calibration of the discount curve.

The Company's decision is to use a Bottom-Up approach for the definition of the discount curves which envisages the use of risk-free rates with the addition of a liquidity premium, where the Company derives the liquidity premium on the basis of one average spread of a reference asset portfolio by adjusting it to exclude the component relating to the credit spread (limited to the expected default risk).

The latter will be estimated starting from the Probability of Default Through The Cycle, in line with the IFRS 9 practice of the Parent Company for the assessment of credit risk.

The decisions of the Company, in relation to definition of the risk-free interest rate curve, envisage taking as reference the Zero Coupon Risk Free curve provided by EIOPA without adjustment for volatility.

Lastly, again in relation to the path for the implementation of the IFRS 17 accounting standard, the approach followed with reference to the transition procedures to the new accounting standard is specified.

In light of the results of the survey for the availability of historical data conducted on all contracts that are believed to be still in effect at the transition date, and based on the characteristics of the underlying business, the following emerged:

- The FRA approach requires high granularity and historicity of the information for the reconstruction of accounting flows, valuation assumptions and actuarial engine runs, at previous dates, with extreme onerousness in the reconstruction of the same, both for contracts valued with the General Model and for those assessed with the VFA;
- With reference to the General model, the modification on the valuation assumptions of the TCM, carried out in 2021, makes the past assumptions unavailable, which are not considered to be consistent with the new methodologies adopted during 2021, therefore the FRA approach is not usable;
- Furthermore, with reference to the VFA, the carve out of the annual cohorts for the Separate Management products, which Credemvita intends to use, eliminated the grouping by annual cohorts, therefore it is considered necessary to apply a single Transition approach for each grouping that is configured as a bucket of profitability directly applied to the Separate Management or Multi-segment portfolio as a whole. The FRA approach is therefore not usable as a single Transition method has to be applied;
- Credemvita also believes that it cannot apply the FRA also in relation to the change in the Company's business model with reference to the DAS starting from 2020;
- With reference to the MRA, there are complexities relating to the high granularity and historicity of the information of the accounting flows with onerousness in the reconstruction of the same both for the contracts valued with the GM and for those valued with the VFA;
- The Fair Value Approach is also always applicable and guarantees a robust estimate of the CSM on all reference portfolios and complies with the methodology defined by the Standard (i.e. valuation of portfolios according to IFRS 13 in terms of market valuations, net of the value of the fulfilment cashflow according to the IFRS 17 logic). Furthermore, the methodology adopted, which combines market participant view logic, leverages the calibration of parameters that are already consolidated in the Company's framework.

With regard to the Company's adaptation process to the IFRS 9 accounting standard, the methodological and application choices were defined within the framework already in use by the group.

The introduction of the IFRS accounting principle, and the interaction with the IFRS 9 principle for the measurement of financial instruments, introduces a new model for the recognition of asset values and the recognition of the performance of the various portfolios produced in the income statement together with significant sensitivity measurements of current estimates of operating assumptions and market magnitudes (including the interest rate curves to a significant extent), which may lead to greater volatility of results over time.

On the basis of the analyses carried out and the implementations in progress, it is estimated that the impact, to be recognised as a balancing entry in the shareholders' equity upon first-time adoption of the new accounting standard, will be insignificant with respect to the current balance sheet and regulatory capital levels.

At 1/1/2022, at the time of the FTA, the capital delta deriving from the application of IFRS 17 resulted in a loss of € 56 million, equal to -14 bps on CET1.

With reference to the main IFRS 17 amounts, it should be noted that in transition at 1/1/22 the consolidated CSM (relating to the scope of policies in scope to IFRS 17) was estimated to be € 282 million.

The dynamics of the markets during the year and the choices made during implementation led to a reabsorption of these negative effects. IFRS 17 shareholders' equity at 1 January 2023 was € 142 million higher than the closing IFRS 4 figure at 31 December 2022, including the IFRS 17 profit for the corresponding

period. The impact on the Group's CET1 ratio is +21bps.

With reference to the associate Credemassicurazioni, whose equity investment is held jointly by Credito Emiliano and Reale Mutua Assicurazione and whose values are consolidated in the Credem group financial statements using the equity method, it should be noted that the impacts in transition on the consolidated financial statements are negligible.

Financial assets held for trading

Recognition criteria

Financial assets are initially recognised at the settlement date for debt and equity instruments and at the subscription date for derivative contracts.

More specifically, when accounting at the settlement date, an entity records any variation in the fair value of an asset to be received in the period from the trade date to the settlement date in the same way in which it would record an asset purchased.

Financial assets held for trading are initially recognised at cost, meaning the fair value of the instrument, without considering the transaction costs or revenues directly attributable to the instrument itself, which are recorded in the income statement.

Any implicit derivatives present in hybrid financial instruments, classified in different categories than assets or liabilities measured at fair value, not strictly correlated to the same and having the characteristics to satisfy the definition of derivative are separated from the host contract, classified in the present category and measured at fair value, while the relevant accounting criterion for the category in which it is classified is applied to the host contract.

Classification criteria

Financial instruments held with the aim of generating profit, in the short-term, from variations in the prices of said instruments have been classified under financial assets held for trading.

Derivatives not held for hedging purposes are included in this category; the derivatives are represented as assets if the fair value is positive and as liabilities if the fair value is negative.

Reclassifications towards other categories of financial assets are not permitted except in the case that there is the presence of unusual events which it is unlikely will present themselves again over the short term. In such cases, it is possible to reclassify debt and equity instruments no longer held for trading purposes in other categories envisaged by IAS 39 if the conditions for recognition apply.

Measurement criteria

Subsequent to their initial recognition, financial assets held for trading are measured at fair value and the effects of the application of this measurement approach are booked to the income statement. Should the fair value of a financial asset become negative, said asset is accounted for as a financial liability.

The methods used for determining the fair value are outlined in Section 18 "Other information" of these explanatory notes to the consolidated financial statements.

Equity securities and the related derivative instruments, for which it is not possible to determine the fair value in a reliable manner according to the guidelines indicated in Section 18 "Other Information" of these explanatory notes to the consolidated financial statements, are maintained at cost.

Derecognition criteria

Financial assets are derecognised only when the contractual rights on the cash flows from the assets themselves expire or when the financial asset is sold, essentially transferring all the risk/benefits related to it. Whenever a significant part of the risks and benefits related to the financial assets sold have been maintained, these continue to be recognised in the Financial Statements, even if legal ownership of the assets has effectively been transferred.

If it is not possible to ascertain the essential transfer of risks and benefits, the financial assets will be derecognised from the financial statements if no type of control has been maintained over them. Conversely, the maintenance of even partial control will result in keeping the assets in the financial statements at an amount equal to the residual involvement, measured by the exposure to changes in value of the assets sold and to variations in the cash flows of the same.

If the bank sells a financial asset classified under its trading portfolio, the asset is derecognised at the date of its transfer (settlement date).

Securities received as part of a transaction that contractually envisages their subsequent sale and securities delivered as part of a transaction that contractually envisages their repurchase are not recorded in or written off the Financial Statements.

Lastly, transferred financial assets will be derecognised from the Financial Statements if the contractual right to receive the relative cash flows has been retained, with the simultaneous assumption of an obligation to pay said flows, and only said flows, to other third parties (see paragraph 19 IAS 39).

Criteria for the recognition of income

Interest income on securities and the spreads and margins on derivatives classified under this category, but operationally linked to financial assets or liabilities measured at fair value, are recorded on an accruals basis in the profit and loss items relating to interest.

The differentials and margins of the other contracts are recognised in the “Net profit (loss) from trading”. Dividends are recognised on an accruals basis as of the date of adoption of the distribution resolution by the shareholders’ meeting and are stated in the item “Dividends and similar income”.

The profits and losses realised on sales or redemptions or capital gains/losses deriving from changes in fair value are recorded in the income statement for the period in which they manifest and are classified in the item “Net profit (loss) from trading”, except for the portion relating to derivative contracts operationally linked to financial assets or liabilities measured at fair value, which is recorded under “Net profit (loss) from financial assets and liabilities measured at fair value”.

Financial assets available for sale

Recognition criteria

For debt and Equity instruments, initial recognition of the financial asset occurs on the settlement date.

Apart from the exceptions provided for by IAS 39, available for sale securities in portfolio cannot be transferred to other portfolios and neither can securities from other portfolios be transferred to the available for sale portfolio.

Financial assets are initially recognised at cost, meaning the fair value of the instrument, considering the transaction costs and revenues directly attributable to the instrument itself. If, in the cases permitted by the accounting standards, the recognition occurs following reclassification, the book value is the fair value at the moment of transfer.

The available for sale securities that are the subject of forward trades, which have not yet been settled (regular way) are recognised (if purchased) or derecognised (if sold) in accordance with the “settlement date” principle.

Classification criteria

This category includes non-derivative financial assets not otherwise classified as “Loans”, “Financial assets held for trading”, “Financial assets measured at fair value” or “Financial assets held to maturity”.

In particular, this item includes equity investments not managed for trading purposes and not qualified as controlling investments, associated investments and joint control stakes and the instruments investing in capital relating to the contributions paid over to the voluntary scheme by the FITD for measures relating to the adoption of investments.

In the cases permitted by the accounting standards, only reclassifications to the Financial assets held to maturity category are permitted. Furthermore, it is possible to reclassify the debt securities not only in the Financial assets held to maturity category, but also under Loans and receivables, in the presence of the intention to hold them for the foreseeable future and if the conditions for recognition are met. The transfer value is represented by the fair value at the time of reclassification.

Measurement criteria

After initial recognition, the “Financial assets available for sale” are measured at fair value, with recognition in the income statement of the value corresponding to the amortised costs, while profits and losses arising from a change in fair value are recognised in a specific shareholders’ equity reserve until the financial asset is written off or an impairment is recognised.

The methods used to determine the fair value and the main criteria to recognise the impairment of “Financial assets available for sale” are outlined in section 18 “Other information” of these Explanatory notes to the consolidated financial statements.

Equity securities for which it is not possible to determine the fair value in a reliable manner according to the aforementioned guidelines are maintained at cost.

Verification of the existence of objective evidence of impairment is carried out upon closing of the Financial Statements or interim period.

Derecognition criteria

Financial assets are derecognised when the contractual rights on the cash flows from the assets themselves

expire or when the financial asset is sold, essentially transferring all the risks and benefits of the financial asset. Conversely, whenever a significant part of the risks and benefits related to the financial assets sold have been maintained, these continue to be recognised in the financial statements, even if legal ownership of the assets has effectively been transferred.

If it is not possible to ascertain the essential transfer of risks and benefits, the financial assets will be derecognised from the financial statements if no type of control has been maintained over them. Conversely, the maintenance of even partial control will result in keeping the assets in the financial statements at an amount equal to the residual involvement, measured by the exposure to changes in value of the assets sold and to variations in the cash flows of the same.

If the bank sells a financial asset classified in the above portfolio, the asset is derecognised at the date of its transfer (settlement date).

Securities received as part of a transaction that contractually envisages their subsequent sale and securities delivered as part of a transaction that contractually envisages their repurchase are not recorded in or written off the Financial Statements.

Lastly, transferred financial assets will be derecognised from the Financial Statements if the contractual right to receive the relative cash flows has been retained, with the simultaneous assumption of an obligation to pay said flows, and only said flows, to other third parties (see paragraph 19 IAS 39).

Criteria for the recognition of income

Interest income, calculated on the basis of the I.R.R. method, is recorded on an accrual basis under the item "Interest income and similar revenues", dividends are recorded under the item "Dividends and similar income" when the right to receive payment occurs, while profits and losses arising from a change in fair value are recognised in a specific shareholders' equity reserve until the financial asset is written off or an impairment is recognised. Upon disposal or realisation of impairment, the accrued profit or loss is transferred into the income statement.

Should the reasons for the impairment cease to exist following an event that occurred subsequent to the recognition of the impairment, write-backs are recorded and posted to the income statement, in the case of debt securities, and to shareholders' equity in the case of equity securities. In any event, the total write-back cannot exceed the difference between the book value and the amortised cost of the instrument had there been no prior adjustments.

Financial assets held to maturity

Recognition criteria

Initial recognition of the financial asset occurs on the settlement date.

The financial assets classified under this category are initially recognised at fair value, including any directly attributable transaction costs and revenues. If an item is recorded in this category due to reclassification from another category, the fair value of the asset at the reclassification date is adopted as the new amortised cost of the asset.

Classification criteria

This category includes debt securities with payments that are fixed or definable and which are intended to be held to maturity. Should it no longer be deemed feasible to hold an investment to maturity, following a change in willingness or capability, only reclassifications under "Financial assets available for sale" are permitted.

Measurement criteria

Subsequent to their initial recognition, "Financial assets held to maturity" are measured at amortised cost, using the effective interest rate method.

Verification of the existence of objective evidence of impairment is carried out upon closing of the Financial Statements or interim period.

Derecognition criteria

Financial assets are derecognised when the contractual rights on the cash flows from the assets themselves expire or when the financial asset is sold, essentially transferring all the risks and benefits related to it. Conversely, whenever a significant part of the risks and benefits related to the financial assets sold have been maintained, these continue to be recognised in the financial statements, even if legal ownership of the assets has effectively been transferred.

If it is not possible to ascertain the essential transfer of risks and benefits, the financial assets will be derecognised from the financial statements if no type of control has been maintained over them. Conversely, the maintenance of even partial control will result in keeping the assets in the financial statements at an

amount equal to the residual involvement, measured by the exposure to changes in value of the assets sold and to variations in the cash flows of the same.

Lastly, transferred financial assets will be derecognised from the Financial Statements if the contractual right to receive the relative cash flows has been retained, with the simultaneous assumption of an obligation to pay said flows, and only said flows, to other third parties (see paragraph 19 IAS 39).

Criteria for the recognition of income

Interest income on securities is recorded on an accrual basis in the income statement items relating to interest. Profits or losses relative to “Financial assets held to maturity” are recognised in the income statement when said assets are derecognised or have undergone impairment, as well as via the amortisation process. Verification of the existence of objective evidence of impairment is carried out upon closing of the Financial Statements and interim periods.

Should said evidence exist, the amount of the impairment is measured as the difference between the asset's book value and the present value of the estimated future cash flows, discounted at the effective original interest rate. The impairment amount is recorded in the income statement.

Should the reasons for the impairment cease to exist following an event that occurred subsequent to the recognition of the impairment, write-backs are carried out and posted to the income statement.

Reversals of impairment cannot have a book value higher than their amortised cost if no impairment had been carried out.

Loans

Recognition criteria

The initial recognition of a loan occurs at the date of subscription, which usually corresponds to the date of disbursement or, in the case of a debt security, at the settlement date, based on the fair value of the financial instrument, which is equal to the amount disbursed, or subscription price, including costs/revenues directly attributable to the individual loan and definable from the beginning of the transaction, even if paid successively. Costs that have the aforementioned characteristics, but are reimbursed by the debtor counterparty or are classifiable as normal internal administrative costs, are excluded.

Receivables from lease transactions are recognised at a value corresponding to the net investment in the lease, including initial direct costs.

Loans and securities are allocated to the portfolio at the time of disbursement or purchase and cannot be subsequently transferred to other portfolios.

Contango contracts and repurchase agreements with the obligation to repurchase or resell at maturity are recognised in the Financial Statements as loans and deposits. In particular, spot sale and forward repurchase transactions are recognised in the Financial Statements as debts for the spot amount, while spot purchase and forward resale transactions are recognised as loans for the spot amount.

For credit transactions completed at conditions lower than market, the initial recognition is carried out for an amount equal to the future cash flows discounted at a market rate. Any difference between the initial amount recognised and the actual amount disbursed is recorded in the income statement upon initial recognition.

Classification criteria

This category includes loans to customers and banks, provided both directly as well as acquired from third parties, involving fixed or definable payments, not listed on an active market and not originally classified as Financial assets available for sale.

Loans also comprise trade receivables, repurchase agreements, receivables from finance lease transactions and securities acquired through private subscription or placement, with fixed or definable payments and not listed on active markets.

Loans also include loans originating from factoring operations in relation to portfolio advances received with recourse, which continue to be recorded in the financial statements of the assignor. As for loans without recourse, these are included in the item loans, subject to prior verification of the absence of contractual clauses that significantly alter the assignee company's risk exposure.

Reclassifications to other categories of financial assets envisaged by IAS 39 are not permitted.

Measurement criteria

After their initial recognition, loans are measured at amortised cost, equal to the originally recognised value decreased/increased by capital repayments, impairment (losses)/reversals and amortisation - calculated with the effective interest rate method - of the difference between the amount disbursed and the amount repayable at maturity, typically attributable to the costs/revenues directly related to the individual loan. The

effective interest rate is determined by calculating the rate that equates the present value of future flows of the loan, in terms of capital and interest, to the amount disbursed, including costs/revenues related to the loan. This accounting method, which uses financial logic, distributes the economic effect of the costs/revenues throughout the expected residual life of the loan.

The amortised cost method is not used for loans whose short duration (within 12 months) makes the effect of the discounting principle negligible. Such loans are measured at historical cost. A similar measurement criterion is adopted for loans with undefined maturity date or which are valid until cancelled, whose costs/revenues are recorded in the income statement.

Loan recognition is carried out in order to identify loans which, following events that occurred after they were recorded, show objective evidence of a plausible impairment. Included in this scenario are loans with assigned status of bad loan, unlikely to pay or past due/over drawn, in accordance with the current regulations of Banca d'Italia, consistent with the IAS/IFRS regulations and European supervisory provisions.

With reference to the general concept of restructuring of loan exposures, three different types are identified:

- the renegotiations due to “commercial” reasons/practices, therefore other than the economic-financial difficulties of the debtor and granted at a market interest rate as of the negotiation date;
- the exposures subject to “concession” (as defined by the Banca d'Italia Circular 272, which correspond to the definitions contemplated by the TS – Implementing Technical Standards of the EBA - “forborne”) or those contracts in relation to which tolerance measures (forbearance) have been applied, such as concessions, change of the contract terms and/or refinancing of an existing debt for the debtor who is in financial difficulty. The “forborne” exposures may be found among the non-performing loan (non-performing exposures with forbearance measures) and performing loan (forborne performing exposures) categories. The forborne exposures are those in relation to which objective evidence of impairment losses exists;
- the discharge of the debt by means of the replacement of the debtor or swap of the debt with equity instruments. These events lead to an essential change in the contractual terms and from an accounting standpoint lead to the discharge of the pre-existing relationship and the consequent recognition at fair value of the new relationship, recognising a profit or loss to the income statement equal to the difference between the book value of the old loan and the fair value of the assets received.

The non-performing loans are the subject of an analytical measurement process and the value adjustment for each loan is equal to the difference between the book value of the same at the moment of measurement (amortised cost) and the present value of expected future cash flows, calculated by applying the original effective interest rate. The non-performing past due exposures are subject to an analytical assessment applying a forfeit percentage to each individual position determined on historical/statistical bases.

The expected cash flows take into account the expected recovery times, the presumable realisable value of any guarantees as well as the costs that will likely be sustained for recovery of the credit exposure. Cash flows relative to loans that are expected to be repaid in the short term (within 12 months) are not discounted.

The original effective rate of each loan is unvaried over time, even if there has been a restructuring of the agreement which has led to a change in the contractual rate and even if the loan becomes, in practice, contractually non-interest-bearing.

The value adjustment is recognised in the income statement.

The original value of the loans is restored in subsequent periods if the reasons that led to its adjustment cease to exist, as long as this measurement is objectively supported by an event that occurred subsequently to the actual adjustment. The write-back is recognised in the income statement, and may in no case exceed the amortised cost of the loan had there been no prior adjustments.

Performing loans are subject to a measurement of collective impairment. Said measurement occurs by categories of loans that are homogeneous in terms of credit risk, and the relative loss percentages are estimated by taking into consideration historical series, based on observable elements on the date of measurement, which enable the value of the latent impairment to be estimated for each category of loans. The measurement takes into account the level of risk associated with the counterparty's country of residence.

Collective write-downs envisage the use of the risk parameters deriving from internal models validated for the "Corporate" regulatory function and also replicated for the regulatory "Retail" function, for which work is being carried out for submission of the validation request. For all customers in the portfolio, in order to take into consideration the incurred loss concept, namely losses contained within the portfolio but which have not yet emerged, of the various parameters used, a Loss Confirmation Period was also considered; this parameter expresses the average delay between the deterioration of the financial situation of a debtor and the classification of the same under non-performing exposures.

For the "Corporate" regulatory function, a loss confirmation period of 180 days was adopted, while for the "Retail" regulatory function, a loss confirmation period of 12 months was adopted. The specific measurements of the above-mentioned parameters in terms of the loss confirmation period for the different types of counterparty (retail and corporate), were identified mainly on the basis of results that were also obtained through organisational controls, established as part of the credit process, such as for example the frequency with which loans are reviewed and credit control activities.

More specifically, these segments are also characterised by different economic/financial information. More specifically, as regards the "Retail" regulatory function, the same has low equity and income and its type of indebtedness is biased towards medium/long term. The observation of the above elements attributable in particular to the retail segment, led to the fine-tuning of the LCP parameter for this segment, updating it to 12 months, while at the same time confirming the organisational and credit controls already in place.

It is believed that the time horizon used for the valuation of the probability of default can approximate the notion of incurred loss, meaning loss based on current events which have not yet been taken into consideration by the company in revising a specific customer's risk level, which is required by the international accounting standards.

Collectively determined value adjustments are recorded in the income statement.

Derecognition criteria

Loans that are sold are derecognised from the assets in the Financial Statements only if the sale involved the transfer of all risks and benefits related to the loan. Conversely, if the risks and benefits related to the loans sold have been maintained, these continue to be recognised under the assets of the Financial Statements, even if legal ownership of the loan has effectively been transferred.

If it is not possible to ascertain the essential transfer of risks and benefits, the loans will be derecognised from the Financial Statements if no type of control has been maintained over them. Conversely, the maintenance of even partial control will result in keeping the loans in the Financial Statements in an amount equal to the residual involvement, measured by the exposure to changes in value of the loans sold and to variations in the cash flows of the same.

Lastly, transferred loans will be derecognised from the Financial Statements if the contractual right to receive the relative cash flows has been retained, with the simultaneous assumption of an obligation to pay said flows, and only said flows, to other third parties.

Furthermore, the integral elimination of the loans takes place when the same are considered to be unrecoverable or are written off entirely. The derecognitions, with regard to the portion exceeding the related provision, are booked directly to the item 130 a) "Net losses/recoveries on impairment of loans" in the income statement and are recognised as reducing the principal portion of the loans. Recoveries of part or of full amounts previously cancelled are recorded in this item.

Criteria for the recognition of income

Income is allocated to the relevant items of the income statement as follows:

- Interest income from loans and securities is allocated to the item “Interest income and similar revenues” on an accrual basis, based on the effective interest rate;
- The gains and losses from the disposal of loans and of securities are allocated to the item “Gains/(losses) on disposal/repurchase of loans”;
- Impairment losses, losses due to derecognition and reversals of loans and securities are allocated to the item “Net losses/recoveries on impairment of loans”.

Reversals of impairments related to the passing of time are recognised under reversals.

Financial assets measured at fair value

Recognition criteria

Financial instruments measured at fair value are initially recognised at cost, meaning the fair value of the instrument, without considering the transaction costs or revenues directly attributable to the instrument itself, that are recorded in the income statement.

Classification criteria

Financial assets to be measured at fair value are classified under this category when:

- the designation of fair value enables the elimination or removal of significant distortions in the accounting representation of financial instruments or between financial instruments and non-financial assets;
- or the management and/or valuation of a group of financial instruments at fair value through profit or loss is consistent with a risk management or investment strategy as reported to the company's management;
- or in the presence of an instrument containing an implicit derivative that significantly changes the cash flows of the host instrument and that must be separated.

Equity instruments that do not have a reliable fair value cannot be classified under this category.

Measurement criteria

Subsequent to their initial recognition, financial assets are measured at fair value.

The methods used for determining the fair value are outlined in Section 18 “Other information” of these explanatory notes to the consolidated financial statements.

Derecognition criteria

Financial assets are derecognised when the contractual rights on the cash flows from the assets themselves expire or when the financial asset is sold, essentially transferring all the risk/benefits related to it. Conversely, whenever a significant part of the risks and benefits related to the financial assets sold have been maintained, these continue to be recognised in the financial statements, even if legal ownership of the assets has effectively been transferred.

If it is not possible to ascertain the essential transfer of risks and benefits, the financial assets will be derecognised from the financial statements if no type of control has been maintained over them. Conversely, the maintenance of even partial control will result in keeping the assets in the financial statements at an amount equal to the residual involvement, measured by the exposure to changes in value of the assets sold and to variations in the cash flows of the same.

If the bank sells a financial asset classified in the above portfolio, the asset is derecognised at the date of its transfer (settlement date).

Securities received as part of a transaction that contractually envisages their subsequent sale and securities delivered as part of a transaction that contractually envisages their repurchase are not recorded in or written off the Financial Statements.

Lastly, transferred financial assets will be derecognised from the Financial Statements if the contractual right to receive the relative cash flows has been retained, with the simultaneous assumption of an obligation to pay said flows, and only said flows, to other third parties (see paragraph 19 IAS 39).

Criteria for the recognition of income

Interest income on securities is recorded on an accrual basis in the income statement items relating to interest. Profits and losses arising from changes in the fair values of financial assets and liabilities and from their sale and redemption are recognised under the item “Net profit (loss) from financial assets and liabilities measured at fair value”.

Liabilities and debt securities issued

Recognition criteria

The initial recognition of said financial liabilities occurs upon collection of the amounts or issue of the debt securities.

The recognition is carried out on the basis of fair value of the liabilities, normally equal to the amount collected or issue price, adjusted by any costs/revenues directly attributable to the single collection or issue transaction and not reimbursed by the creditor counterparty. Internal administrative costs are excluded.

Classification criteria

“Deposits from banks”, “Deposits from customers” and “Debt securities issued” include the various forms of inter-bank and customer funding, repurchase agreements with the obligation to repurchase at maturity, provisions collected via outstanding certificates of deposit and bonds (net of any amounts repurchased) and other outstanding funding instruments not classified under financial liabilities measured at fair value.

Measurement criteria

After the initial recording, financial liabilities are measured at amortised cost using the effective interest rate method.

Short-term liabilities (within 12 months), for which the time factor is negligible, are an exception to this, and they remain recognised at the value collected, with any costs attributed to the income statement.

Derecognition criteria

Financial liabilities are derecognised from the financial statements when they expire or are paid off.

Derecognition occurs even upon repurchase of previously issued securities. The difference between book value of the liability and the amount paid to purchase it is recognised in the income statement.

The re-placement of securities on the market following their repurchase is considered a new issue, with recognition of a new issue price, without any impact on the income statement.

Criteria for the recognition of income

Income is allocated to the relevant items of the income statement as follows:

- interest expenses are allocated to the item “Interest expenses and similar charges” based on the effective interest rate;
- the gains and losses from the repurchase of liabilities are allocated to the item “Gains/(losses) on disposal or repurchase of financial liabilities”.

Financial liabilities held for trading

Recognition and derecognition criteria

The same recognition and derecognition criteria used for financial assets held for trading (previous Section 1 - Financial assets held for trading) are applied with the suitable adjustments.

Classification criteria

This item includes the negative value of derivatives trading contracts measured at fair value and liabilities, also measured at fair value, that arise from technical overdrafts generated by securities trading.

Measurement criteria

The same measurement criteria used for financial assets held for trading (previous Section 1 - Financial assets held for trading) are applied with the suitable adjustments.

Criteria for the recognition of income

The same recognition criteria of income are applied, with the appropriate adjustments, as those to the income for financial assets held for trading (Section 1 above - Financial assets held for trading).

Financial liabilities measured at fair value

Recognition criteria

Financial instruments measured at fair value are initially recognised at cost, meaning the fair value of the instrument, without considering the transaction costs or revenues directly attributable to the instrument itself, that are recorded in the income statement.

Classification criteria

Liabilities to be measured at fair value through profit and loss are classified under this category when:

- the designation of fair value enables the elimination or removal of significant distortions in the accounting representation of the instruments;
- or the management and/or valuation of a group of financial instruments at fair value through profit or loss is consistent with a risk management or investment strategy as reported to the company's management;
- or in the presence of an instrument containing an implicit derivative that significantly changes the cash flows of the host instrument and that must be separated.

Measurement criteria

Subsequent to their initial recognition, financial liabilities are measured at fair value.

The methods used for determining the fair value are outlined in Section 18 "Other information" of these explanatory notes to the consolidated financial statements.

Derecognition criteria

Financial liabilities are derecognised when they are extinguished or when the obligation specified in the contract is fulfilled, removed or has expired. Derecognition occurs even upon repurchase of previously issued securities. The difference between book value of the liability and the amount paid to purchase it is recognised in the income statement.

The re-placement of securities on the market following their repurchase is considered a new issue, with recognition of a new issue price, without any impact on the income statement.

Criteria for the recognition of income

Interest income on securities is recorded on an accrual basis in the income statement items relating to interest. Profits and losses arising from changes in the fair values of financial liabilities and the profits and losses resulting from their sale and redemption are recognised under the item "Net profit (loss) from financial assets and liabilities measured at fair value" in the income statement.

In particular, if the fair value of the financial instruments issued initially corresponds to the sale price, the profit or loss generated following the subsequent revaluation is recognised in full in the income statement.

A.3 DISCLOSURE OF TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

Following the adoption of IFRS 9, the Credem Group did not make any changes to the business model for the management of its financial assets and, therefore, no transfers between portfolios of financial assets were made. The general rules established by IFRS 9 on the reclassification of financial assets (with the exception of equity securities, for which no reclassification is allowed), do not allow reclassifications of financial assets to other categories, unless the company changes its business model for the management of these financial assets. These changes are expected to be extremely uncommon and must be decided by management following significant external or internal changes that are demonstrable to external parties.

A.4 FAIR VALUE DISCLOSURE

Qualitative information

A.4.1 - Fair value level 2 and 3: measurement techniques and inputs used

The measurement techniques used for Level 2 and 3 financial instruments are as follows:

- Financial assets: measurement of structured instruments using the discounted cash flow model for the bond component with a rate adjusted to reflect the appropriate credit risk, and the Black & Scholes model for the share component;
- Financial liabilities: measurement of plain vanilla instruments using the discounted cash flow model, considering a rate adjusted to reflect the credit risk of Credito Emiliano on maturity of the instrument.

The definition of the models used is briefly illustrated below:

1. Discounted Cash Flow

The discounted cash flow model is used to value an investment, based on the discounting process, which enables the present value of capital, which naturally matures at a future date to be established today by applying a discount rate. The discount rate is adjusted for the credit risk of future cash flows expected from the asset in question. The algebraic sum of the discounted flows represents the net present value of the instrument.

The parameters used in the valuation technique are: rate curve and credit spread of each issue.

2. Black & Scholes model

The univariate Black & Scholes model (BS) is the most famous and recognised option pricing model on the market. The model is based on the possibility of creating a portfolio corresponding to the option, comprised in part by units of the underlying instrument and in part by risk-free bonds both influenced by the same source of uncertainty given by changes in the price of the stock. The assumptions underlying the Black & Scholes model are represented by the trend in prices for the underlying asset (approximated by a log-normal process), the presence of a perfectly efficient market, the interest rate and the volatility of the underlying constant for the entire duration of the option.

The parameters used in the valuation technique are the interest rate, the value and the volatility of the underlying asset.

At 31 December 2022, all of the parameters used in the valuation techniques were observable, showing fair value levels of 2 for mark-to-model instruments.

More specifically:

- the interest rates were extrapolated from the zero curve obtained from market quotations of similar instruments;
- the credit spreads for the Credito Emiliano component were obtained from market quotations of comparable issues;
- the values of underlying assets were obtained from market quotations;
- the volatility of the underlying asset was obtained from market quotations, in the light of the short-term nature of the stock component.

The models and the parameters used in the valuation techniques are detailed and regulated in the Technical Appendix to the Group's Fair Value Policy: "Credem rules to apply to the Group Fair Value Policy" and "Manual of pricing models".

A.4.2 Measurement processes and sensitivity

The valuation of instruments not traded on active markets is conducted using a Mark to Model technique, which seeks to maximise the use of observable data on the market. If the parameters are not available or not directly observable, fair value Level 3 is allocated.

At 31 December 2022, no financial derivative was measured using the Mark to Model technique by means of market parameters that were not directly observable.

A.4.3 Fair value hierarchy

Transfers between levels of the fair value hierarchy

The fair value hierarchy attributes maximum priority to the prices listed (non-adjusted) on active markets for identical assets or liabilities (Level 1 data) and minimum priority to non-observable inputs (Level 3 data).

The following levels are used for the classifications shown below in these Explanatory Notes to the consolidated financial statements:

- “Level 1”: the fair value of financial instruments is calculated on the basis of listed prices observable on active markets (non-adjusted) that may be accessed on the valuation date;
- “Level 2”: the fair value of financial instruments is calculated on the basis of inputs other than the listed prices included in Level 1 directly or indirectly observable for the asset or liability, also using valuation techniques;
- “Level 3”: the fair value of financial instruments is calculated on the basis of non-observable inputs for the asset or liability, also using valuation techniques.

Allocating levels entails checking, for each instrument held in own portfolios, for a possible potential active market, in line with several valuation rules. More specifically, an assessment is carried out to ensure that the contributions are continuous, contained in the delta spread bid ask, indicative of possible recent transactions and therefore not dragged, and that the issuer is solid and active.

Failure to comply with these rules will result in a lower level being allocated, which is more coherent and representative of the instrument’s fair value.

Similarly, the analysis is conducted also when verifying the potential resumption of an active market for the instruments, for which, over time, have resumed a steady valuation on regulated or non-regulated markets.

A.4.4 Other information

The fair value hierarchy attributes maximum priority to the prices listed (non-adjusted) on active markets for identical assets or liabilities (Level 1 data) and minimum priority to non-observable inputs (Level 3 data). Fair value levels are allocated every quarter on the reference accounting dates based on the verification of the presence of a principal or more advantageous market in the period of time prior to the reference accounting date. Several principles are checked, needed to establish the presence of an active market for each financial instrument identified by the availability of continuous, executable valuations, with contained bid-ask spreads.

The fulfilment of these conditions determines the fair value of the instrument analysed. If market quotations are not present, the valuation techniques are used on each accounting date, maximising the use of relevant observable inputs and minimising the use of non-observable inputs. Checking these input parameters based on availability determines the fair value level of the instrument.

At the reporting date, a comparative analysis of the fair value levels is also conducted, with respect to the previous quarter and the beginning of the year in question, with a view to identifying fair value level transfers that took place during the course of the year in question and the circumstances that triggered such transfer.

Quantitative information

A.4.5 Fair value hierarchy

A.4.5.1 Financial assets and liabilities measured at fair value on a recurring basis: breakdown by fair value levels

Assets/liabilities measured at fair value	31/12/2022			31/12/2021		
	L1	L2	L3	L1	L2	L3
1. Financial assets measured at fair value through profit or loss	19,615	37,086	52,547	16,727	41,173	24,463
a) financial assets held for trading	19,052	35,885	23	16,214	41,173	2,583
b) financial assets designated at fair value	-	-	-	-	-	-
c) Other financial assets measured at fair value, as per mandatory requirements	563	1,201	52,524	513	-	21,880
2. Financial assets measured at fair value through other comprehensive income	6,162,875	4,697	31,578	6,553,824	2,859	36,500
3. Hedging derivatives	-	1,090,239	-	-	211,101	-
4. Property, plant and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	6,182,490	1,132,022	84,125	6,570,551	255,133	60,963
1. Financial liabilities held for trading	-	36,257	-	-	33,148	-
2. Financial liabilities measured at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	874,058	-	-	408,084	-
Total	-	910,315	-	-	441,232	-

With reference to assets measured at fair value on a recurring basis at 31 December 2022, the instruments valued according to the most advantageous market (fair value level 1) and/or according to measurement techniques based on observable parameters (fair value level 2) represented 99.79% of total assets measured at fair value (a stable value with respect to the corresponding figure for 2021 of 99.44%).

The instruments measured using valuation techniques based mainly on non-observable parameters regarded a residual part of total assets measured at fair value (0.21%), in line with the figure for 2021 of 0.56%.

A.4.5.2 Annual changes in financial assets measured at fair value on a recurring basis (level 3)

	Financial assets measured at fair value with impact on the income statement				Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Property, plant and equipment	Intangible assets
	Total	of which: a) financial assets held for trading	of which: b) financial assets measured at fair value	of which: c) other financial assets measured at fair value, as per mandatory requirements				
1. Opening balances	24,463	2,583	-	21,880	36,500	—		
2. Increases	36,545	64	-	36,481	925	—		
2.1. Purchases	36,107	58	-	36,049	-	---		
2.2. Profits recognised in:	434	2	-	432	925	---		
2.2.1. Income Statement	434	2	-	432	-	---		
- of which gains	336	-	-	336	-	---		
2.2.2. Shareholders' equity	-	X	X	X	925	---		
2.3. Transfers from other levels	-	-	-	-	-	---		
2.4. Other increases	4	4	-	-	-	---		
3. Decreases	8,461	2,624	-	5,837	5,847	---		
3.1. Sales	349	235	-	114	-	---		
3.2. Refunds	4,490	2,079	-	2,411	-	---		
3.3. Losses recognised in:	1,886	47	-	1,839	2,437	---		
3.3.1. Income Statement	1,886	47	-	1,839	-	---		
- of which capital losses	423	47	-	376	-	---		
3.3.2. Shareholders' equity	-	X	X	X	2,437	---		
3.4. Transfers from other levels	1,473	-	-	1,473	3,320	---		
3.5. Other decreases	263	263	-	-	90	---		
4. Closing balance	52,547	23	-	52,524	31,578	—		

Instruments attributed a fair value level of 3 are defined as illiquid, are not valued very often over time and the status of the instrument or more generally of the issuer on the valuation date means that the recovery of an active status on the market is not considered possible. Item 2.1 "Purchases" reports:

- financial assets measured at fair value through profit and loss: three bonds

3.1 "Sales" includes:

- financial assets measured mandatorily at FV through profit and loss: a fund;
- financial assets valued at fair value through profit and loss: two bonds.

The annual changes to and from Level 3 at 31/12/2022 do not show transfers to and from Level 3 for both the decreases and increases sections for all accounting classifications (financial assets compulsorily valued at FV through profit and loss, financial assets valued at FV through profit and loss and financial assets valued at FV through other comprehensive income).

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

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	31/12/2022				31/12/2021			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets measured at amortised cost	43,831,210	7,153,286	575,500	34,547,315	49,137,481	6,503,782	618,020	42,861,918
2. Property, plant and equipment held for investment purposes	5,154	-	-	9,118	5,128	-	-	10,058
3. Non-current assets and groups of assets held for sale and discontinued operations	-	-	-	-	5,807	-	-	5,807
Total	43,836,364	7,153,286	575,500	34,556,433	49,148,416	6,503,782	618,020	42,877,783
1. Financial liabilities measured at amortised cost	50,883,109	3,120,826	2,539,277	45,149,065	52,726,659	2,470,565	7,251,882	43,050,761
2. Liabilities included in disposal group classified as HFS	-	-	-	-	7,890	-	-	7,890
Total	50,883,109	3,120,826	2,539,277	45,149,065	52,734,549	2,470,565	7,251,882	43,058,651

A.5 - Information on “day one profit/loss”

The profit related to the issue of bonds, determined by the difference between the amount received and the fair value of the instrument, is recorded in the income statement on the issue date in all cases in which said fair value is measured using valuation techniques that use market-observable parameters.

The IFRS 9 standard provides that the initial recognition of financial instruments should be made at fair value. Usually, the fair value of a financial instrument at the date of initial recognition in the financial statements corresponds to the “transaction price”; in other words, at the cost or the amount paid for the financial assets or the sum received for financial liabilities.

The statement that, at the time of initial recognition in the financial statements, the fair value of a financial instrument corresponds to the transaction price is intuitively always the case for transactions in “Level 1” of the fair value hierarchy.

Also in the case of “Level 2”, which is based on prices derived indirectly from the market (comparable approach), in the vast majority of cases, at the time of initial recognition, fair value and price substantially correspond. Any differences between price and fair value are usually attributed to sales margins.

In the case of “Level 3”, however, the measurement of the instrument is partially at the discretion of the operator and, therefore, due to the higher degree of subjectivity in the calculation of the fair value, there is no clear term of reference to compare with the transaction price. For this reason, IFRS 9 prohibits that any initial difference between the transaction price and the internal estimate of fair value may immediately be booked to the income statement in a single amount. Therefore, in this case, the initial recognition must always be made at the transaction price. The subsequent valuation may not include the difference between the price and the fair value established at the time of initial valuation - namely the implicit Day-One-Profit (DOP) or Day-One-Loss (DOL), which instead must be booked to the income statement only if it results from changes of the factors on which market participants base their valuations to set prices (including the time effect). Where the instrument has a defined maturity and a model to monitor changes in the factors on which operators base their prices is not immediately available, the transit of the DOP/DOL to the income statement is permitted in a linear manner for the duration of the same financial instrument.

Therefore, the accounting policy followed provides that:

- any implicit DOP/DOL in “Level 2” instruments is immediately and entirely booked to the Income Statement;
- instead, any implicit DOP/DOL in “Level 3” instruments is sterilised and booked to the Income Statement on a “pro-rata temporis” basis (linearly) for the residual duration of said instruments;
- in the event an instrument classified as “Level 3” in the fair value hierarchy is reclassified as Level 2, the residual suspended DOP/DOL, are booked to the Income Statement in a single amount.

At 31 December 2022, there were no amounts that were still to be recorded in the income statement on a “pro-rata temporis” basis, or for the residual duration of the contract.

PART B

INFORMATION ON THE CONSOLIDATED BALANCE SHEET

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	174,505	151,920
b) Current accounts and demand deposits with central banks	3,100,000	-
c) Bank accounts and demand deposits	83,206	79,035
Total	3,357,711	230,955

The Group has liquid assets deposited with the Central Bank amounting to € 3.1 billion.

Section 2 – Financial assets measured at fair value through profit or loss – Item 20

2.1 Financial assets held for trading: breakdown

Items/Balances	Total 31/12/2022			Total 31/12/2021		
	L1	L2	L3	L1	L2	L3
A. Balance sheet assets						
1. Debt securities	16,377	1	-	16,214	2,356	-
1.1 Structured securities	9,489	1	-	7,534	2,356	-
1.2 Other debt securities	6,888	-	-	8,680	-	-
2. Equity securities	2,139	-	-	-	139	-
3. Units of UCITS	536	-	23	-	-	2,320
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total (A)	19,052	1	23	16,214	2,495	2,320
B. Derivatives						
1. Financial derivatives	-	35,884	-	-	38,678	263
1.1 trading	-	35,884	-	-	38,678	263
1.2 related to fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 trading	-	-	-	-	-	-
2.2 related to fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total (B)	-	35,884	-	-	38,678	263
Total (A+B)	19,052	35,885	23	16,214	41,173	2,583

Key:

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

The breakdown of item 3 “Units of UCITS” is as follows:

	Total 31/12/2022	Total 31/12/2021
Hedge Fund	-	2,255
Equity	559	65
Total	559	2,320

2.2 Financial assets held for trading: breakdown by debtor/issuer/counterparty

Items/Balances	Total 31/12/2022	Total 31/12/2021
A. Balance sheet assets		
1. Debt securities	16,379	18,571
a) Central Banks	-	-
b) Public administration	5,519	9,204
c) Banks	2,270	1,751
d) Other financial companies	868	526
of which: insurance companies	-	-
e) Non-financial companies	7,722	7,090
2. Equity securities	2,140	139
a) Banks	321	-
b) Other financial companies	694	-
of which: insurance companies	427	-
c) Non-financial companies	1,125	139
d) Other issuers	-	-
3. Units of UCITS	559	2,320
4. Loans	-	-
a) Central Banks	-	-
b) Public administration	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total (A)	19,078	21,030
B. Derivatives		
a) Central Counterparties	-	-
b) Other	35,884	38,941
Total (B)	35,884	38,941
Total (A+B)	54,962	59,971

In compliance with the provisions of IFRS 7 and taking into account the indications contained in Consob Communication no. DEM/11070007 of 5 August 2011 (which refers to document ESMA no. 2011/266 of 28 July 2011) regarding disclosures to be made in financial reports regarding "sovereign debt", it should be noted that, at 31 December 2022, there were government bond exposures to Italy Treasury for € 5.1 million and approximately € 0.4 million to other countries. These positions, classified as trading in the accounts, are traded on behalf of institutional customers.

Reference should be made to Section 3 of these Explanatory Notes for securities held in the "Financial assets measured at fair value through other comprehensive income" portfolio.

2.5 Other financial assets measured at fair value, as per mandatory requirements: breakdown

Items/Balances	Total 31/12/2022			Total 31/12/2021		
	L1	L2	L3	L1	L2	L3
1. Debt securities	-	-	9	-	-	9
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	9	-	-	9
2. Equity securities	-	-	-	-	-	-
3. Units of UCITS	375	1,201	8,752	336	-	7,430
4. Loans	188	-	43,763	177	-	14,441
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	188	-	43,763	177	-	14,441
Total	563	1,201	52,524	513	-	21,880

Key:

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

The breakdown of item 3 “Units of UCITS” is as follows:

	Total 31/12/2022	Total 31/12/2021
Closed-end funds	8,454	5,547
Equity	24	29
Real estate	1,201	1,473
Bonds	151	84
Balanced	126	72
Flexible	73	151
Other	299	410
Total	10,328	7,766

2.6 Other financial assets measured at fair value, as per mandatory requirements: breakdown by debtor/issuer

	Total 31/12/2022	Total 31/12/2021
1. Equity securities	-	-
of which: banks	-	-
of which: other financial companies	-	-
of which: non-financial companies	-	-
2. Debt securities	9	9
a) Central banks	-	-
b) Public administration	-	-
c) Banks	-	-
d) Other financial companies	9	9
of which: insurance companies	-	-
e) Non-financial companies	-	-
3. Units of UCITS	10,328	7,766
4. Loans	43,951	14,617
a) Central banks	-	-
b) Public administration	-	-
c) Banks	-	-
d) Other financial companies	12,609	13,139
of which: insurance companies	12,609	13,139
e) Non-financial companies	30,529	177
f) Households	813	1,301
Total	54,288	22,392

The units of mutual funds (UCITS) and certain loans to customers were reclassified into this category as a result of failing the SPPI test.

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

Items/Balances	Total 31/12/2022			Total 31/12/2021		
	L1	L2	L3	L1	L2	L3
1. Debt securities	6,156,575	2,897	-	6,553,263	-	3,320
1.1 Structured securities	814,923	2,897	-	722,919	-	3,320
1.2 Other debt securities	5,341,652	-	-	5,830,344	-	-
2. Equity securities	6,300	1,800	31,578	561	2,859	33,180
3. Loans	-	-	-	-	-	-
Total	6,162,875	4,697	31,578	6,553,824	2,859	36,500

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

In 2021, Credemtel participated in the share capital increase of the company S-Invest S.r.l., an Italian company that will use the funds collected to subscribe to the convertible loan of a Swiss company called Sonect AG. The financial asset in question is held according to a business model whose objective is achieved through the collection of contractually envisaged cash flows and through selling ("Hold to Collect and Sell - HTCS" business model).

For the purposes of the impairment test, the latest available financial statements were used, which show a significant loss and negative shareholders' equity. Since Sonect AG is a start-up company and it is not possible to make forecasts on a return to profit in the short term, the adjusted equity of S-Invest could not be considered sufficiently substantial, resulting in an impairment loss of € 200 thousand on the equity investment held by Credemtel.

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

Items/Balances	Total 31/12/2022	Total 31/12/2021
1. Debt securities	6,159,472	6,556,583
a) Central banks	-	-
b) Public administration	4,205,116	4,664,998
c) Banks	1,058,610	966,397
d) Other financial companies	254,034	328,675
of which: insurance companies	-	-
e) Non-financial companies	641,712	596,513
2. Equity securities	39,678	36,600
a) Banks	23,468	24,775
b) Other issuers:	16,210	11,825
- other financial companies	13,306	8,923
of which: insurance companies	-	-
- non-financial companies	2,902	15,747
- other	-	26
3. Loans	-	-
a) Central banks	-	-
b) Public administration	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	6,199,150	6,593,183

In compliance with the provisions of IFRS 7 and taking into account the indications contained in Consob Communication no. DEM/11070007 of 5 August 2011 (which refers to document ESMA no. 2011/266 of 28 July 2011) regarding disclosures to be made in financial reports regarding “sovereign debt”, note the following:
The portfolio “Financial assets measured at fair value through other comprehensive income” has exposures in the following foreign government bonds: Spain for € 907.9 million, Portugal for € 69.9 million, Belgium for € 384.5 million, France for € 419.8 million and U.S. Treasury for € 1,825.2 million. The portfolio also includes bonds amounting to around € 311.7 million, issued by the European Union, and € 12.9 million issued by the European Financial Stability Facilities. As regards Italian government bonds, the exposure is around € 247.0 million of BTP and € 26.1 million of CCT.

There are fair value hedges on fixed-rate Italian Government bonds (BTP) and foreign Government bonds, as well as on fixed-rate bonds (senior unsecured and covered bonds) issued by leading European credit institutions. The latter are fair value hedges, carried out through the implementation of suitable hedging instruments (interest rate swaps) to specifically hedge the “interest rate risk” of said securities; the relationship created between Hedged Item and Hedging Instrument led to the preparation of a specific document that formalises the hedging relationship and also entailed the application of special Hedge Accounting rules. Note that tests of effectiveness were conducted (both prospective and retrospective) with a positive outcome.

3.3 Financial assets measured at fair value through other comprehensive income: gross value and overall value adjustments

	Gross value					Overall value adjustments				Total partial write-offs
	Stage 1	of which: Instruments with low credit risk	Stage 2	Stage 3	Purchased or originated credit impaired	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired	
Debt securities	6,161,049	41,269	-	-	-	1,577	-	-	-	-
Loans	-	-	-	-	-	-	-	-	-	-
Total 31/12/2022	6,161,049	41,269	-	-	-	1,577	-	-	-	-
Total 31/12/2021	6,558,331	62,799	-	-	-	1,746	-	-	-	-

The gross value and the overall value adjustments of impaired financial assets include contractual interest accrued.

Section 4 – Financial assets measured at amortised cost – Item 40

4.1 Financial assets measured at amortised cost: breakdown of loans to banks

Type of transaction/Amounts	Total 31/12/2022						Total 31/12/2021					
	Book value			Fair value			Book value			Fair value		
	Stage 1 and 2	Stage 3	Purchased or originated credit impaired	L1	L2	L3	Stage 1 and 2	Stage 3	Purchased or originated credit impaired	L1	L2	L3
A. Loans to Central Banks	280,694	-	-	-	-	280,694	7,720,849	-	-	-	-	7,720,849
1. Deposits with a set term	-	-	-	X	X	X	-	-	-	X	X	X
2. Mandatory reserve	280,694	-	-	X	X	X	7,720,849	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4) Other	-	-	-	X	X	X	-	-	-	X	X	X
B. Loans to banks	1,206,700	-	-	486,952	11,766	693,579	1,228,038	-	-	537,433	16,332	683,789
1. Loans	693,294	-	-	-	-	693,579	683,788	-	-	-	-	683,789
1.1 Bank accounts	-	-	-	X	X	X	-	-	-	X	X	X
1.2. Deposits with a set term	-	-	-	X	X	X	-	-	-	X	X	X
1.3. Other loans:	693,294	-	-	X	X	X	683,788	-	-	X	X	X
- Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
- Loans for leases	206	-	-	X	X	X	243	-	-	X	X	X
- Other	693,088	-	-	X	X	X	683,545	-	-	X	X	X
2. Debt securities	513,406	-	-	486,952	11,766	-	544,250	-	-	537,433	16,332	-
2.1 Structured securities	148,998	-	-	137,217	11,766	-	136,804	-	-	139,253	-	-
2.2 Other debt securities	364,408	-	-	349,735	-	-	407,446	-	-	398,180	16,332	-
Total	1,487,394	-	-	486,952	11,766	974,273	8,948,887	-	-	537,433	16,332	8,404,638

Key:

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

Operating loans associated with the provision of financial services have been included.

Loans, with the exception of debt securities, are recognised at their nominal value, corresponding to their fair value and the fair value level attributed is 3.

The methods used for determining the fair value are outlined in Part A1 - General criteria - Section 18 "Other information".

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

Type of transaction/Amounts	Total 31/12/2022						Total 31/12/2021					
	Book value			Fair value			Book value			Fair value		
	Stage 1 and 2	Stage 3	Purchased or originated credit impaired	L1	L2	L3	Stage 1 and 2	Stage 3	Purchased or originated credit impaired	L1	L2	L3
1. Loans	34,156,005	304,765	22,439	-	-	33,557,798	32,775,051	349,567	30,954	-	-	34,457,280
1.1. Bank accounts	1,955,412	26,328	1,354	X	X	X	1,693,949	36,514	2,468	X	X	X
1.2. Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
1.3. Mortgages	19,858,860	207,016	12,869	X	X	X	19,477,919	233,194	21,988	X	X	X
1.4. Credit cards and personal loans, incl. fifth-of-salary backed loans	2,778,147	25,349	7,859	X	X	X	2,212,784	27,229	5,226	X	X	X
1.5. Loans for leases	2,919,787	34,895	-	X	X	X	2,756,796	39,126	-	X	X	X
1.6. Factoring	1,531,598	6,328	-	X	X	X	1,281,505	9,153	-	X	X	X
1.7. Other loans	5,112,201	4,849	357	X	X	X	5,352,098	4,351	1,272	X	X	X
2. Debt securities	7,860,605	-	-	7,153,286	575,500	15,244	7,033,022	-	-	6,503,782	618,020	-
2.1. Structured securities	612,075	-	-	169,163	417,356	15,244	633,272	-	-	187,817	445,062	-
2.2. Other debt securities	7,248,530	-	-	6,984,123	158,144	-	6,399,750	-	-	6,315,965	172,958	-
Total	42,016,610	304,765	22,439	7,153,286	575,500	33,573,042	39,808,073	349,567	30,954	6,503,782	618,020	34,457,280

Loans to customers amounted to € 34.483,2 million.

The portfolio of “Financial assets measured at amortised cost” includes exposures in government bonds for approximately € 6,450.4 million (€ 5,771.3 million Italy, BTPs for € 5,603.7 million and CCts for € 167.6 million, € 630.9 million other countries, € 346.7 million Spain and € 284.2 million Portugal, as well as bonds issued by the European Union for approximately € 558.8 million).

There are fair value hedges on fixed-rate Italian Government bonds (BTP) and on foreign Government bonds. The latter are fair value hedges, carried out through the implementation of suitable hedging instruments (interest rate swaps) to specifically hedge the “interest rate risk” of said securities; the relationship created between Hedged Item and Hedging Instrument led to the preparation of a specific document that formalises the hedging relationship and also entailed the application of special Hedge Accounting rules. Note that tests of effectiveness were conducted (both prospective and retrospective) with a positive outcome.

At 31 December 2022, the “Financial assets measured at amortised cost” category also includes € 608 million in ABS issued by third party special purpose entities linked to loans originated in Europe, with preponderance of the component of French origination (€ 195.2 million). The portfolio consists of different types of ABS with a prevalence of residential mortgage securitisations, which account for 43,4%.

Current exposure broken down by country risk is as follows:

Country	Amount (€/thousands)	Exposure %
FRANCE	195,173	32.1
GERMANY	167,188	27.5
NETHERLANDS	104,813	17.2
SPAIN	74,729	12.3
ITALY	42,159	7.0
IRELAND	22,650	3.7
UNITED KINGDOM	797	0.1
PORTUGAL	634	0.1
TOTAL	608,143	100.0

The securitisation portfolio is diversified over 28 issuers and 38 issues, with maximum concentration of € 45.9 million per single issue, and € 72.1 million per single issuer.

The Macro Fair Value Hedge accounting method was also adopted to hedge interest rate risk associated with the disbursement of fixed rate mortgages and of floating rate mortgages with Cap options. There are also cash flow hedges on floating-rate mortgages.

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

Type of transaction/Amounts	Total 31/12/2022			Total 31/12/2021		
	Stage 1 and 2	Stage 3	Purchased or originated credit impaired assets	Stage 1 and 2	Stage 3	Purchased or originated credit impaired assets
1. Debt securities	7,860,604	-	-	7,033,022	-	-
a) Public administration	6,960,977	-	-	6,084,323	-	-
b) Other financial companies	851,806	-	-	939,859	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	47,821	-	-	8,840	-	-
2. Loans to:	34,156,006	304,764	22,439	32,775,054	349,568	30,954
a) Public administration	700,907	3,069	-	643,199	4,630	-
b) Other financial companies	469,800	59	1,769	728,686	94	2,690
of which: insurance companies	24,798	-	-	7,467	-	-
c) Non-financial companies	17,312,865	114,308	8,843	16,593,338	117,510	15,282
d) Households	15,672,434	187,328	11,827	14,809,831	227,334	12,982
Total	42,016,610	304,764	22,439	39,808,076	349,568	30,954

4.4 Financial assets measured at amortised cost: gross value and overall value adjustments

	Gross value					Overall value adjustments				Total partial write-offs
	Stage 1	of which: Instruments with low credit risk	Stage 2	Stage 3	Purchased or originated credit impaired	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired	
Debt securities	8,378,465	36,072	-	-	-	4,453	-	-	-	-
Loans	32,921,869	261,780	2,295,037	713,601	25,248	43,787	43,126	408,837	2,808	13,996
Total 31/12/2022	41,300,334	297,852	2,295,037	713,601	25,248	48,240	43,126	408,837	2,808	13,996
Total 31/12/2021	46,932,051	1,076,444	1,912,479	788,418	32,312	46,833	40,739	438,850	1,357	7,824

IFRS 9 requires financial assets measured at amortised cost to be classified in three stages, in order of increasing deterioration in creditworthiness; these categories are associated with progressively more severe measurements of impairment.

The gross value and the overall value adjustments of impaired financial assets include contractual interest accrued.

4.4a Loans valued at amortised cost subject to COVID-19 support measures: gross value and total value adjustments

	Gross value					Overall value adjustments				Total partial write-offs*
	Stage 1	of which: Instru- ments with low credit risk	Stage 2	Stage 3	Purchase d or originated credit impaired	Stage 1	Stage 2	Stage 3	Purchase d or originated credit impaired	
1. Loans subject to forbearance compliant with the GLs	-	-	-	-	-	-	-	-	-	-
2. Loans subject to current moratorium measures no longer complying with the GL and not assessed as	985	-	385	416	-	2	17	60	-	-
3. Loans subject to other forbearance measures	-	-	7,956	2,994	49	-	292	1,058	-	-
4. New loans	2,797,808	44,573	230,242	47,284	393	2,184	629	16,444	36	-
Total 31/12/2022	2,798,793	44,573	238,583	50,694	442	2,186	938	17,562	36	-
Total 31/12/2021	3,715,146	192,825	447,290	37,596	1,832	4,125	5,665	8,709	34	-

This table shows the details of the gross value and of the total value adjustments broken down by risk stage and for “purchased or originated credit impaired”, as well as the disclosure on the total partial write-offs for the loans, subject to moratoria or other forbearance measures in place at the date of reference of the financial statements, or that constitute new liquidity granted through public guarantee mechanisms.

The line “Loans subject to forbearance compliant with the GLs” shows information on financial assets subject to moratoriums that fall within the scope of the “Guidelines on legislative and non-legislative moratoria on loan repayments applied in light of the COVID-19 crisis” published by the EBA (EBA/GL/2020/02) and subsequent amendments and additions.

The line “Outstanding loans subject to moratorium measures that are no longer in compliance with GL and are not assessed as forborne exposure” contains only those outstanding loans subject to moratorium measures that were assessed as being in compliance with EBA/GL/2020/02 at the date the measure was granted and were no longer in compliance at the balance sheet date and were not classified by the bank as “forborne exposures” (as defined by existing supervisory reporting) based on the assessment made upon the occurrence of the event that generated the non-compliance with EBA/GL/2020/02.

The row “Loans subject to other forbearance measures” contains information on loans subject to COVID-19 support measures that meet the conditions for “forborne exposure” as defined by existing supervisory reporting and that are not included in the “Loans subject to forbearance compliant with the GLs” category at the date on which the measure was granted or at the date on which they no longer comply with EBA/GL/2020/02.

The line “New loans” includes, inter alia, the financial assets recognised as a result of forbearance measures that led to a refinancing with derecognition of the original asset and the recognition of a new loan, or a restructuring of several debts with the recognition of a new loan in the financial statements.

Section 5 – Hedging derivatives – Item 50

5.1 Hedging derivatives: breakdown by hedging type and fair value hierarchy

	FV 31/12/2022			NV 31/12/2022	FV 31/12/2021			NV 31/12/2021
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives								
1. Fair value	-	1,090,239	-	16,552,179	-	176,323	-	12,496,150
2. Cash flows	-	-	-	-	-	34,778	-	1,392,039
3. Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives								
1. Fair value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
Total	-	1,090,239	-	16,552,179	-	211,101	-	13,888,189

Key:

NV = notional value L1

= Level 1

L2 = Level 2

L3 = Level 3

5.2 Hedging derivatives: breakdown by hedged portfolios and type of hedge

Transaction/Type of hedge	Fair Value							Cash flow		Foreign investm ents
	Micro hedge						Macro hedge	Micro hedge	Macro hedge	
	debt securities and interest rates	equity securities and stock indices	currencies and gold	credit	commo dities	other				
1. Financial assets measured at fair value with impact on comprehensive income	611,921	-	-	-	X	X	X	-	X	X
2. Financial assets measured at amortised cost	267,880	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	208,081	X	-	X
4. Other transactions	--	-	-	-	-	-	X	-	X	-
Total assets	879,801	-	-	-	-	-	208,081	-	-	-
1. Financial liabilities	-	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	2,357	X	-	X
Total liabilities	-	-	-	-	-	-	2,357	-	-	
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	X	-	X	-	-

The Macro Fair Value Hedge accounting method was adopted to hedge interest rate risk associated with customers' demand deposits.

Customers' demand deposits represent an important source of funding for the bank. A part of these deposits, however, although contractually on demand, displays strong persistence over time and imperfect elasticity to changes in market interest rates, represented by the so-called "viscosity effect". This effect was estimated using an analysis model consisting of two components:

- the estimate of the relationship between the interest rates of demand items and market interest rates on the basis of an econometric model;
- the estimate of the persistence of volumes, through which the amount of demand items is transformed into a portfolio of fixed rate maturity items.

Hedging derivatives of this type recorded a positive fair value of € 2,357 thousand.

There are micro fair value hedges on fixed-rate securities held in the HTCS portfolio. Derivatives of this type recorded a positive fair value of € 611,921 thousand.

There are micro fair value hedges on fixed-rate securities held in the HTC portfolio. Derivatives of this type recorded a positive fair value of € 267,880 thousand.

The Macro Fair Value Hedge accounting method was adopted to hedge interest rate risk associated with the disbursement of fixed rate mortgages and of floating rate mortgages with Cap option. By applying hedge accounting, it is possible to provide accounting evidence of the financial effects of the hedging strategies adopted. Hedging derivatives related to said strategy recorded a positive fair value of € 208,081 thousand.

Please refer to Section in Part E of the explanatory notes to the consolidated financial statements for a description of hedging methods.

Section 6 – Change in value of macro-hedged financial assets – Item 60

6.1 Change in value of hedged assets: breakdown by hedged portfolios

Change in value of hedged assets/group components	Total 31/12/2022	Total 31/12/2021
1. Positive changes	-	83,003
1.1 of specific portfolios:	-	83,003
a) financial assets measured at amortised cost	-	83,003
b) financial assets measured at fair value through other comprehensive income	-	-
1.2 overall	-	-
2. Negative changes	197,853	234
2.1 of specific portfolios:	197,853	234
a) financial assets measured at amortised cost	197,853	234
b) financial assets measured at fair value through other comprehensive income	-	-
2.2 overall	-	-
Total	197,853	83,237

The Macro Fair Value Hedge accounting method was adopted to hedge interest rate risk associated with the disbursement of fixed rate mortgages and of floating rate mortgages with Cap options. By applying hedge accounting, it is possible to symmetrically represent, in accounting terms, both the mortgage loans and the hedging derivatives.

The Macro Fair Value Hedge method requires that the hedging relationship be formally documented by a hedging card and that the effectiveness of the hedge is verified through tests of effectiveness, both prospective and retrospective; the tests are performed periodically during the life of the operation. The hedge is considered effective if the ratio between the change in fair value of the hedged item with respect to the hedging instrument is within the range of 80% - 125%. The test of prospective and retrospective effectiveness of the hedge is carried out on a quarterly basis.

Hedge accounting cannot be maintained when the hedge becomes ineffective (outside of the range of 80% - 125%).

Section 7 – Equity investments – Item 70

The book value of “Equity investments” amounts to € 47,4 million.

7.1 Equity investments: information on shareholdings

Company	Registered	Type of contr.	Shareholding Ratio		Voting Rights %
			Investing Company	%	
A. Jointly controlled companies					
1. Credemassicurazioni spa	Reggio Emilia	7	Credito Emiliano	50.00%	
B. Companies subject to significant influence					
1. Andxor S.r.l.	Cinisello Balsamo (MI)	8	Credemtel	40.00%	
2. SBC Fintech 2224 Milan	Milan	8	Credemtel	19.68%	
2. Gruppo Santamaria S.p.A.	Catania	8	Avvera	10.00%	

Key

Type of relationship:

- 1 - majority of the voting rights of the Ordinary Shareholders' Meeting
- 2 - dominating influence in ordinary Shareholders' Meeting
- 3 - agreements with other shareholders
- 4 - other forms of control
- 5 - unitary management pursuant to Art. 26, paragraph 1 of Italian Legislative Decree no. 87/92
- 6 - unitary management pursuant to Art. 26, paragraph 2 of Italian Legislative Decree no. 87/92
- 7 - joint control
- 8 - associated company

7.2 Significant equity investments: book value, fair value and dividends earned

Company Name	Book value	Fair value	Dividends earned
A. Jointly controlled companies			
1. Credemassicurazioni S.p.A.	45,417		2,951
B. Companies subject to significant influence			
1.Andxor S.r.l.	1,378		120
2. SBC Fintech 2224 Milan S.r.l.	-		-
3.Gruppo Santamaria S.p.A.	567		-
Total	47,362		3,071

The fair value column is blank because there are no listed companies classified as significant equity investments.

7.3 Significant equity investments: accounting information

Company Name	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues	Interest Margin	Net value adjustments to (recoveries on) property, plant and equipment and intangible assets	Profit (loss) before tax from continuing operations	Profit (loss) after tax from continuing operations	Profit (loss) after tax from discontinued operations net of taxes	Profit (loss) for the year (1)	Other income after tax (2)	Comprehensive income (3) = (1) + (2)
1. Jointly controlled companies														
Credemassicurazioni	6,397	137,400	19,571	-	93,180	47,685	1,283	(1,162)	19,006	12,783	-	12,783	(9,608)	3,175
2. Companies subject to significant influence														
Andxor	872	292	26	272	129	1,563	(3)	(9)	676	480	-	480	-	480
SBC Fintech 2224 Milan	79	176	8	287	-	6	-	-	(279)	(279)	-	(279)	-	(279)
Santamaria Group	3,381	219	269	664	39	2,227	-	(22)	803	598	-	598	-	598

The table shows the figures for the draft financial statements at 31 December 2022 approved by the Board of Directors and provided by the companies or, where not available, by the most recent statements of financial position relating to total equity investments and not to the percentage held by the Group.

Reconciliation of accounting information with the book value of equity investments

Company Name	Shareholders' equity (*)	Shareholding (%)	Owned shareholders' equity	Goodwill	Other items	Book value
A. Jointly controlled companies						
Credemassicurazioni	70,188	50.00%	35,094	10,324	-	45,417
Andxor	789	40.00%	316	1,062	-	1,378
SBC Fintech 2224 Milan	-	19.68%	-	-	--	-
Gruppo Santamaria	3,166	10.00%	317	251	-	567
Total	74,143	-	35,727	11,637	-	47,362

(*) shareholders' equity is the sum of "Financial assets", "Non-financial assets", net of "Financial liabilities", and of the "Financial liabilities" contained in table 7.3.

The Fintech company has a negative shareholders' equity of € 24 thousand.

7.5 Equity investments: annual changes

	Total 31/12/2022	Total 31/12/2021
A. Opening balance	48,592	45,690
B. Increases	6,893	7,453
B.1 Purchases	250	821
- of which business combinations	-	-
B.2 Write-backs	-	-
B.3 Revaluations	-	-
B.4 Other changes	6,643	6,632
C. Decreases	8,123	4,551
C.1 Sales	-	-
- of which business combinations	-	-
C.2 Adjustments	-	636
C.3 Write-downs	250	-
C.4 Other changes	7,873	3,915
D. Closing balance	47,362	48,592
E. Total revaluations	-	-
F. Total adjustments	-	-

The changes relating to the equity investments segment encompass the profits and the losses of companies consolidated under the equity method, the dividends distributed, the purchase of € 250 thousand refers to SBC Fintech 2224 Milan, a fully written-down equity investment.

In January 2022, an investment by Credemtel S.p.A. ("Credemtel") in SBC Fintech Milan 2224 s.r.l. ("SBC") was finalised for a total amount of € 250,000. The investment was made as a capital increase reserved for Credemtel and Credemtel's share in the company, at 31 December 2022, is equal to 19.68% of the share capital.

SBC is a holding company that holds, at 31 December 2022, 16.695% of the share capital of "Fintech & Insurtech Accelerator S.r.l.", with registered office in Rome (RM), Via Arduino no. 22, as part of a vertical investment and innovation program in the FinTech & InsurTech area based in Milan and promoted by CDP Venture Capital SGR S.p.A. and lasting at least three years.

For the purposes of the impairment test process, a valuation carried out by a leading company expert in the valuation of start-ups was used, which provided a valuation of the shareholders' equity of "Fintech & Insurtech Accelerator S.r.l." adjusted based on the fair value of the Start-up companies held. Therefore, the valuation in question did not make it possible to consider the adjusted shareholders' equity of SBC to be sufficiently large, with the consequent write-down from impairment of the equity investment held by Credemtel.

7.6 Significant considerations and assumptions to determine the existence of joint control or significant influence

Credito Emiliano S.p.A. holds 50% of Credemassicurazioni S.p.A., whose remaining share capital (50%) is instead held by Reale Mutua Assicurazioni.

In this context:

- Credito Emiliano does not hold the majority of voting rights, and is not able to take corporate decisions alone, as it does not have the practical ability to unilaterally direct the relevant activity of the investee, for which the agreement of the other shareholder is always necessary;
- Credito Emiliano has the power to veto the decisions of the other shareholder, meaning that without the favourable vote of Credito Emiliano, the other shareholder holding the remaining 50% of the share capital cannot influence the company.

With regard to Credemassicurazioni, Credito Emiliano's position is therefore that:

- of a party which is exposed to variable returns and which in any event has rights to said possible returns;
- which has the ability to influence said returns only by exercising its power to veto the decisions of the other shareholder.

The agreements in place between the shareholders with 50% of share capital respectively envisage:

- the right to exercise call and put options on their respective shares when shares are sold or purchased, restricted to specific time limits (every five years);
- the right contemplated in a specific shareholders' agreement to appoint company representatives (half of the directors and, upon renewal of the Board of Directors, alternatively, either the Chairman of the Board of Directors and Statutory Auditors or the Chairman of the Board of Statutory Auditors). Since within Credemassicurazioni, there are no director votes which prevail over those of other directors (for example, the vote of the Chairman of the Board of Directors does not prevail), the appointment of corporate representatives does not give either shareholder any predominance over company decisions;
- the obligation not to transfer the shares to third parties for the duration of the shareholder agreement.

In this context, the rights of Credito Emiliano are limited by the net assets of Credemassicurazioni.

Credito Emiliano S.p.A. holds 100% of Credemtel S.p.A., which in turn holds 40% of ANDXOR SOLUZIONI INFORMATICHE S.R.L. "ANDXOR".

In this context, for ANDXOR:

- Credemtel does not hold the majority of voting rights, and is not able to take corporate decisions alone, as it does not have the practical ability to unilaterally direct the relevant activity of the investee, for which the agreement of the other shareholders is always necessary;
- With regard to specific topics, Credemtel has the power to veto the decisions of the other shareholders, meaning that without the favourable vote of Credemtel, also the other shareholders in possession of the remaining 60% of the share capital cannot influence the company.

With regard to ANDXOR, Credemtel's position is therefore that:

- of a party which is exposed to variable returns and which in any event has rights to said possible returns;
- which has the ability to influence said returns only by exercising its power to veto the decisions veto on the choices of other shareholders.

The agreements in place between the shareholders of ANDXOR envisage the following with regard to Credemtel:

- the right contemplated in a specific shareholders' agreement to appoint company representatives (a board director and the sole statutory auditor). Since within ANDXOR, there are no director votes which prevail over those of other directors, the appointment of company representatives does not give either shareholder any predominance over company decisions;
- joint-sale rights in favour of Credemtel if a share of at least 50% of ANDXOR's share capital is transferred by a deed inter vivos,

for the entire duration of the shareholders' agreement currently in force.

Credito Emiliano S.p.A. holds 100% of Credemtel S.p.A., which in turn holds 19.68% of SBC Fintech Milan 2224 S.r.l. (SBC).

In this context:

- Credemtel does not hold the majority of voting rights, as it is not able to take corporate decisions alone, as it does not have the practical ability to unilaterally direct the relevant activity of the investee, for which the agreement of the other shareholders is always necessary;
- With regard to specific topics, Credemtel has instead the power to veto the decisions of the other shareholders, meaning that without the favourable vote of Credemtel, also the other shareholders cannot influence the company.

With regard to SBC, Credemtel's position is therefore that:

- of a party which is exposed to variable returns and which in any event has rights to said possible returns;
- which has the ability to influence said returns only by exercising its power to veto the decisions of the other shareholders.

The agreements in place between the shareholders of SBC provide Credemtel with the right under a specific shareholders' agreement to obtain company representatives (a director). Since within SBC there are no director votes, which prevail over those of other directors, the appointment of company representatives does not give either shareholder any predominance over company decisions.

Credito Emiliano S.p.A. holds 100% of Avvera S.p.A., which in turn holds 10% of Gruppo Santamaria S.p.A. "GSM". The share capital of GSM is held by Avvera through special "B Shares", which in addition to the rights attributed by Law to ordinary shares, also have the following rights:

- the right to designate, for appointment, a member of the Board of Directors;
- the right to designate, for appointment, as a member of the Board of Statutory Auditors, a Standing Auditor, who will act as Chairman, and an Alternate Auditor;
- presentation to the Shareholders' Meeting of a proposal to revoke the independent auditor engaged to audit the accounts of GSM,
- the right to condition a series of resolutions of the shareholders' meeting to its favourable vote, such as amendments to the Articles of Association, the increase or decrease of share capital, mergers and spin-offs, the determination of change of the remuneration of directors and statutory auditors, the approval of incentive plans for directors, executives and employees.

Since within GSM, there are no director votes which prevail over those of other directors, the appointment of company representatives does not give either shareholder any predominance over company decisions.

In this context, for GSM:

- Avvera does not hold the majority of voting rights, and is not able to take corporate decisions alone, as it does not have the practical ability to unilaterally direct the relevant activity of the investee, for which the agreement of the other shareholders is always necessary;
- With regard to specific topics, Avvera has the power to veto the decisions of the other shareholders, meaning that without the favourable vote of Avvera, also the other shareholders in possession of the remaining 90% of the share capital cannot influence the company.

With regard to GSM, Avvera's position is therefore that of:

- of a party which is exposed to variable returns and which in any event has rights to said possible returns;
- which has the ability to influence said returns only by exercising its power to veto the decisions of the other shareholders.

7.7 Covenants on investments in jointly controlled companies

Credito Emiliano has signed contractual agreements with Reale Mutua di Assicurazioni to better regulate their partnership in Credemassicurazioni.

In this context, the clauses of the share sale/purchase agreements signed at the time by Credito Emiliano and Reale Mutua di Assicurazioni expressly envisage a put option for Reale Mutua di

Assicurazioni and a call option for Credito Emiliano S.p.A. regarding the 50% equity investment held by Reale Mutua in the share capital of Credemassicurazioni. Both options can be exercised at the end of every five-year period from the purchase of the equity investment in Credemassicurazioni by Reale Mutua.

Ten years after the signing of the first collaboration agreement, Credito Emiliano and Reale Mutua di Assicurazioni renewed their equal partnership in the company in question. The renewal of the agreement will allow the group to develop the range of non-life business products and to increase the level of service offered to its customers, thanks to the support of a leading player specialising in the protection sector.

The parties have signed a shareholder agreement, whose clauses establish:

- A prohibition to transfer the shares and the option rights to third parties, other than subsidiaries, for the entire duration of the shareholder agreement currently in force;
- The right of each party to appoint company representatives of its own choosing (half of the directors and, upon renewal of the Board of Directors, alternatively, either the Chairman of the Board of Directors and the Statutory Auditors or the Chairman of the Board of Statutory Auditors);
- The need for a qualified quorum for resolutions of the members of the Board of Directors regarding specific areas (such as, for example, the appointment of the General Manager, the Claims Manager, the Commercial Director, the auditing function, the approval of extraordinary financial transactions, distribution agreements etc.).

7.8 Covenants on investments in companies under significant influence

Credemtel has signed contractual agreements with the shareholders of ANDXOR to better regulate their partnership in SATA.

The parties have signed a shareholder agreement, whose clauses establish:

- Credemtel's right to appoint company representatives of its own choosing (a director and the sole auditor);
- joint-sale rights in favour of Credemtel if a share of at least 50% of ANDXOR's share capital is transferred by a deed inter vivos, for the entire duration of the shareholders' agreement currently in force.
- the need for a qualified quorum for resolutions of the members of the Board of Directors regarding particular issues (such as amendments to the articles of association, modification of the corporate purpose, the assumption of loans beyond € 150,000, the purchase and sale of real estate rights, issue of debt securities, distribution of reserves).

Avvera has signed contractual agreements with the shareholders of the Santamaria Group to better regulate their partnership in GSM.

In this context, the investment contract signed by the parties has expressly agreed that Avvera has: (i) a first call option on up to 20% of the share capital of GSM; (ii) a second call option on the entire residual amount of share capital of GSM; (iii) a put option on the entire investment in the share capital of GSM held by Avvera. The first call option was exercisable from the date of approval of the financial statements for 2020 until 31 December 2021, but it was not used; the second call option may be exercised from the date of approval of the financial statements for 2021 until 31 December 2022, as well as in the period between the date of approval of the financial statements relating to FY 2022 and 31 December 2023; the put option may be exercised from the date of approval of the financial statements relating to FY 2022 until 31 December 2023 and, in the event of the termination for whatever reason of the agency agreement between Avvera and GSM, within 6 months from the first of the following dates: (i) date of exercise of withdrawal from the agency agreement; (ii) date of receipt of the notification with which Avvera or GSM state their intention to invoke the express termination clause set forth in the agency agreement pursuant to Art. 1465 of the Italian Civil Code; (iii) expiry of the term to fulfil the agency contract issued by Avvera or GSM pursuant to Art. 1454 of the Italian Civil Code. The investment contract also envisages:

- a 5-year Lock-Up period during which the shareholders of GSM may not transfer their equity investments in GSM to parties other than Avvera for whatever reason;
- the need for a qualified quorum for resolutions of the members of the Board of Directors regarding specific issues (such as entering into lease agreements, the approval of or changes to the business plan and/or Budget, making investments and assuming financial debt or the granting of loans exceeding certain thresholds in terms of amount).

7.10 Other information

Credemassicurazioni, Andxor and Gruppo Santamaria, equity investments whose book value is higher than the pertinent share of shareholders' equity, underwent impairment testing, which indicated a recovery value higher than the book value. It was therefore determined that the negative difference between the book value and the pertinent share of shareholders' equity of said equity investments is not due to impairment, and therefore, the book values were not adjusted.

With regard to Credemassicurazioni, the negative difference relates to the share of goodwill of € 10.3 million, while as regards Andxor and Gruppo Santamaria, the negative difference relates to the share of goodwill of € 1,062 thousand and € 251 thousand, respectively.

Section 8 – Reinsurance technical reserves – Item 80

8.1 Reinsurance technical reserves: breakdown

	Total 31/12/2022	Total 31/12/2021
A. Non-life business	-	-
A1. provision for premiums reserves	-	-
A2. provision for claims reserves	-	-
A.3 other reserves	-	-
B. Life business	18,347	17,489
B1. mathematical reserves	17,359	16,788
B2. provision for reserves for amounts to be disbursed	988	701
B3. other reserves	-	-
C. Technical reserves for investment risks to be borne by the insured party	-	-
C1. reserves for contracts with disbursements connected to investment funds and market indices	-	-
C2. provision for pension funds	-	-
D. Total Reinsurance technical reserves	18,347	17,489

Section 9 – Property, plant and equipment – Item 90

9.1 Property, plant and equipment used in the business: breakdown of assets measured at cost

Asset/Amounts	Total 31/12/2022	Total 31/12/2021
1. Assets owned	321,628	324,514
a) land	136,481	136,737
b) buildings	119,664	125,519
c) furniture and furnishings	11,637	10,997
d) electronic equipment	20,304	17,031
e) other	33,542	34,230
2. Rights of use acquired through leases	127,134	130,100
a) land	-	-
b) buildings	124,919	127,032
c) furniture and furnishings	-	-
d) electronic equipment	-	-
e) other	2,215	3,068
Total	448,762	454,614
of which: obtained by enforcing guarantees received	-	-

Property, plant and equipment are measured at cost, net of depreciation and of any accumulated impairment.

Pursuant to the IFRS 16, property, plant and equipment also includes the Right of Use of assets subject to operating leases.

9.2 Property, plant and equipment held for investment purposes: breakdown of assets measured at cost

Asset/Amounts	Total 31/12/2022				Total 31/12/2021			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Assets owned	5,154	-	-	9,118	5,618	-	-	10,058
a) land	2,414	-	-	2,393	2,618	-	-	2,965
b) buildings	2,740	-	-	6,725	3,000	-	-	7,093
2. Rights of use acquired through leases	-	-	-	-	-	-	-	-
a) land	-	-	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-	-	-
Total	5,154	-	-	9,118	5,618	-	-	10,058
of which: obtained by enforcing guarantees received	-	-	-	-	-	-	-	-

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

Property, plant and equipment are measured at cost. The fair value of property, plant and equipment held for investment purposes amounts to € 9,1 million.

The fair value indicates the estimated amount at which an asset or a liability should be sold or purchased, at the valuation date, by a seller or a buyer without any particular relationship, both interested in the sale or purchase, at competitive conditions, after an adequate period of marketing, during which the parties both acted in an informed, aware manner without any coercion. (RICS Red Book VS 3.2, Italian edition, March 2012).

9.6 Property, plant and equipment used in the business: annual changes

	Land	Buildings	Furniture and furnishings	Electronic equipment	Other	Total
A. Gross opening balance	136,737	323,010	82,477	60,624	178,828	781,676
A.1 Total net decreases	-	197,491	71,480	43,593	144,598	457,162
A.2 Net opening balance	136,737	125,519	10,997	17,031	34,230	324,514
B. Increases:	-	3,523	46,335	7,064	36,230	93,152
B.1 Purchases	-	3,337	2,741	7,064	5,173	18,315
- of which business combinations	-	-	-	-	-	-
B.2 Capitalised expenditure on improvements	-	75	-	-	-	75
B.3 Recoveries	-	-	-	-	-	-
B.4 Increases in fair value booked to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Transfer from properties held for investment	-	-	X	X	X	-
B.7 Other changes	-	111	43,594	-	31,057	74,762
C. Decreases:	256	9,378	45,695	3,791	36,918	96,038
C.1 Sales	100	360	1	-	19	480
- of which business combinations	-	-	-	-	-	-
C.2 Depreciation	-	8,940	2,079	3,747	5,783	20,549
C.3 Impairment losses recognised in	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.4 Decreases in fair value booked to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) property, plant and equipment held for investment purposes	-	-	X	X	X	-
b) non-current assets and groups of assets held for sale and discontinued operations	-	-	-	-	-	-
C.7 Other changes	156	78	43,615	44	31,116	75,009
D. Net closing balance	136,481	119,664	11,637	20,304	33,542	321,628
D.1 Total net decreases	-	206,165	29,944	42,751	116,641	395,501
D.2 Gross closing balance	136,481	325,829	41,581	63,055	150,183	717,129
E. Carried at cost	-	-	-	-	-	-

9.6 bis Property, plant and equipment used in the business (rights of use acquired through leases): annual changes

	Land	Buildings	Furniture and furnishings	Electronic equipment	Other	Total
A. Gross opening balance	-	185,894	-	-	6,731	192,625
A.1 Total net decreases	-	58,862	-	-	3,663	62,525
A.2 Net opening balance	-	127,032	-	-	3,068	130,100
B. Increases:	-	28,867	-	-	1,850	30,717
B.1 Purchases	-	25,720	-	-	784	26,504
- of which business combinations	-	-	-	-	-	-
B.2 Capitalised expenditure on improvements	-	-	-	-	-	-
B.3 Recoveries	-	-	-	-	-	-
B.4 Increases in fair value booked to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Transfer from properties held for investment	-	-	X	X	X	-
B.7 Other changes	-	3,147	-	-	1,066	4,213
C. Decreases:	-	30,980	-	-	2,703	33,683
C.1 Sales	-	949	-	-	115	1,064
- of which business combinations	-	-	-	-	-	-
C.2 Depreciation	-	22,985	-	-	1,727	24,712
C.3 Impairment losses recognised in	-	16	-	-	13	29
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	16	-	-	13	29
C.4 Decreases in fair value booked to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) property, plant and equipment held for investment purposes	-	-	X	X	X	-
b) non-current assets and groups of assets held for sale and discontinued operations	-	-	-	-	-	-
C.7 Other changes	-	7,030	-	-	848	7,878
D. Net closing balance	-	124,919	-	-	2,215	127,134
D.1 Total net decreases	-	77,417	-	-	4,279	81,696
D.2 Gross closing balance	-	202,336	-	-	6,494	208,830
E. Carried at cost	-	-	-	-	-	-

The table of changes in rights of use acquired through leases is also provided as said assets are considered relevant.

9.7 Property, plant and equipment held for investment purposes: annual changes

	Total	
	Land	Buildings
A. Opening balance	2,618	3,000
B. Increases	-	52
B.1 Purchases	-	-
- of which business combinations	-	-
B.2 Capitalised expenditure on improvements	-	-
B.3 Increases in fair value	-	-
B.4 Recoveries	-	-
B.5 Positive exchange differences	-	-
B.6 Transfer from properties used in the business	-	-
B.7 Other changes	-	52
C. Decreases	204	312
C.1 Sales	191	145
- of which business combinations	-	-
C.2 Depreciation	-	164
C.3 Reduction in fair value	-	-
C.4 Impairment losses	-	-
C.5 Negative exchange differences	-	-
C.6 Transfers to:	-	-
a) properties used in the business	-	-
b) non-current assets and groups of assets held for sale and discontinued operations	-	-
C.7 Other changes	13	3
D. Closing balance	2,414	2,740
E. Measured at fair value	2,393	6,725

Section 10 – Intangible assets – Item 100

10.1 Intangible assets: breakdown by type

Asset/Amounts	Total 31/12/2022		Total 31/12/2021	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	X	291,342	X	291,342
A.1.1 attributable to the Group	X	291,342	X	291,342
A.1.2 attributable to non-controlling interests	X	-	X	-
A.2 Other intangible assets	185,131	-	173,753	-
of which: software	168,427	-	154,775	-
A.2.1 Assets measured at cost:	185,131	-	173,753	-
a) Intangible assets generated internally	20,375	-	20,105	-
b) Other assets	164,756	-	153,648	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
Total	185,131	291,342	173,753	291,342

The item “Other assets” mainly comprises software and the “Customer Relationship” relating to the acquisitions of the business branches and the merger of Cassa di Risparmio di Cento.

10.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total
		DEF	INDEF	DEF	INDEF	
A. Opening balance	291,342	63,256	-	564,916	-	919,514
A.1 Total net decreases	-	(43,151)	-	(411,268)	-	(454,419)
A.2 Net opening balance	291,342	20,105	-	153,648	-	465,095
B. Increases	-	7,026	-	58,303	-	65,329
B.1 Purchases	-	4,969	-	58,128	-	63,097
- of which business combinations	-	-	-	-	-	-
B.2 Increases of internally generated intangible assets	X	2,057	-	-	-	2,057
B.3 Recoveries	X	-	-	-	-	-
B.4 Increases in fair value	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Other changes	-	-	-	175	-	175
C. Decreases	-	6,756	-	47,195	-	53,952
C.1 Sales	-	-	-	-	-	-
- of which business combinations	-	-	-	-	-	-
C.2 Adjustments	-	6,756	-	47,020	-	53,776
- Amortisation	X	6,756	-	47,020	-	53,776
- Write-downs	-	-	-	-	-	-
+ shareholders' equity	X	-	-	-	-	-
+ income statement	-	-	-	-	-	-
C.3 Reduction in fair value:	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
C.4 Transfers to non-current assets held for sale	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	-	-	-
C.6 Other changes	-	-	-	175	-	176
D. Net closing balance	291,342	20,375	-	164,756	-	476,473
D.1 Total net value adjustments	-	49,905	-	452,234	-	502,139
E. Gross closing balance	291,342	70,280	-	616,990	-	978,612
F. Valuation at cost	-	-	-	-	-	-

Key

DEF: definite duration

INDEF: indefinite duration

Sub-item "F – Valuation at cost" has been left blank, insofar as, according to Banca d'Italia Instructions, it must be completed only for intangible assets measured at fair value in the financial statements.

The increases in intangible assets mainly refer to new applications developments.

Details of consolidated goodwill are provided with reference to the year of acquisition or merger of the related entity:

Groups branches/banks	Year of merger or acquisition	
Deutsche Bank branches	1998	2,695
B.C.C. Curinga	1998	917
B.C.C. San Giovanni Gemini	1998	452
Banca dei Comuni Nolani	1998	2,361
Banca della Provincia di Napoli	1998	58
B.C.C. Alto Crotonese	1999	161
B.C.C. Fortore Miscano	1999	1,377
Banca Popolare Andriese	2000	17,669
Banca di Latina	2003	3,028
Citibank International PLC branches	2008	36,307
Banco Popolare branches	2008	119,926
Unicredit branches	2008	94,433
TOTAL BANKS INCORPORATED		279,384
Euromobiliare A.M. Sgr (division sold by Credem International Lux)	2000	2,166
TOTAL BANK GOODWILL		281,550
So.em.ro (incorporated by MGT)	1998	294
Netium	2001	9
Credemvita	2008	4,092
C.S. Inform (incorporated by Credemtel)	2010	1,350
Topkey (incorporated by Credemtel)	2014	835
SATA	2020	1,656
Blue Eye	2021	1,556
TOTAL GOODWILL		291,342

Goodwill relating to Banco Popolare and Unicredit Group branches

For the final allocation of goodwill relating to the branches acquired in 2008, please refer to the 2009 financial statements.

Impairment testing on goodwill

Definition of CGU

IAS 36 establishes that, also with a view to testing for impairment, the goodwill acquired in business combinations must be allocated to relatively autonomous organisational units in terms of management that benefit from the synergies resulting from the acquisition. These organisational units, called Cash Generating Units ("CGU"), must have the following features:

- represent the lowest level within the entity at which the goodwill is monitored for internal management purposes;
- not be larger than an Operating Segment determined in accordance with IFRS 8.

Within Credem Group, the following CGUs have benefited and will continue to benefit from synergies resulting from the combination processes carried out over time:

- Commercial Banking;
- Insurance.

The reporting system used by Management is consistent with these CGU (see Section L - Segment Reporting) and, furthermore, the cash flows generated by the same are in line with the nature of the client and the type of products and services provided. These CGU therefore represent the smallest group of assets that generate independent cash inflows and the minimum level at which goodwill can be allocated according to not arbitrary criteria. It is at this level that the dynamics of the value of goodwill come into play and are controlled in Credem Group management.

CONSOLIDATED FINANCIAL STATEMENTS – EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Definition of the book value of CGUs

In the case of banking and insurance companies and in general, of companies operating in the financial sector, financial assets and liabilities, in principle excluded from the scope of application of IAS 36, represent an integral part of the core business. In order to identify the cash flows of the CGUs, also the cash flows associated with financial assets and liabilities must be considered.

On this basis, the impairment testing of CGUs operating in the financial area can only be performed according to the so-called “equity side” approach. Accordingly, the book value of the CGUs must also be calculated in the same way.

More specifically, the book value of the CGUs was established as follows:

- For Insurance CGUs, wholly comprised of the legal entities Credemvita and Credemassicurazioni, the book value was calculated analytically, on the basis of the contribution of each company to the consolidated shareholders' equity.
- For the Commercial Banking CGU, the analytical approach used for the Insurance CGU cannot be applied, insofar as the CGU in question contributes to the management of the Credem banking sector and that of other companies within the scope of consolidation. Therefore, with reference to said CGU, the relative book value was calculated:
 - o by analytically allocating the relevant goodwill;
 - o by allocating the “residual” consolidated shareholders' equity in proportion to the regulatory capital required for the operations of the CGU. The use of this indicator is justified by the consideration that, with regard to financial sector, the risk factors and relative absorption of regulatory capital affect the generation of future cash flows, and therefore the determination of the recoverable value that must be coherent with the book value.

A summary schedule of the book values of the CGUs and the relative values of goodwill recorded in the balance sheet is shown below (in €/million):

	Commercial Banking CGU	Insurance CGU
Book value CGU	2,245.4	272.6
Allocated goodwill	288.6	14.4

The goodwill shown above refers to the consolidated financial statements; the share of said goodwill recorded in the separate financial statements amounts to € 240 million, and relates entirely to the Commercial Banking CGU, as indicated in Section 9 of the explanatory notes to the financial statements at 31 December 2022.

Goodwill allocated also includes goodwill relating to Credemassicurazioni, corresponding to € 10.3 million, to Andxor, amounting to € 1.1 million and to Gruppo Santamaria, amounting to € 0.3 million included in the item equity investments.

Establishing the recoverable value of CGUs

IAS 36 requires that, at least once a year, the amount of the goodwill recorded in the financial statements is subject to impairment testing.

The impairment testing is performed by comparing the book value of the CGUs to which it is allocated with the recoverable value of the same. If the latter value is lower than the book value, a value adjustment must be recognised.

The recoverable value of a CGU is the higher of its fair value less costs to sell and its value in use.

The standard adds that when performing impairment testing, the value in use and the fair value do not both have to be calculated, it is sufficient that at least one of the two exceeds the book value to confirm the absence of an impairment loss. For the purpose of identifying the recoverable value of each CGU the value in use has been identified.

Commercial Banking CGU

For the Commercial Banking CGU, the value in use was calculated using the Dividend Discount Model (DDM).

This method establishes the value on the basis of the potentially distributable expected dividend flows. In the case in question, the method used was the “Excess Capital” version of the DDM commonly adopted in valuations in the banking industry, on the basis of which, the economic value

is equal to the sum of the following elements:

- present value of future cash flows generated over an established specifically planned time horizon and distributable to shareholders, while maintaining a level of capitalisation in line with the instructions dictated by the Supervisory Authority and compatible with the nature and expected growth of the business;
- present value of a perpetual income calculated on the basis of a dividend sustainable for the years subsequent to the explicit planning period, coherent with the levels of capitalisation required by the Supervisory Authority.

Although the Dividend Discount Model contains the word dividend, the cash flows considered by the model are not the dividends that are expected to be distributed to shareholders, but the cash flows that a shareholder could potentially benefit from within the limits of the capital amounts required for the company's operations.

The cash flows for the application of the valuation method were taken from the Credem Group's Preliminary 2022 results and 2023 Budget, approved by the Parent Company's Board of Directors on 15 December 2022 and from forecasts drawn up solely for impairment testing on goodwill, relating to 2024-2026.

The level of capitalisation, for the purpose of calculating the flows of dividends that can be potentially distributed, was assumed to be 9.25% for Tier 1 and 11.5% for Total Tier as indicated in the ECB letter of 15 December 2022 (which in turn confirmed the contents of the SREP decision of 2 February 2022).

The discounting rate of the flows was estimated on the basis of the "Capital Asset Pricing Model", which estimates the cost of capital as the sum of the return on risk-free investments and a risk premium correlated to the specific level of risk of the business. More specifically, the cost of capital was established to be 8,56%, on the basis of the following parameters:

- Risk-free rate: 3.91% corresponding to the simple average of the gross yield of 10-year BTPs issued in the past 6 months;
- Beta coefficient: 0.846 corresponding to the Credem coefficient (Beta 5Y Adjusted 31.12.2017/31.12.2022, measured weekly);
- Market risk premium: 5.50%, in line with valuation practice for the Italian market and with the common application in the insurance sector; "country risk" has been removed from this figure, insofar as implicitly included in the above-mentioned rate of return of risk-free assets. With reference to the market risk premium, checks were carried out with alternative sources, such as Damodaran, Fernadez and Kroll, correcting, where necessary, the inflation differential of the markets to which the values referred. The level chosen by the Group is within the range of alternative values.

The terminal value, at the end of the explicit planning period, was established on the basis of a long-term sustainable growth rate, assumed to be 1.3%, in line with long-term growth forecasts for the economy and with valuation practice (Prometeia, December 2022 Forecast Report, Italian Inflation to 2025 - last year estimated by the Association).

The following table summarises the valuations made. In particular, the table compares the book value of the CGU with the respective value in use obtained (in €/million):

	Commercial Banking CGU
Value in use of the CGU	4,950.5
Book value of the CGU	2,245.4
Delta	2,701.1

The model to determine value in use also underwent a sensitivity analysis in order to understand the change in the results obtained if the valuation parameters adopted change. From the analyses conducted, no evidence of impairment to the reference value of the CGU in question has emerged, up to consideration of a discounting rate of 20,17%.

Lastly, note that, jointly considering a long-term growth rate of zero (fall of 130 bps) and a discounting rate of 19.93%, no value adjustments would be made to the CGU.

Insurance CGU

For the Insurance CGU, the value in use was calculated specifically considering the “Non-Life” and the “Life” businesses, also by means of the support of an outside consultant.

Insurance CGU – Non-Life Business

For the “Non-Life” business, to estimate the value in use, the “Excess Capital” version of the Dividend Discount Model (DDM) was used, as described in the above paragraph, on the basis of the following basic elements.

The flows for the application of the valuation method extend over a time period of three years (2023-2025) and are based on the 2023 Budget approved by the Board of Directors on 12 December 2022, and on forecasts for 2024 and 2025 prepared by Credemassicurazioni’s technical unit.

The minimum level of capitalisation, for the purpose of calculating the flow of potentially distributable dividends, was established in line with instructions of the Supervisory Authority and in line with valuation practice in the reference sector.

The cost of capital, estimated on the basis of the “Capital Asset Pricing Model” was established to be 6,89%, on the basis of the following parameters:

- Risk-free rate: equal to 3.91%, corresponding to the average return recorded in the last 6 months by BTPs with a ten-year residual maturity;
- Beta coefficient: 0,54, corresponding to the average coefficient of listed Italian insurance companies;
- Market risk premium: 5.50%, in line with valuation practice for the Italian market and with the common application in the insurance sector; “country risk” has been removed from this figure, insofar as implicitly included in the above-mentioned rate of return of risk-free assets. With reference to the market risk premium, checks were carried out with alternative sources, such as Damodaran, Fernadez and Kroll, correcting, where necessary, the inflation differential of the markets to which the values referred. The level chosen by the Group is within the range of alternative values.

The terminal value has been determined as equal to the value of the last explicit planning period.

Insurance CGU – Life Business

The value in use of “Life” business was estimated using the Appraisal Value approach, by summing the Business in-Force to the Shareholders’ Equity, according to IFRS accounting standards, where the former is calculated by discounting the future technical margins resulting from the existing portfolio, and the New Business Value, resulting from the portfolio of future forecast production.

The flows to determine the value resulting from the Business in-Force were estimated using a method based on Traditional Embedded Value, considering the composition of the policyholder portfolio and the technical characteristics of the product portfolio.

The flows for the application of the valuation method extend over a time period of three years (2023-2025) and are based on the 2023 Budget approved by the Board of Directors on 12 December 2022 and on forecasts for 2024 and 2025.

The cost of capital, estimated on the basis of the “Capital Asset Pricing Model” was established to be 6,89%, on the basis of the following parameters:

- Risk-free rate: equal to 3.91%, corresponding to the average return recorded in the last 6 months by BTPs with a ten-year residual maturity;
- Beta coefficient: 0,54, corresponding to the average coefficient of listed Italian insurance companies;
- Market risk premium: 5.50%, in line with valuation practice for the Italian market and with the common application in the insurance sector; “country risk” has been removed from this figure, insofar as implicitly included in the above-mentioned rate of return of risk-free assets. With reference to the market risk premium, checks were carried out with alternative sources, such as Damodaran, Fernadez and Kroll, correcting, where necessary, the inflation differential of the markets to which the values referred. The level chosen by the Group is within the range of alternative values.

The table below shows a summary of the valuations performed for the Insurance CGU (in €/million):

	Non-Life Business	Life Business	Total CGU Insurance
Value in use of the CGU	181.8	414.1	595.9
Book value of the CGU	90.8	185.9	276.7
Delta	91.0	228.2	319.2

The model to determine value in use also underwent a sensitivity analysis in order to understand the change in the results obtained if the valuation parameters adopted change.

From the analyses conducted, no evidence of impairment to the reference value of the CGU in question has emerged, considering:

- for the Non-Life business, discounting rate “Ke” (+/-50 bps);
- for Life business:
- Business In-Force, discounting rate “Ke” (+/-50 bps); surrenders (+/-50 bps), expenses (+/-50 bps) and growth rate “g” (+/-50 bps);
- New Business, discounting rate “Ke” (+/-50 bps), growth rate “g” (+/-50 bps) and New Business Margin APE (+/-100 bps).

From an additional overall stress test perspective, note that, even jointly considering:

- for the Non-Life business, a discounting rate of 7.89% (increase of around 100 bps) and an increase of the Solvency Capital Requirement of 10% (increase of around 1000 bps);
- for the Life business, a discount rate of 7.89% (increase of approximately 100 bps) and a lower margin on the New Business of 100 bps;

no value adjustments would be made to the Insurance CGU.

Note on market valuations

In the last six months of 2022, Credem shares were traded at an average price of € 5.98 per share, corresponding to a multiple of the book value of the Bank's shareholders' equity at 31 December 2022 of around 0.64x.

Analyst reports indicate an average target price for the Credem share of € 8.95 per share, corresponding to a multiple of the book value of the Bank's shareholders' equity at 31 December 2022 of around 0.95x.

Looking at the price of Credem shares in January 2023 (closing price at 31 January of € 7.82), a stock market capitalisation corresponding to a multiple of the book value of the shareholders' equity at 31 December 2022 of around 0.83x emerged.

Test of overall reasonableness

As already indicated in the paragraphs above, the Commercial Banking CGU and the Insurance CGU (Bancassurance) have been identified and have undergone impairment testing. Furthermore, on a residual basis, a further two CGUs have been identified, called “Finance” and “Other”, which comprise all of the cost and income components, as well as the equity components, which are not included in the other two CGUs. No goodwill has been recorded in the accounts for the “Finance” and “Other” CGUs.

To complete the analyses illustrated above and in consideration of the fact that the impairment test on the value of goodwill of the Commercial Banking CGU was carried out on the basis of forecasts that envisage the partial allocation of corporate assets and/or corporate costs, a “test of overall reasonableness” was also carried out, which envisages a comparison between the book value and the recoverable value of the Credem Banking Group. The “Excess Capital” version of the DDM valuation method was used for this test and we used the same cost of capital, long-term growth rate and capital requirements requested by the Supervisory Authority as those used for the Commercial Banking CGU test.

The cash flows for the application of the valuation method were taken from the Credem Group's Preliminary 2022 results and 2023 Budget, approved by the Parent Company's Board of Directors on 15 December 2022 and from forecasts drawn up solely for impairment testing on goodwill, relating to 2024-2026.

The comparison of the overall book value of the banking group with its recoverable value did not indicate any impairment.

Also in this case, sensitivity analyses were conducted on changes in the values of the main parameters in order to establish the conditions under which the recoverable value of goodwill at Group level would equal its book value.

A test of overall reasonableness was conducted of the Credem Group as a whole. Given the fact that the banking business and the insurance business differ in terms of characteristics and risk profile, to carry out this test, the method of the “sum of the parts” was applied. In the light of the above-described results regarding the test of overall reasonableness made of the banking group and the impairment test conducted on the Insurance CGU, it can be concluded that no evidence of impairment emerged.

Section 11 – Tax assets and tax liabilities – Item 110 of assets and item 60 of liabilities

Current tax assets and liabilities include the net amount (payable or receivable) of IRES and IRAP (regional business tax), net of tax credits and advances, and the additional IRES, envisaged for financial intermediaries pursuant to Art. 12, paragraph 3 of Italian Legislative Decree no. 142 of 29 November 2018.

For the purposes of direct taxes, the tax periods ended on 31 December 2016 have been defined, due to the expiry of the terms set out in Article 43 of Presidential Decree no. 600 of 29 September 1973.

The risks resulting from the Group's tax disputes are covered by adequate allocations to provisions for risks and charges.

With regard to the parent company, there are 23 disputes in place, relating to direct and local taxes. With regard to these disputes, no effective risks have emerged or at least the estimated risk appears remote. Therefore, no specific provisions have been made.

For Credemleasing there are 34 disputes, mainly relating to local taxes.

For Credem Euromobiliare Private Banking S.p.A., as a result of the favourable conclusion of the only dispute pending regarding registration tax on the sale of a business unit, there are no pending disputes.

For Credemtel S.p.A., as from 2022, a single dispute is pending regarding VAT penalties.

Lastly, there are disputes of lesser importance related to the work of financial advisors and labour-related matters, as well as the real estate and administration areas.

Recognition and measurement of deferred tax assets

Deferred tax assets (DTAs) are recorded under assets in the balance sheet, and mainly originate from temporary differences between the date of recognition of costs in the income statement and the date on which said costs can be deducted. These assets recognised in the financial statements refer to temporary differences that can be recovered over a fairly long time period. Deferred tax assets are written down to the extent by which the same are considered not to be recoverable in terms of future income and the consequent expected taxable income, also taking tax legislation into account, which permits their transformation into tax credit under certain conditions. The valuation process is based on expected future income.

Deferred tax assets are recorded in the financial statements to the extent that reasonable certainty of their recovery exists, measured using the "Probability test" envisaged by IAS 12 on the basis of the capacity of the bank and the Group companies, due to the exercise of the "tax consolidation" option, to generate constant, positive taxable income, in future years, taking into account tax legislation in force.

The amount of the deferred tax assets recorded in the financial statements is subject to testing each year, so as to check whether reasonable probability exists or otherwise that the company concerned generates taxable income in the future such as to permit the reabsorption of the deferred taxes recorded in previous tax periods.

With reference to the recognition or otherwise of deferred tax assets and their maintenance in the financial statements, it is worth mentioning several important changes to tax legislation introduced in 2011 which, by envisaging the transformation of deferred tax assets into tax credits under certain conditions, have introduced a way to recover deferred tax assets so as to ensure their re-absorption regardless of the ability to generate income.

The provisions of Article 2, paragraphs 55 to 58, of Italian Decree Law no. 225/2010, the 2010 Milleproroghe Decree, introduced the regulation for the transformation of deferred tax assets into tax credits in the event of a loss recorded in the statutory financial statements. This regulation covers deferred tax assets recognised in the financial statements relating both to write-downs of loans not yet deducted pursuant to Art. 106, paragraph 3 of the TUIR (Consolidated Income Tax Act), and the value of goodwill and other property, plant and equipment pursuant to Art. 103 of the TUIR, the negative components of which may be deducted in subsequent tax periods. Subsequently, Law no. 214 of 22 December 2011, hereinafter 214/2011, with the conversion of the provisions contained in Decree Law 201/2011, made important amendments to the rules for the transformation of deferred tax assets, extending the objective scope of application to the possibility of achieving a tax loss for IRES purposes.

The changes introduced by Italian Law 147/2013 have extended the transformation of the deferred IRAP tax assets allocated both for shares of value adjustments on loans, and for shares of goodwill amortisation and that of other property, plant and equipment deferred to subsequent years in the

event that a statutory loss is recorded or a net negative value of production for IRAP purposes is recorded.

Therefore, in the event of a statutory loss or a tax loss or a net negative value of production for IRAP purposes, the deferred IRES/IRAP tax assets referring to value adjustments on loans not yet deducted from taxable income and the deferred tax assets relating to the value of goodwill and of other intangible assets, whose negative components may be deducted over a number of tax periods, are transformed into tax credits according to the provisions of Italian Law 214 of 22 December 2011 (unlimited offsetting with any type of tax, including withholding tax and contributions).

It is also important to note that Art. 11 of Italian Decree Law no. 59 of 3 May 2016, converted with amendments into Italian Law no. 119 of 30 June 2016, establishes that entities that wish to apply the provisions for the transformation of deferred tax assets into tax credits - set forth in Art. 2, paragraphs 55 to 57 of Italian Decree Law no. 225 of 29 December 2010 - may opt to maintain the application of said provisions by paying a fee.

The purpose of this option is to enable companies that have eligible DTAs at 31 December 2015 to maintain the right to transform them into tax credits, if in the future circumstances such as statutory or tax losses or liquidation arise, as envisaged in Art. 2, paragraphs 55 to 56-ter of Italian Decree Law no. 225 of 2010.

In addition to this, the system of deductibility for IRES and IRAP purposes of write-downs of loans and of losses on loans with regard to customers, banks and financial institutions and insurance companies was amended by Art. 16 of Italian Decree Law no. 83 of 27 June 2015, introducing, instead of an annual deductibility at the rate of one fifth each year, full deductibility, as from 2016, of these negative income components in the financial year in which they are recognised in the financial statements, whereas the write-downs related to the 2015 financial year were deductible by 75% in the pertaining year, and the remaining 25% will be deductible, together with the stock of write-downs and losses yet to be deducted at 31 December 2014, in ten years, with different deduction percentages.

Italian Law no. 145 of 30 December 2018, known as the 2019 Budget Law, postponed the deductible percentage envisaged in 2018 to 2026.

The same law postponed the deductible percentage envisaged in 2019 to four annual amounts from 2022 to 2025.

Italian Budget Law no. 160 of 27 December 2019, known as the 2020 Budget Law, established the postponement from 2019 and until 2029 of the deduction according to different percentages of the share of amortisation relating to goodwill and that of other intangible assets, which gave rise to the recognition of deferred tax assets that had not yet been deducted in 2017, and in particular the values relating to goodwill and other intangible assets recognised in the consolidated financial statements and related to higher book values of controlling equity investments acquired and recorded in the financial statements due to extraordinary transactions.

The same law also envisaged, in paragraphs 1067-1068, that the income components resulting from the adoption of the model to include an allowance to cover expected credit losses set forth in paragraph 5.5 of IFRS 9, and recognised in the financial statements on first-time adoption of said accounting standard, are deductible from the taxable income for IRES and IRAP purposes to the extent of 10% of their amount in the tax period of first-time adoption, while the remaining 90% on a straight-line basis over the following nine tax years.

The same law postponed the deductible percentage envisaged in 2019 to five annual amounts from 2025 to 2029 and postponed the deductible percentage envisaged in 2019 to 2028.

Article 110 of Italian Decree Law no. 104 of 14 August 2020 (the "August" decree) reintroduced, within the context of the provisions providing for the revaluation (even only for statutory purposes) of business assets in the 2020 financial statements, the possibility for companies that prepare their financial statements in accordance with IAS/IFRS to realign the differences between tax and book values relating to tangible and intangible assets (excluding commodities) and fixed equity investments.

A 3% substitute tax on IRES and IRAP is levied on the higher realigned values, to be paid in a maximum of three annual instalments within the deadline for the payment of the balance of the income taxes; it is also necessary to "restrict" an equity reserve (under a tax suspension regime) for an amount equal to the realigned differences net of the substitute tax.

The values related to "business assets and equity investments" resulting from the financial statements of the year ending 31 December 2019 and identified (as already occurred for similar previous regimes) according to the provisions related to the revaluation/ realignment regime of Italian Law no. 342/2000, can be realigned. In this sense, divergences arising ordinarily created

from the use of the fair value criterion in the valuation of assets (e.g. for real estate) or those arising from extraordinary tax-neutral transactions may be realigned.

The Group has aligned the tax values to the higher statutory values of the business assets recognised in the financial statements at 31 December 2020, for an amount of approximately € 96 million, and already present in the financial statements at 31 December 2019 and the realignment has concerned the wholly-owned properties,

the land/sky properties, which were measured at fair value on the first-time adoption of IAS in order to allow the separation of the value of the land from the value of the buildings. The external appraisal was divided between the value of the land and the value of the buildings above. For tax purposes, these higher balance sheet values could not be taken into account and the depreciation plan was continued on the basis of the rates already recognised for tax purposes in the past.

As a result of this realignment, the 3% substitute tax, amounting to € 2.8 million, was accounted for in the 2020 financial year and the related deferred taxes allocated as a result of the revaluation carried out on the first-time adoption of IFRS, were reversed. The net positive effect on the 2020 income statement was € 22.8 million.

In addition, the 2021 Budget Law, Article 1, paragraph 83, Italian Law 178/2020 extended this possibility also to the goodwill resulting from the current financial statements at 31 December 2020 with the payment of a substitute tax of 3% that allows to also recognise for tax purposes the higher statutory values recorded in the financial statements compared to lower tax values. The financial statements also include goodwill, which never had tax relevance, referring to the mergers carried out in the previous years for € 23.5 million. As a result of this realignment, the substitute tax of 3%, amounting to € 0.8 million, was accounted for in 2020, and the related deferred tax assets were recognised, in accordance with application no. 1 of February 2009 of the Italian Accounting Body. The positive net effect for the 2020 income statement was € 4.5 million.

The 2022 Budget Law (Italian Law 234 of 30/12/2021) has established, pursuant to Art. 1 paragraph 622, that the tax deduction of the revalued values for intangible assets (which are amortised over 18 years, in accordance with Article 103 of the TUIR), must take place, starting from 2021, in 50 years, thus ending in 2070. Therefore, the deferred tax assets € 23.5 million recognised as regards the value of the realigned goodwill will be reabsorbed within the time span of 50 years, compared to the 18 years initially set out.

In 2021, the tax impacts took into account the merger by incorporation of Cassa Risparmio di Cento S.p.A. The extraordinary transaction is recognised in the financial statements at 31 December 2021 according to the "acquisition method", provided for by IFRS 3, regarding the accounting representation of business combinations. In particular, the "acquisition method" requires that, in the event of a merger by incorporation, the transaction must be reflected in the financial statements, through a "purchase price allocation" ("PPA") process based on the fair value of the assets and liabilities of the incorporated company. This method of accounting can lead to differences between the book value determined following the merger and the book value of the same items shown in the last financial statements of the merged company.

In this specific case, in the financial statements at 31/12/2021, the differences have contributed to determining: i) the recognition of negative goodwill (so-called "badwill", which is not recognised for tax purposes, pursuant to Art.172 of the Consolidated Income Tax Act, amounting to €97 million, which was recognised in the income statement as revenue and determined by the negative difference between the lower fair value of the "consideration" and the higher fair value of the assets and liabilities acquired as a result of the merger; ii) the recognition of additional accounting items (relevant for tax purposes) relating to write-downs and revaluations of NPL loans, time deposits and real estate funds, for a total net amount of €23 million; iii) the absorption of DTAs relating to prior tax losses, for a total amount of €36 million.

During 2022, Art. 42, paragraph 1, of Decree Law 17/2022 converted by Law 34/2022, provided that the portion relating to write-downs and losses on receivables equal to 12% that would be subject to deduction for both IRES and IRAP purposes in the tax period 2022, is postponed in four straight-line instalments to be deducted from 2023 to 2026. This is the reason for the change made in the process of conversion of the decree, which originally affected the 2021 deduction, postponing it to the next four tax periods (from 2022 to 2025). In addition, paragraph 1-bis of Art. 42 at the time of the conversion process into Law, amended paragraph 1056 of Law 145/2018, for which the 10% share for IRES and IRAP purposes is postponed to 2026 and allowed as a deduction at 31 December 2022 for 53%, while the remaining part (47%) remains at 2026.

11.1 Deferred tax assets: breakdown

	IRES	IRAP	Total
Value adjustments to loans to customers	61,414	7,875	69,289
Write-down of financial instruments	178,952	42,641	221,593
Entertainment expenses and goodwill	9,341	1,890	11,231
Unsecured loans, bankruptcy petitions, and legal proceedings underway	15,498	-	15,498
Provisions for personnel expenses	24,551	4,864	29,415
Other	61,681	612	62,293
Total	351,437	57,882	409,319

11.2 Deferred tax liabilities: breakdown

	IRES	IRAP	Total
Gains on financial instruments	29,886	8,671	38,557
Provisions performed exclusively for tax purposes	58,193	11,787	69,980
Other residual	15,526	2,379	17,903
Total	103,605	22,837	126,442

11.3 Changes in deferred tax assets (with offsetting entry in profit and loss)

	Total 31/12/2022	Total 31/12/2021
1. Opening balance	215,422	192,663
2. Increases	32,987	76,234
2.1 Deferred tax assets arising during the year	32,987	32,529
a) relating to previous years	-	3
b) due to change in accounting principles	-	-
c) write-backs	-	-
d) other	32,987	32,526
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	43,705
3. Decreases	49,063	53,475
3.1 Deferred tax assets derecognised during the year	49,063	53,475
a) reversals	49,063	53,475
b) write-downs of non-recoverable items	-	-
c) changes in accounting principles	-	-
d) other	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases:	-	-
a) changes into tax credits pursuant to Italian Law no. 214/2011	-	-
b) other	-	-
4. Closing balance	199,346	215,422

11.4 Deferred tax assets: changes under Law 214/2011

	Total 31/12/2022	Total 31/12/2021
1. Opening balance	82,392	75,963
2. Increases	-	20,033
3. Decreases	10,662	13,604
3.1 Reversals	10,662	13,604
3.2 Changes into tax credits	-	-
a) arising from loss for the year	-	-
b) arising from tax losses	-	-
3.3 Other decreases	-	-
4. Closing balance	71,730	82,392

For reasons of transparency, the changes in the deferred tax assets set forth in Italian Law no. 214/2011 are provided; these originate mainly from write-downs of loans, pursuant to Art. 106, paragraph 3 of Italian Presidential Decree no. 917/86 (€ 67.2 million) and from tax relief on goodwill (€ 4.1 million).

11.5 Changes in deferred tax liabilities (with offsetting entry in profit and loss)

	Total 31/12/2022	Total 31/12/2021
1. Opening balance	101,963	92,772
2. Increases	18,439	10,277
2.1 Deferred tax liabilities for the year	18,439	5,673
a) relating to previous years	-	-
b) due to change in accounting principles	-	-
c) other	18,439	5,673
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	4,604
3. Decreases	546	1,086
3.1 Deferred tax liabilities derecognised during the year	546	1,086
a) reversals	546	1,086
b) due to change in accounting principles	-	-
c) other	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	119,856	101,963

11.6 Changes in deferred tax assets (with offsetting entry in shareholders' equity)

	Total 31/12/2022	Total 31/12/2021
1. Opening balance	13,482	12,884
2. Increases	199,065	2,133
2.1 Deferred tax assets arising during the year	199,065	1,886
a) relating to previous years	-	-
b) due to change in accounting principles	-	-
c) other	199,065	1,886
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	247
3. Decreases	2,574	1,535
3.1 Deferred tax assets derecognised during the year	2,574	266
a) reversals	2,574	266
b) write-downs of non-recoverable items	-	-
c) changes in accounting principles	-	-
d) other	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	-	1,269
4. Closing balance	209,973	13,482

11.7 Changes in deferred tax liabilities (with offsetting entry in shareholders' equity)

	Total 31/12/2022	Total 31/12/2021
1. Opening balance	25,107	41,778
2. Increases	753	338
2.1 Deferred tax liabilities for the year	753	10
a) relating to previous years	-	1
b) due to change in accounting principles	-	-
c) other	753	9
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	328
3. Decreases	19,274	17,009
3.1 Deferred tax liabilities derecognised during the year	19,274	17,009
a) reversals	19,274	17,009
b) due to change in accounting principles	-	-
c) other	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	6,586	25,107

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

12.1 Non-current assets and groups of assets held for sale and discontinued operations: breakdown by type

	Total 31/12/2022	Total 31/12/2021
A. Assets Held for Sale		
A.1 Financial assets	-	1,915
A.2 Equity investments	-	-
A.3 Property, plant and equipment	-	3,839
of which: obtained by enforcing guarantees received	-	-
A.4 Intangible assets	-	-
A.5 Non current - Other	-	53
Total (A)	-	5,807
<i>of which valued at cost</i>	-	5,807
<i>of which designated at fair value level 1</i>	-	-
<i>of which designated at fair value level 2</i>	-	-
<i>of which designated at fair value level 3</i>	-	-
B. Discontinued operations		
B.1 Financial assets measured at fair value through profit and loss	-	-
- financial assets held for trading	-	-
- financial assets measured at fair value	-	-
- other financial assets measured at fair value, as per mandatory requirements	-	-
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 Tangible assets	-	-
of which: obtained by enforcing guarantees received	-	-
B.6 Intangible assets	-	-
B.7 Other assets	-	-
Total (B)	-	-
<i>of which valued at cost</i>	-	-
<i>of which designated at fair value level 1</i>	-	-
<i>of which designated at fair value level 2</i>	-	-
<i>of which designated at fair value level 3</i>	-	-
C. Liabilities associated with assets held for sale		
C.1 Payables	-	-
C.2 Securities	-	-
C.3 Other liabilities	-	96
Total (C)	-	96
<i>of which valued at cost</i>	-	96
<i>of which designated at fair value level 1</i>	-	-
<i>of which designated at fair value level 2</i>	-	-
<i>of which designated at fair value level 3</i>	-	-
D. Liabilities associated with discontinued operations		
D.1 Financial liabilities measured at amortised cost	-	-
D.2 Financial liabilities held for trading	-	-
D.3 Financial liabilities measured at fair value	-	-
D.4 Reserves	-	49
D.5 Other liabilities	-	17
Total (D)	-	66
<i>of which valued at cost</i>	-	66
<i>of which designated at fair value level 1</i>	-	-
<i>of which designated at fair value level 2</i>	-	-
<i>of which designated at fair value level 3</i>	-	-

During the year, the disposal of the company Gestimlux and the liquidation of the company Reeval were completed.

Section 13 – Other assets – Item 130

13.1 Other assets: breakdown

	31/12/2022	31/12/2021
Negotiated cheques to be settled	48,304	73,618
Securities transactions being processed	1,213	99,359
Cheques being processed	793	1,959
Transactions relating to payment services being processed	69,259	207,213
Transactions relating to payment services accruing	30,743	254,570
Accrued income	3,403	4,494
Prepayments	29,688	29,182
Unpaid and protested cheques and bills drawn on the company and on third parties	756	2,866
Expenses for improvements to third-party assets	20,425	21,104
Security deposits	71	71
Sundry debtors for invoices issued	30,471	32,377
Sundry debtors	624,526	334,656
Items in transit between branches	17,832	13,189
Total	877,484	1,074,658

Transactions relating to payment services being processed/accruing regard debits received but not yet debited from customer accounts.

There are no impairment losses (IFRS 9) on loans relating to contracts with customers and contract assets.

The item “Prepayments” also includes costs incurred to obtain contracts through financial advisers, relating to future years, corresponding to € 18,9 million. The changes in the item are as follows:

	Total 31/12/2022	Total 31/12/2021
1. Opening balance	19,811	18,512
2. Increases	11,686	12,548
2.1 Other increases	11,686	12,548
3. Decreases	12,589	11,249
3.1 amortisation	12,589	11,249
4. Closing balance	18,908	19,811

The following table contains the details of “Sundry debtors”:

	Total 31/12/2022	Total 31/12/2021
Tax receivables Non-credit	536,037	241,227
related disputes Other	1,469	3,306
sundry debtors	48,380	56,804
Advances to suppliers	38,640	33,319
Total	625,058	334,656

The item “tax receivables” also includes tax assets relating to withholding agent activities.

There are tax receivables pursuant to Law Decree no. 18/2020 (Cura Italia) and Law Decree no. 34/2020 (Relaunch) (eco bonus and earthquake bonus) for a total value of € 301.3 million.

Following the power exercised by the insurance company Credemvita – a financial conglomerate of a predominantly banking nature – to postpone the first-time adoption of IFRS 9 (Deferral Approach) until 2023, the following new Balance Sheet - Assets items have been added to the consolidated financial statements as required by the update of Banca d'Italia Circular no. 262:

- Balance Sheet – Assets: “Item 35. Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39”, which includes financial assets held for trading, financial assets measured at fair value, financial assets available for sale, and any derivatives with a positive fair value, as defined in accordance with IAS 39;
- Balance Sheet – Assets: “Item 45. Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39”, which includes financial assets held to maturity, due from banks, and loans to customers, as defined in accordance with IAS 39;

The details are provided below.

Item 35 of assets - Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39

Financial assets held for trading

Financial assets held for trading: breakdown

Items/Balances	Total 31/12/2022			Total 31/12/2021		
	L1	L2	L3	L1	L2	L3
A. Balance sheet assets						
1. Debt securities	-	-	-	-	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	-	-	-	-
2. Equity securities	-	-	-	-	-	-
3 Units of UCITS	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Reverse repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	-	-	-	-	-	-
B. Derivatives						
1. Financial derivatives:	1,643	-	-	1,191	-	-
1.1 trading	1,643	-	-	1,191	-	-
1.2 related to fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives:	-	-	-	-	-	-
2.1 trading	-	-	-	-	-	-
2.2 related to fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total B	1,643	-	-	1,191	-	-
Total (A+B)	1,643	-	-	1,191	-	-

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

Financial assets held for trading: breakdown by debtor/issuer

Items/Balances	31/12/2022	31/12/2021
A. Balance sheet assets		
1. Debt securities	-	-
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	-	-
2. Equity securities	-	-
a) Banks	-	-
b) Other issuers:	-	-
- insurance companies	-	-
- financial companies	-	-
- non-financial companies	-	-
- other	-	-
3. Units of UCITS	-	-
4. Loans	-	-
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other entities	-	-
Total A	-	-
B. Derivatives		
a) Banks	1,643	1,191
- Fair value	1,643	1,191
b) Customers	-	-
- Fair value	-	-
Total B	1,643	1,191
Total (A+B)	1,643	1,191

Financial assets measured at fair value

Financial assets measured at fair value: breakdown

Items/Balances	Total 31/12/2022			Total 31/12/2021		
	L1	L2	L3	L1	L2	L3
1. Debt securities	328,551	-	-	240,979	1,036	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	328,551	-	-	240,979	1,036	-
2. Equity securities	140,938	2,081	-	161,585	-	-
3. Units of UCITS	3,391,378	7,615	-	3,937,952	24,561	-
4. Loans	-	-	-	-	-	-
4.1 Structured	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total	3,860,867	9,696	-	4,340,516	25,597	-
Cost	3,921,502	9,461	-	3,868,695	21,892	-

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

The breakdown of item 3 “Units of UCITS” is as follows:

	Total 31/12/2022	Total 31/12/2021
Balanced	1,286,019	1,578,625
Monetary	1,168,462	1,358,747
Bonds Equities	271,221	220,090
Other	84,090	94,908
	589,201	710,143
Total	3,398,993	3,962,513

Financial assets measured at fair value: breakdown by debtor/issuer

Items/Balances	31/12/2022	31/12/2021
1. Debt securities	328,550	242,015
a) Governments and Central Banks	242,108	210,041
b) Other public entities	-	-
c) Banks	46,603	18,999
d) Other issuers	39,839	12,975
2. Equity securities	143,018	161,585
a) Banks	15,718	15,254
b) Other issuers:	127,300	146,331
- insurance companies	6,683	7,154
- financial companies	3,817	4,493
- non-financial companies	111,683	128,354
- others	5,117	6,330
3. Units of UCITS	3,398,993	3,962,513
4. Loans	-	-
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other entities	-	-
Total	3,870,561	4,366,113

The "Financial assets measured at fair value" portfolio of "Insurance companies" includes Italian government bond exposures for € 209.1 million, United States for € 10.4 million, German for € 7.1 million, Luxembourg for € 3.9 million, French for € 3.4 million, Belgian for € 2.5 million, Spanish for € 1.4 million, Austrian for € 1.3 million, United Kingdom for € 1.3 million, Irish for € 0.9 million and Portuguese for € 0.7 million.

Financial assets available for sale

Financial assets available for sale: breakdown

Items/Balances	Total 31/12/2022			Total 31/12/2021		
	L1	L2	L3	L1	L2	L3
1. Debt securities	1,454,314	7,010	-	2,013,269	5,669	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	1,454,314	7,010	-	2,013,269	5,669	-
2. Equity securities	-	-	-	-	-	-
2.1 Measured at fair value	-	-	-	-	-	-
2.2 Measured at cost	-	-	-	-	-	-
3. Units of UCITS	429,191	46,618	227,923	370,604	135,530	172,251
4. Loans	-	-	-	-	-	-
Total	1,883,505	53,628	227,923	2,383,873	141,199	172,251

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

The breakdown of item 3 “Units of UCITS” is as follows:

	Total 31/12/2022	Total 31/12/2021
Bonds	434,148	404,825
Equity	269,584	243,711
Monetary	-	29,849
Total	703,732	678,385

Financial assets available for sale: breakdown by debtor/issuer

Items/Balances	31/12/2022	31/12/2021
1. Debt securities	1,461,324	2,018,938
a) Governments and Central Banks	1,150,959	1,663,407
b) Other public entities	-	-
c) Banks	213,256	230,803
d) Other issuers	97,109	124,728
2. Equity securities	-	-
a) Banks	-	-
b) Other issuers:	-	-
- insurance companies	-	-
- financial companies	-	-
- non-financial companies	-	-
- other	-	-
3. Units of UCITS	703,732	678,385
4. Loans	-	-
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other entities	-	-
Total	2,165,056	2,697,323

The “Financial assets available for sale” portfolio of “Insurance companies” includes government bond exposures to Italy of € 471.8 million, to Spain of € 347.4 million, to Belgium of € 131.4 million, to the Portugal of € 64.3 million, to Germany of € 61.5 million, to France of € 32.9 million, to the United States of € 24.7 million and to the Netherlands of € 17.0 million.

Impairment testing of financial assets available for sale

Financial assets available for sale undergo impairment testing as per the requirements of IFRS.

The process of detecting possible impairment involves the verification of the presence of impairment indicators and the determination of any write-downs.

The criteria applied to identify impairment distinguish between debt securities, equity securities and mutual investment funds.

As regards the first, the objective evidence that a debt security has suffered impairment is provided in the list of loss events set forth in IAS 39.59, and includes, by way of example, but not limited to such:

- significant financial difficulty of the issuer;
- contractual default, such as failure to pay interest or principal;
- likelihood that the issuer is subject to insolvency or financial restructuring procedures - disappearance of an active market for the financial instrument due to financial difficulties of the issuer.

Furthermore, in the case of rated bonds, the deterioration of the issuer’s creditworthiness is assessed. In this regard, a deterioration that results in debt securities falling to a rating class below “Investment grade” indicates the need to test for impairment. In other cases, a deterioration in creditworthiness should be evaluated together with the other factors available. The process of identifying situations of deterioration takes place through the “variable rating” trigger, and whether the same is above or below the “Investment grade” threshold (BBB- or equivalent). With regard to bonds, the availability of specialised sources (for example, investment advice provided by financial institutions, rating reports, etc.) and information available from information providers (i.e. Bloomberg, Reuters, etc.) are considered, which are used to accurately determine the significance of the issuer’s deterioration.

For equity securities classified as AFS, it is reasonable to assume that shares in the portfolio are to be recognised as impaired before the bonds issued by the same issuer company. Therefore, indicators for write-downs of debt securities issued by a company, or the write-down of said debt securities, are strong indicators of impairment of the company’s equity securities.

Moreover, in order to establish whether there is evidence of impairment for an equity instrument, in addition to the existence of the events indicated by IAS 39.59 and the considerations set forth above, where applicable, the following two events should also be considered (IAS 39.61):

- significant changes with adverse effects with relation to technologies, markets, the economic or legal framework of the issuer, which indicate that the cost of the investment can no longer be recovered;
- a significant or prolonged decline in the fair value of the investment to below the level of its cost. Steps are taken to recognise impairment if the fair value of the security is 35% lower than the book value upon initial recording; or the fair value is lower than the book value for a period of at least 18 months.

Regarding investments in equity instruments, the need to determine impairment also considers, if the above conditions are not fulfilled, the following situations, individually or jointly:

- the fair value of the investment is significantly lower than the purchase cost or, in any event, significantly lower than that of similar companies in the same sector;
- the company management is not considered to have suitable standing and is not considered capable of ensuring a recovery in prices;
- the credit rating has been reduced since the purchase date;
- a significant decline in profits, cash flow or the net financial position of the issuer since the purchase date;
- there is a reduction or interruption in the distribution of dividends;

- an active market for the bonds issued disappears;
- there are changes in the regulatory, economic and technological framework of the issuer, which have a negative impact on the issuer's income, equity and financial position;
- there is a negative outlook for the market, sector or geographical area in which the issuer operates.

With regard to Mutual Investment Funds, note that the quotas in mutual investment funds represent equity instruments, according to the provisions of paragraph AG27 of IAS 39 and the above-illustrated criteria relating to equity securities applies to these instruments where classified as AFS, and in particular, the criteria to identify the significant or prolonged impairment envisaged therein are taken into account. However, said indicator does not per se result in the recognition of impairment for mutual investment funds that invest purely in bonds, if the following requirements are met:

- the funds in question envisage the systematic distribution of the vouchers cashed, the capital repaid, the income made from the sale to the holder of the quotas or in any event, the systematic transfer to the holder of the cash flows of the underlying bonds whenever paid or realised. In this situation, the mutual investment funds can be assumed to represent a pass-through agreement;
- the look-through of the fund can only be made in said situation and information about the individual financial bond instruments constituting the fund's assets must be available, to permit the systematic analysis of the underlying instruments and the financial and solvency situation of the issuers. In these circumstances, the impairment test must also take into account the valuation criteria of the debt securities, with regard to each underlying bond investment.

Item 45 of assets – Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39

Financial assets held to maturity

Financial assets held to maturity: breakdown

	Total 31/12/2022				Total 31/12/2021			
	BV	FV			BV	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities	2,125,797	1,709,362	47,149	-	1,687,092	1,742,113	59,769	-
- structured	-	-	-	-	-	-	-	-
- others	2,125,797	1,709,362	47,149	-	1,687,092	1,742,113	59,769	-
2. Loans	-	-	-	-	-	-	-	-

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

Financial assets held to maturity: breakdown by debtor/issuer

Type of transaction/Amounts	31/12/2022	31/12/2021
1. Debt securities	2,125,798	1,687,092
a) Governments and Central Banks	2,036,972	1,664,425
b) Other public entities	-	-
c) Banks	88,826	22,667
d) Other issuers	-	-
2 Loans	-	-
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other entities	-	-
Total	2,125,798	1,687,092
Total FV	1,756,511	1,801,883

The “Financial assets available for sale” portfolio of “Insurance companies” includes government bond exposures to Italy of € 471.8 million, to Spain of € 347.4 million, to Belgium of € 131.4 million, to the Portugal of € 64.3 million, to Germany of € 61.5 million, to France of € 32.9 million, to the United States of € 24.7 million and to the Netherlands of € 17.0 million.

Loans to customers

Loans to customers: breakdown

Type of transaction/Amounts	Total 31/12/2022						Total 31/12/2021					
	Book value			Fair Value			Book value			Fair Value		
	Performing	Non-performing		L1	L2	L3	Performing	Non-performing		L1	L2	L3
		Purchased	Other					Purchased	Other			
Loans	587	-	-	-	-	587	1,106	-	-	-	-	1,106
1. Bank accounts	-	-	-	-	-	-	-	-	-	-	-	-
2. Reverse repurchase agreements	-	-	-	-	-	-	-	-	-	-	-	-
3. Mortgages	-	-	-	-	-	-	-	-	-	-	-	-
4. Credit cards and personal loans, incl fifth-of-salary backed loans	-	-	-	-	-	-	-	-	-	-	-	-
5. Financial leasing	-	-	-	-	-	-	-	-	-	-	-	-
6. Factoring	-	-	-	-	-	-	-	-	-	-	-	-
7. Other loans	587	-	-	-	-	-	1,106	-	-	-	-	-
Debt securities	-	-	-	-	-	-	-	-	-	-	-	-
8. Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
9. Other debt securities	-	-	-	-	-	-	-	-	-	-	-	-
Total	587	-	-	-	-	587	1,106	-	-	-	-	1,106

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

Loans to customers: breakdown by debtor/issuer

Type of transaction/Amounts	31/12/2022			31/12/2021		
	Performing	Non-performing		Performing	Non-performing	
		Purchased	Other		Purchased	Other
1. Debt securities	-	-	-	-	-	-
a) Governments	-	-	-	-	-	-
b) Other public entities	-	-	-	-	-	-
c) Other issuers	-	-	-	-	-	-
- non-financial companies	-	-	-	-	-	-
- financial companies	-	-	-	-	-	-
- insurance companies	-	-	-	-	-	-
- other	-	-	-	-	-	-
2. Loans to:	588	-	-	1,106	-	-
a) Governments	-	-	-	-	-	-
b) Other public entities	-	-	-	-	-	-
c) Other entities	588	-	-	1,106	-	-
- non-financial companies	-	-	-	-	-	-
- financial companies	104	-	-	300	-	-
- insurance companies	-	-	-	-	-	-
- others	484	-	-	806	-	-
Total	588	-	-	1,106	-	-

Liabilities

Section 1 – Financial liabilities measured at amortised cost – Item 10

1.1 Financial liabilities measured at amortised cost: breakdown of deposits from banks

Type of transaction/Amounts	Total 31/12/2022				Total 31/12/2021			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Deposits from central banks	5,584,256	X	X	X	8,164,752	X	X	X
2. Deposits from banks	3,152,037	X	X	X	4,420,824	X	X	X
2.1 Bank accounts and demand deposits	705,859	X	X	X	149,425	X	X	X
2.2 Deposits with a set term	5,701	X	X	X	4,010	X	X	X
2.3 Loans	2,439,944	X	X	X	4,265,960	X	X	X
2.3.1 Repurchase agreements	2,420,997	X	X	X	4,242,802	X	X	X
2.3.2 Other	18,947	X	X	X	23,158	X	X	X
2.4 Liabilities for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Lease liabilities	-	X	X	X	-	X	X	X
2.6 Other liabilities	533	X	X	X	1,427	X	X	X
Total	8,736,293	-	2,420,997	6,315,296	12,585,576	-	4,242,802	8,342,774

Key:

BV = Book value

L1= Level 1

L2 = Level 2

L3 = Level 3

Payables are recognised at their nominal value, corresponding to their fair value.

Deposits from banks mainly consist of floating-rate demand payables, for which no hedging has been implemented.

Item “1. Deposits from central banks” includes the refinancing operations carried out with the European Central Bank.

The use of the refinancing channel through the ECB at the end of 2022, was entirely represented by participation in TLTRO III operations, for a total amount of € 5.6 billion. No new transactions were carried out during the year. In December, the Bank made a voluntary early repayment of € 1.2 billion of the TLTRO III.3 tranche maturing in March 2023. In December 2022, the €1.4 billion TLTRO III.2 tranche, which had reached its natural maturity, was also repaid.

1.2 Financial liabilities measured at amortised cost: breakdown of deposits from customers

Type of transaction/Amounts	Total 31/12/2022				Total 31/12/2021			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Bank accounts and demand deposits	34,097,698 X		X	X	33,184,229 X		X	X
2. Deposits with a set term	1,283,116 X		X	X	460,685 X		X	X
3. Loans	2,934,676 X		X	X	3,599,164 X		X	X
3.1 Repurchase agreements	2,355,113 X		X	X	3,009,080 X		X	X
3.2 Other	579,563 X		X	X	590,084 X		X	X
4. Liabilities in respect of commitments to repurchase own equity instruments	- X		X	X	- X		X	X
5. Lease liabilities	131,035 X		X	X	133,341 X		X	X
5. Other liabilities	331,495 X		X	X	339,503 X		X	X
Total	38,778,020	-	2,355,113	36,422,907	37,716,922	-	3,009,080	34,707,842

Key:

BV = Book value

L1= Level 1

L2 = Level 2

L3 = Level 3

Payables are recognised at their nominal value, which corresponds to their fair value; the fair value level assigned is 3, except for the fair value level of repurchase agreements to which a value of 2 is assigned.

Lease liabilities include, pursuant to the standard IFRS 16, the lease liability corresponding to the present value of payments envisaged and not yet paid for the assets covered by an operating lease contract.

The main change introduced by the standard is represented by a change in how operating lease transactions are recognised in the financial statements of the lessee/user, through the introduction of a single accounting model for the recognition of lease contracts by the lessee, regardless of whether they are classified as operating or finance leases.

Deposits from customers are mainly represented by floating-rate demand payables for which no hedging has been implemented, while macro fair value hedges of the demand items have been implemented, as described in Part E, Section 2.2 of these notes.

Note that, following changes made to the functioning of the collateralised interbank market, entailing the transfer of functions carried out to-date by Banca d'Italia to the Clearing House and Guarantee Fund and to Monte Titoli, item 3.1 "Repos" includes loans worth € 2,355.1 million received from said market.

According to ABI data, in Italy, in December 2022, the trend in direct deposits was down by -1.2% on an annual basis, with a more marked change in deposits, while funding through bonds remained unchanged. The decrease is mainly attributable to the deposits of businesses, which in the previous year had significantly increased the balances of deposits, given the abundance of liquidity present and the caution to proceed with new investments. As regards the Credem Group, overall, direct bank deposits showed an opposite trend, growing by 7.2% compared to December 2021, reaching € 39.8 billion, an effect of commercial development that has also continued organically in the difficult reference context.

There is a trend in line with the system exclusively with regard to the corporate segment, on which policies have been launched to optimize liquidity levels.

Deposits recorded +5.0% compared to 2021, and accompanied the growth of the customer base, mainly concentrated on the demand component (86.6% of total deposits) even if the trend in rates is also favouring the growth of deposits at maturity (3.1% versus 1.1%).

1.3 Financial liabilities measured at amortised cost: breakdown of debt securities issued

Type of security/Amounts	Total				Total			
	31/12/2022				31/12/2021			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. bonds	3,368,658	3,120,752	184,164	-	2,424,021	2,470,565	-	-
1.1 structured	501,354	470,182	-	-	501,357	512,472	-	-
1.2 other	2,867,304	2,650,570	184,164	-	1,922,664	1,958,093	-	-
2. other securities	139	-	-	139	145	-	-	145
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	139	-	-	139	145	-	-	145
Total	3,368,797	3,120,752	184,164	139	2,424,166	2,470,565	-	145

Key:

BV = Book value

L1= Level 1

L2 = Level 2

L3 = Level 3

The item “Other securities” includes certificates of deposit.

At the end of December 2022, subordinated and senior bonds amounted to € 3.4 billion, compared to € 2.4 billion in 2021, and incorporate the € 200 million subordinated T2 issue, carried out in July (transaction preceded by the recall of a previous issue no longer effective in terms of equity for € 100 million), in addition to the issue of the *Green Senior Preferred*, intended for institutional investors, for a nominal value of € 600 million, as already mentioned in the paragraph of Report on Operations dedicated to the main events of the Credem Group.

1.4 Breakdown of subordinated debts/securities

The main contractual characteristics of subordinated liabilities:

- “CREDITO EMILIANO 20/30 SUBORDINATED 3.5% SUB” (ISIN IT0005421539) for € 200,000,000.00 consisting of 2,000,000.00 bonds with a nominal value of € 100 each.
The bonds give entitlement to fixed annual coupons corresponding to a gross annual rate of 3.5% until 16 December 2025 then at a gross annual rate of 5Y IRS +3.897%.
The loan expires on 16 December 2030 if the call option has not been exercised at 16 December 2025, which will indicate early redemption.
At 31 December 2022, the residual quantity was € 200,000,000.00 consisting of 2,000,000 bonds with a nominal value of € 100 each.
The bond was fully subscribed by Credemholding.
- “CREDITO EMILIANO 22/32 SUBORDINATED 7,625 SUB” (ISIN IT0005497117) for € 200,000,000.00. consisting of 2,000,000.00 bonds with a nominal value of € 100 each.
The bonds give entitlement to fixed annual coupons corresponding to a gross annual rate of 7.625% until 5 October 2027 then at a gross MS annual rate of 5Y +5.514%.
The loan expires on 5 October 2032 if the call option has not been exercised at 5 July 2027, which will indicate early redemption.

At 31 December 2022, the residual quantity was € 200,000,000.00 consisting of 2,000,000 bonds with a nominal value of € 100 each.

The bond was fully subscribed by Credemholding.

In the event of liquidation, all subordinated bonds will be redeemed only after accounts with all the other non-subordinated creditors have been settled.

The bonds are not covered by the guarantee of the Interbank Deposit Protection Fund.

1.5 Breakdown of structured debts

There were no structured debts to customers at the date of the financial statements, nor at 31 December 2021.

1.6 Lease liabilities

At 31 December 2022, lease liabilities under IFRS 16 amounted to € 131 million. The outgoing cash flows for leasing with an analysis of maturities are attached.

Up to 1 month	5,840
Over 1 months and up to 3 months	325
Over 3 months to 1 year	15,531
Over 1 year to 5 years	63,546
Over 5 years	45,793
Total	131,035

Debt securities issued subject to micro-hedging

The Micro Fair Value Hedge accounting method was adopted to hedge the interest rate risk associated with the issue of fixed-rate bonds for an amount of around € 2,050 million.

Section 2 – Financial liabilities held for trading – Item 20

2.1 Financial liabilities held for trading: breakdown

Type of transaction/Amounts	Total 31/12/2022					Total 31/12/2021				
	NV	Fair Value			Fair Value *	NV	Fair Value			Fair Value *
		L1	L2	L3			L1	L2	L3	
A. Cash liabilities										
1. Deposits from banks	-	-	-	-	-	-	-	-	-	-
2. Deposits from customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	X	-	-	-	-	X
3.1 Bonds	-	-	-	-	X	-	-	-	-	X
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	X	-	-	-	-	X
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total (A)	-	-	-	-	-	-	-	-	-	-
B. Derivatives										
1. Financial derivatives	X	-	36,257	-	X	X	-	33,148	-	X
1.1 Trading	X	-	36,257	-	X	X	-	33,148	-	X
1.2 Related to fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	X	-	-	-	X	X	-	-	-	X
2.1 Trading	X	-	-	-	X	X	-	-	-	X
2.2 Related to fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	X	-	36,257	-	X	X	-	33,148	-	X
Total (A+B)	X	-	36,257	-	X	X	-	33,148	-	X

Key:

NV = nominal or notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

Fair value* = Fair value calculated by excluding the variations in value due to the change in the creditworthiness of the issuer with respect to the issue date.

2.2 Details of “Financial liabilities held for trading”: subordinated liabilities

The item “A. Cash liabilities” includes technical overdrafts, if present.

2.3 Breakdown of “Financial liabilities held for trading”: structured debts

There were no subordinated liabilities or structured debts at the date of the Financial Statements, nor at 31 December 2021.

Section 4 – Hedging derivatives – Item 40

4.1 Hedging derivatives: breakdown by hedging type and fair value hierarchy

	Fair value 31/12/2022			NV 31/12/2022	Fair value 31/12/2021			NV 31/12/2021
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives	-	874,058	-	7,668,363	-	408,084	-	6,931,197
1) Fair value	-	765,513	-	6,446,126	-	408,084	-	6,931,197
2) Cash flows	-	108,545	-	1,222,237	-	-	-	-
3) Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-	-	-	-
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	-	874,058	-	7,668,363	-	408,084	-	6,931,197

Key:

NV = nominal or notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

4.2 Hedging derivatives: breakdown by hedged portfolios and type of hedge

Transaction/Type of hedge	Fair Value							Cash flow		Foreign investments
	Micro hedge						Macro	Micro	Macro	
	debt securities and interest rates	equity securities and stock indices	currencies and gold	credit	commodities	other				
1. Financial assets designated at fair value with impact on profitability	12	-	-	-	X	X	X	-	X	X
total assets and liabilities										
2. Financial assets valued at amortised cost	287,545	X	-	-	X	X	X	-	X	X
3.PortfolioX	X		X	X	X	X	10,058	X	108,545	X
4) Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	287,557	-	-	-	-	-	10,058	-	108,545	-
1. Financial liabilities	251,611	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	216,287	X	-	X
Total liabilities	251,611	-	-	-	-	-	216,287	-		-
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Portfolio of assets	X	X	X	X	X	X	-	X	-	-

The Macro Fair Value Hedge accounting method was adopted to hedge interest rate risk associated with customers' demand deposits.

Customers' demand deposits represent an important source of funding for the bank. A part of these deposits, however, although contractually on demand, displays strong persistence over time and imperfect elasticity to changes in market interest rates, represented by the so-called "viscosity effect".

This effect was estimated using an analysis model consisting of two components:

- the estimate of the relationship between the interest rates of demand items and market interest rates on the basis of an econometric model;
- the estimate of the persistence of volumes, through which the amount of demand items is transformed into a portfolio of fixed rate maturity items.

Hedging derivatives of this type recorded a negative fair value of € 216,287 thousand.

There are micro fair value hedges on fixed-rate securities held in the HTCS portfolio.

Derivatives of this type have a negative fair value of € 12 thousand.

There are micro fair value hedges on fixed-rate securities held in the HTC portfolio.

Derivatives of this type have a negative fair value of € 287,545 thousand.

The Macro Fair Value Hedge accounting method was adopted to hedge interest rate risk associated with the disbursement of fixed rate mortgages and of floating rate mortgages with Cap option. By applying hedge accounting, it is possible to provide accounting evidence of the financial effects of the hedging strategies adopted. Hedging derivatives related to said strategy recorded a negative fair value of € 10,058 thousand.

There are micro fair value hedges on securities issued at a fixed-rate booked under "debt securities issued".

Derivatives of this type have a negative fair value of € 251,611 thousand.

There are macro cash flow hedges on floating-rate mortgages. Hedging derivatives of this type recorded a negative fair value of € 108,545 thousand.

Please refer to the relevant Section in Part E of the Explanatory Notes to the consolidated financial statements for a description of hedging methods.

Section 5 – Changes in value of macro hedged financial liabilities – Item 50

5.1 Changes in value of hedged financial liabilities

Change in value of hedged liabilities / Group components	Total 31/12/2022	Total 31/12/2021
1. Increase in financial liabilities	18,291	104,158
2. Decrease in financial liabilities	222,177	-
Total	(203,886)	104,158

The Macro Fair Value Hedge accounting method was also adopted to hedge interest rate risk associated with customers' demand deposits.

Customers' demand deposits represent an important source of funding for the Group. A part of these deposits, corresponding to around € 3,4 billion, although contractually demand, displays strong persistence over time and imperfect elasticity to changes in market interest rates, represented by the so-called "viscosity effect".

This effect was estimated using an analysis model consisting of two components:

- the estimate of the relationship between the interest rates of demand items and market interest rates on the basis of an econometric model;
- the estimate of the persistence of volumes, through which the amount of demand items is transformed into a portfolio of fixed rate maturity items.

Section 6 – Tax liabilities – Item 60

See section 10 under Assets.

Section 8 – Other liabilities – Item 80

8.1 Other liabilities: breakdown

	Total 31/12/2022	Total 31/12/2021
Tax payables	126,189	149,983
Currency spread on portfolio transactions	480,480	395,114
Amounts available to customers	21,504	13,150
Deferred income	9,930	6,687
Remuneration to be paid and related contributions	24,292	22,321
Accrued liabilities	15,581	4,127
Foreign items being processed	9,162	7,119
Suppliers	190,141	189,830
Items in transit between branches	6,425	8,235
Amounts to be credited to institutions	1,933	1,958
Securities items being processed	10,172	19,701
Other items	118,280	407,796
Amounts to be credited to banks	401,582	402,553
Total	1,415,671	1,628,574

The “Currency spread on portfolio transactions” relates to imbalances in the bank’s own portfolio and that of third parties.

Section 9 – Provision for staff termination indemnity – Item 90

9.1 Provision for staff termination indemnity: annual changes

	Total 31/12/2022	Total 31/12/2021
A. Opening balance	69,845	72,739
B. Increases	1,543	4,649
B.1 Provisions for the year	1,499	632
B.2 Other changes	44	4,017
- of which business combinations	-	2,305
C. Decreases	15,302	7,543
C.1 Severance payments	5,074	7,100
C.2 Other changes	10,228	443
- of which business combinations	-	-
D. Closing balance	56,086	69,845
Total	56,086	69,845

As set forth in the provisions on the matter introduced by the Italian National Board of Actuaries jointly with the competent institutions – the Italian Accounting Committee (OIC), the Italian Association of Auditors (Assirevi) and the Associazione Bancaria Italiana (ABI) – for companies with more than 50 employees at 31 December 2006, a calculation method was outlined, which can be broken down into the following stages:

- projection up to the random period of payment for each employee of the employee severance indemnity, already allocated at 31 December 2006 and revalued at the valuation date;
- determination, for each employee, of the probable staff termination indemnity payments which will have to be made by the company in the event the employee leaves the company due to dismissal, resignation, inability, death or retirement, as well as due to requests for advances;
- discounting, at the valuation date, of each probable payment.

The above applies to the staff termination indemnity provisions accrued at 1 January 2007 for employees who chose to keep their staff termination indemnity in the company and, as a result, assign it to the Treasury of INPS (National Social Security Institution), and, at the date of such decision in 2007, for employees who chose the supplementary pension.

Obviously, the staff termination indemnity provisions at said date were increased by the revaluation (net of substitute tax) and decreased by any advances and settlements paid.

For companies with fewer than 50 employees at 31 December 2006, the actuarial valuation of staff termination indemnity is based on the “benefits earned” method using the Projected Unit Credit (PUC) criteria as set forth in paragraphs 64-66 of IAS 19.

Through this method, valuations are made which express the current average value of staff termination indemnities earned based on the employee’s period of service up to the time of the valuation is performed.

This calculation method can be broken down into the following phases:

- projection for each employee – by virtue of the valuation date – of the staff termination indemnity already allocated and of the future shares of staff termination indemnity which will be accrued up until the random time of payment, forecasting the employee’s remuneration;
- determination for each employee of the probable payments of employee severance indemnity that they will have to pay to be made by the company in the event the employee leaves the company due to dismissal, resignation, inability, death or retirement, as well as due to requests for advances;
- discounting, at the valuation date, of each probable payment;
- recalculation, for each employee, of the assumed and discounted benefits, based on the seniority reached at the valuation date with relation to the total amount due at the random settlement date.

9.2 Other information

The actuarial model used for the valuation of staff termination indemnity is based on several demographic and economic assumptions.

For some of the assumptions used, where possible, explicit reference is made to the Group's direct experience. For others, sector best practice is taken into account.

The main assumptions of the model are set forth below.

Discount rate

The discount rate used to determine the current value of the obligation has been determined in accordance with paragraph 83 of IAS 19, with reference to the Iboxx Corporate AA 7-10 index (in line with the duration of the mutual fund in question).

For the valuation at 31 December 2022, the yield with a duration comparable to the duration of the group of employees subject to valuation was chosen, which resulted in a constant annual rate of 3.63%.

Inflation

The annual rate of inflation used was 2.30%.

Annual rate of increase in staff termination indemnity

As envisaged by Art. 2120 of the Italian Civil Code, the staff termination indemnity is revalued every year at a rate corresponding to 75% of inflation plus one and a half percentage points, therefore the revaluation assumption for actuarial valuations is determined on the basis of the above-indicated rate.

Real annual salary growth rate

The rate applied was 1.00%.

Mortality

In order to estimate mortality within the group of employees subject to valuation, survival table RG48, used by the State General Accounting Department to estimate the pension charges of the Italian population, was adopted.

Inability

In order to estimate inability within the group of employees subject to valuation, an INPS table was used, differentiated by age and gender.

Requirements for retirement

Reaching the minimum requirements indicated by the Compulsory General Insurance (AGO).

Frequency of advances on staff termination indemnity

The annual frequency of access to this option was assumed to be 1.50%, based on a historical series of advances on staff termination indemnity requested by employees of the bank.

Frequency of early termination of employment (turnover)

In calculating the probability of termination of employment due to resignations or dismissals, terminations of 1.80% were hypothesised, based on a statistical analysis of historical Bank figures.

Additional information

Accounting standard IAS 19, for defined benefit post-employment plans, requires a series of additional information, such as:

- sensitivity analysis for each relevant actuarial assumption at the end of the year, showing the impact that there would have been following changes in the actuarial assumption that are reasonably possible at said date, in absolute terms;
- an indication of the contribution for the following year;

- an indication of the average financial term of the obligation for the defined benefit plans;
 - the disbursements envisaged by the plan.
- The following paragraphs contain this information, highlighting the new value of the staff termination indemnity using a turnover rate of a further 100 bps, a change of +/- 25 bps for the rate of inflation and +/- 25 bps for the discounting rate.

Sensitivity analysis of main valuation parameters of the Staff Severance Pay

change in assumptions

turnover frequency		inflation rate		discounting rate	
+100 bps	-100 bps	+0.25 bps	-0.25 bps	+0.25 bps	-0.25 bps
55,920	55,473	56,327	55,094	54,759	56,681

The average financial term is around 9 years, the service cost for 2022 is € 0.2 million and the disbursements estimated for the next five years amount to around € 21.8 million.

Section 10 – Provisions for risks and charges – Item 100

10.1 Provisions for risks and charges: breakdown

Items	Total 31/12/2022	Total 31/12/2021
1. Provisions for credit risk relating to commitments undertaken and financial guarantees given	7,056	8,044
2. Provisions on other commitments and other guarantees given	-	-
3. Pensions and other post retirement benefit obligations	1,254	1,485
4. Other provisions for risks and charges	174,652	164,882
4.1 legal and tax disputes	16,859	21,274
4.2 personnel expenses	96,499	94,874
4.3 other	61,294	48,734
Total	182,962	174,411

10.2 Provisions for risks and charges: annual changes

	Provisions on other commitments and other guarantees given	Pension funds and other post retirement benefit obligations	Other provisions for risks and charges	Total
A. Opening balance	8,044	1,485	164,882	174,411
B. Increases	956	26	84,638	85,620
B.1 Provision for the year	956	26	84,459	85,441
B.2 Changes due to the time value of money	-	-	2	2
B.3 Difference due to discount-rate changes	-	-	12	12
B.4 Other changes	-	-	165	165
- of which business combinations	-	-	-	-
C. Decreases	1,944	257	74,868	77,069
C.1 Use during the year	1,937	74	73,061	75,072
C.2 Differences due to discount-rate changes	-	-	595	595
C.3 Other changes	7	183	1,212	1,402
- of which business combinations	-	-	-	-
D. Closing balance	7,056	1,254	174,652	182,962

10.3 Provisions for credit risk relating to commitments undertaken and financial guarantees given

	Provisions for credit risk relating to commitments undertaken and financial guarantees given				
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired	Total
Commitments to disburse funds	1,625	746	-	-	2,371
Financial guarantees given	158	392	3,912	223	4,685
Total	1,783	1,138	3,912	223	7,056

10.5 Defined-benefit company pension funds

An internal fund of Credem and Credemleasing is managed to provide pension benefits in addition to those provided by INPS (Italian National Social Security Institution).

It is a “Defined Benefit Plan” whose amounts are subject to the same equalisation as INPS pensions, as well as registration with the Central Pensions Register. Actuarial valuation is carried out for this item.

The beneficiaries of said plans are those who:

- were heirs of people that passed away during their period of employment with Credem and Credemleasing (replaced by the current National Insurance Fund since 1 January 1996);
- were former employees of Banca Popolare Dauna, who had already retired or who had resigned by 30/11/1999. Banca Popolare Dauna became part of Credem on 11 December 1999, following a merger by incorporation.

For the actuarial valuations of the Fund at 31 December 2022, taking into account the guidelines for drafting of the technical reports by social security institutions, the demographic and economic-financial assumptions described in the following two paragraphs were adopted.

During the year, the fund recorded a net decrease of € 231 thousand.

Demographic assumptions

The following probabilities were used:

- for the probability of death of retired personnel, table IPS55 was used, according to gender;
- for the probability of death of personnel who retired due to total, permanent invalidity, that used in the INPS model for the 2010 forecast, according to gender;
- for the probability of surviving dependants, that published in the INPS model for the updated 2010 forecast, according to gender.

Economic-financial assumptions

The assumptions in question regard the discounting rate, the inflation rate and annual revaluation rates of Fund and INPS pensions.

The revaluation rate used was an average variation from the inflation rate of 75% taken from a high number of cases similar to that in question, and in relation to the increases set forth by regulations in force from 2009 (100% of the ISTAT inflation rate for yearly pensions totalling less than 5 times the minimum and 75% of the rate for yearly pensions falling within the previous amount and 8 times the minimum); note that the Fund pension is supplementary to that of INPS only for some retirees.

As regards the discounting rate, in accordance with IAS, a rate has been adopted that is in line with the likely average life of the group of people in question.

Table of economic-financial bases

Variables	Values %
Inflation rates	2.30%
Annual discount rate	3.63%

Additional information

Accounting standard IAS 19, for defined benefit post-employment plans, requires a sensitivity analysis of the main actuarial assumption.

The following paragraphs contain this information, highlighting the new value of the staff termination indemnity using a change of +/- 25 bps for the inflation rate and +/- 25 bps for the discounting rate.

The average financial term is around 9,4 years.

Sensitivity analysis of main valuation parameters

change in assumptions			
inflation rate		discount rate	
+0.25 bps	-0.25 bps	+0.25 bps	-0.25 bps
1,276	1,232	1,228	1,282

10.6 Provisions for risks and charges: other provisions

	Total 31/12/2022	Total 31/12/2021
For guarantees and commitments:	7,056	8,044
For other risk and charges:	174,652	164,882
- for legal and sundry disputes pending	55,588	48,474
- for other financial charges	119,064	116,408
Total	181,708	172,926

As part of its normal business operations, the Group is involved in various judicial proceedings, which may result in compensation and/or restitution obligations, and the consequent outlay of economic resources (legal risk). All outstanding disputes have been duly analysed by the Bank and, in the light of these analyses, as well as of the recommendations of its external attorneys, the appropriate allocations have been made, where necessary, on the basis of the circumstances in question. More specifically, a provision for risks and charges has been established to cover the contingent liabilities that may arise from pending lawsuits.

The majority of these disputes regard the Group's core businesses, particularly investment services, compound interest and taxes.

Disputes regarding real estate, administration and over the counter transactions are of minor significance.

The following paragraphs provide a description of the main categories of potential liabilities, for which, if they are deemed to be probable, allocations have been made to other provisions for risks and charges.

Estimates of allocations were made analytically for the individual positions in cases where the counterparty had already taken legal action and on the basis of potential risk estimated according to a series of historical-statistical data in the case of objective risks (complaints) that have not yet become lawsuits. The impact of discounting was calculated using the Euribor rate.

Total other provisions for risks and charges amount to € 174,7 million.

The following paragraphs provide a description of the main categories of potential liabilities, for which, if the same are retained to be probable, allocations have been made to provisions to cover other various risks and charges.

Labour disputes

the risks relating to labour disputes are assessed quarterly on the basis of the progress of the disputes and therefore the provisions are adjusted accordingly.

Bankruptcy revocations

These are disputes that the Group may be involved in as part of its ongoing business activities when customers undergoing Bankruptcy arrange payments in favour of the Group companies, issue remittances on a current bank account at a time close to the declaration of Bankruptcy. Revocatory action is a tool that can be used by the bankruptcy receiver in order to reconstitute the equity of the bankrupt party addressed to paying its creditors, by retracting amounts that had been paid out in the period prior to the bankruptcy (the suspect period). The Group makes a valuation of each position on a case-by-case basis, before the fact and before the law, paying special attention to documentary/factual evidence. Following said analysis, where necessary, the appropriate allocations are therefore made (and changed on each occasion, where necessary) in line with the specific circumstances of the case in question. All relative lawsuits are constantly monitored and the risks resulting from such, where appropriate, are covered by specific allocations to the provision for risks and charges, in application of the provisions of IAS 37.

Misappropriation

This regards disputes the Group may be involved in as part of its ongoing business activities. There are some claims and legal disputes resulting from irregular conduct by employees or financial advisors when carrying out the assignments entrusted to them or in their work, which have led to claims by customers against the Bank, which may be retained liable for said conduct.

The Group makes a valuation of each position on a case-by-case basis, before the fact and before the law, paying special attention to documentary/factual evidence.

Following said analysis, where necessary, the appropriate allocations are therefore made (and changed on each occasion, where necessary) in line with the specific circumstances of the case in question.

Disputes regarding anatocism

The overall number of pending lawsuits has remained stable, in the light, above all, of issues triggered by rulings (as well as by the development of sector-related legislation). All relative lawsuits - at times also including disputes regarding exceeding the Usury Threshold Rate - are constantly monitored and the risks resulting from such, where appropriate, are covered by specific allocations to the provision for risks and charges, in application of the provisions of IAS 37.

Disputes regarding investment services

With regard to legal disputes regarding investment services - bonds in default, derivatives etc. - the policy adopted by the Bank in this regard is that of assessing each position on a case-by-case basis, paying particular attention to documentary evidence and to the adequacy profile of the investments disputed with respect to the position of the individual counterparty. Following said analysis, where considered necessary, allocations are therefore made in line with the specific circumstances.

Claims made by customers

Appropriate provisions are made for customer complaints; specifically, if the damages claimed are higher than a set threshold of significance (equal, to date, to € 25 thousand), the loss provision is made analytically. If, on the other hand, the damages claimed are lower than said threshold, the provision is determined by applying a flat/statistical percentage based on the average of the losses actually incurred over the total number of similar complaints received in previous years.

Tax disputes

The risks resulting from the Group's tax disputes are covered by adequate allocations to provisions for risks and charges.

As regards the Parent Company, there are 23 disputes pending, mostly related to direct and local taxes. With regard to these disputes, no effective risks have emerged or at least the estimated risk appears remote. Therefore, no specific provisions have been made.

For Credemleasing there are 34 disputes, mainly relating to local taxes.

For Credem Euromobiliare Private Banking S.p.A., as a result of the favourable conclusion of the only dispute pending regarding registration tax on the sale of a business unit, there are no pending disputes.

For Credemtel S.p.A., as of 2022, a single dispute is pending regarding VAT penalties.

Lastly, there are disputes of lesser importance related to the work of financial advisors and labour-related matters, as well as the real estate and administration areas.

Lastly, there are disputes of lesser importance related to the work of financial advisors and labour-related matters, as well as the real estate and administration areas.

In September 2021, the inspection report was delivered by Banca d'Italia following the checks carried out in the period April-July 2021 on compliance with the regulations and supervisory guidelines on the subject of transparency of transactions and fairness of customer relations. During 2022 certain areas for strengthening were identified, in some cases also with restitution consequences in favour of customers, for which a specific project activity was established for the definition and implementation of the remedial plan to overcome the anomalies reported.

Section 11 – Technical reserves – Item 110

11.1 Technical reserves: breakdown

	Direct business	Indirect business	Total 31/12/2022	Total 31/12/2021
A. Non-life business	-	-	-	-
A1. Provision for premiums reserves	-	-	-	-
A2. Provision for claims reserves	-	-	-	-
A3. Other reserves	-	-	-	-
B. Life business	4,356,382	-	4,356,382	4,257,810
B1. Mathematical reserves	4,290,960	-	4,290,960	4,199,227
B2. Provision for reserves for amounts to be disbursed	55,000	-	55,000	48,752
B3. Other reserves	10,422	-	10,422	9,831
C. Technical reserves when investments risk is borne by the policyholder	-	-	-	-
C1. Reserves for contracts with disbursements connected to investment funds and market indices	-	-	-	-
C2. Reserves from pension fund management	-	-	-	-
D. Total technical reserves	4,356,382	-	4,356,382	4,257,810

The values indicated refer to the subsidiary Credemvita.

Section 13 – Group shareholders' equity – Items 120, 130, 140, 150, 160, 170 and 180

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

	Total 31/12/2022	Total 31/12/2021
A. Share capital		
A.1 Ordinary shares	341,320	341,320
A.2 Savings shares	-	-
A.3 Preferred shares	-	-
A.4 Other shares	-	-
B. Treasury shares		
B.1 Ordinary shares	10,072	4,025
B.2 Savings shares	-	-
B.3 Preferred shares	-	-
B.4 Other shares	-	-

The portfolio contains 1,816,938 treasury shares, with an equivalent value of € 10.1 million, purchased as part of the programme implemented in accordance with the resolutions adopted by the various Ordinary Shareholders' Meetings; the purpose of these programmes is to purchase shares of Credito Emiliano to fully cover payment plans based on financial instruments addressed to executives with strategic responsibility and the "most important staff" of the banking group. In accordance with legislation in force, the details of the programme were previously communicated to the market.

During the year, 535,986 shares were allocated and 1,500,000 shares were purchased on the market.

For further details on payment plans based on financial instruments, please refer to "Part I" of these Explanatory notes to the consolidated financial statements.

13.2 Share capital – Parent company's number of shares: annual changes

Item/Type	Ordinary	Other
A. Shares outstanding at the beginning of the year	341,320	-
- fully paid	340,467	-
- not fully paid	-	-
A.1 Treasury shares (-)	853	-
A.2 Shares outstanding: opening balances	341,320	-
B. Increases	536	-
B.1 New issues	536	-
- against payment:	-	-
- bonds converted	-	-
- warrants exercised	-	-
- other	-	-
- without payment:	536	-
- to employees	518	-
- to Directors	9	-
- other	9	-
B.2 Sale of treasury shares	-	-
B.3 Other changes	-	-
C. Decreases	(1,500)	-
C.1 Cancellation	-	-
C.2 Purchase of treasury shares	(1,500)	-
C.3 Business transferred	-	-
C.4 Other changes	-	-
D. Shares outstanding: closing balances	341,320	-
D.1 Treasury shares (+)	1,817	-
D.2 Shares outstanding at the end of the year	339,503	-
- fully paid	339,503	-
- not fully paid	-	-

13.4 Profit reserves: other information

This category includes the legal reserve, the extraordinary reserve and the reserve for banking risks previously recognised in the Financial Statements, drawn up in accordance with previously effective Italian Legislative Decree no. 87/92 and reclassified according to the IAS standards.

The legal reserve, established as required by law, must be equal to at least one-fifth of share capital. Said reserve was established in the past through the allocation of at least one-tenth of the annual net profits to the same, in accordance with Article 29 of the Articles of Association. Should the reserve decrease, it must be replenished through the obligation of allocating one-twentieth of the profit.

The statutory or extraordinary reserve is established, based on the Articles of Association, through allocation of the residual profit following the distribution of profit to ordinary shares.

The merger reserves pursuant to Italian Law 218 of 30 July 1990 were established in occasion of reorganisation or merger transactions carried out in accordance with the aforementioned law.

Other reserves include the reserve established as a result of the stock option plan and other reserves established in the past for specific regulatory provisions.

CONSOLIDATED FINANCIAL STATEMENTS –
EXPLANATORY NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS

There are also two tax-relief reserves, separate by the type of realignment carried out pursuant to Article 110 of Italian Decree Law of 14 August 2020, subsequently amended by Italian Law 178/2020. Finally, the item includes the effects generated by the transition to international accounting standards. In particular, the profit reserves include the effects resulting from the change in accounting standards that do not involve a contribution to the income statement in upcoming years. The additional effects generated by transition to the IAS/IFRS and which are expected to change over time and be recognised in income statement upon realisation or disposal of the corresponding asset and liability were booked under "Valuation reserves". These regard the measurement of financial assets available for sale through other comprehensive income, the measurement of derivative cash flow hedges, the reserve associated to actuarial profits/losses on defined benefit plans and special revaluation laws. The annual changes of said reserves are included in comprehensive income.

Section 14 – Non-controlling interests – Item 190

14.1 Breakdown of item 210 "Non-controlling interests"

Company Name	Total 31/12/2022	Total 31/12/2021
Equity investments in consolidated companies with significant third party investment		
1. BLUE EYE SOLUTIONS S.r.l.	155	140
2. CREDEM CB S.r.l.	4	4
3. SATA S.r.l.	-	509
Total	159	653

Following the power exercised by the insurance company Credemvita – a financial conglomerate of a predominantly banking nature – to postpone the first adoption of IFRS 9 (Deferral Approach) until 2023, the following new Balance Sheet - Liabilities items have been added to the consolidated financial statements as required by the update of Banca d'Italia Circular no. 262:

- Balance Sheet – Liabilities: Item 15. Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39, which includes deposits from banks, deposits from customers and debt securities issued, as defined in accordance with IAS 39;
- Balance Sheet – Liabilities: Item 35. "Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39", which includes financial liabilities held for trading, financial liabilities measured at fair value and derivatives with a negative fair value, as defined in accordance with IAS 39;
- Balance Sheet – Shareholders' Equity: Item 125. "Valuation reserves pertaining to insurance companies", which includes valuation reserves for financial assets available for sale, shadow accounting effects and related taxes.

Item 15 of the liabilities - Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39

Deposits from customers: breakdown

Type of transaction/Amounts	31/12/2022	31/12/2021
1. Bank accounts and demand deposits	-	-
2. Time deposits including saving deposits with maturity	-	-
3. Loans	-	-
3.1 Repurchase agreements	-	-
3.2 Other	-	-
4. Liabilities in respect of commitments to repurchase own equity instruments	-	-
5. Other liabilities	2,481	2,773
Total	2,481	2,773

Fair value - level 1	-	-
Fair value - level 2	-	-
Fair value - level 3	2,481	2,773
Total Fair value	2,481	2,773

Debt securities issued: breakdown

Type of security/Amounts	Total 31/12/2022				Total 31/12/2021			
	Book value	Fair Value			Book value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	109,274	-	-	99,167	109,121	-	-	109,913
1.1 Structured	-	-	-	-	-	-	-	-
1.2 other	109,274	-	-	99,167	109,121	-	-	109,913
2. Other securities	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	-	-	-	-	-	-	-	-
Total	109,274	-	-	99,167	109,121	-	-	109,913

Details of item 30 "Debt securities issued": subordinated securities

	31/12/2022	31/12/2021
A. Debt securities issued		
Debt securities issued - Subordinated securities	109,274	109,121

At the end of the year, Credemvita carried out a redemption operation and placement of bonds.

Breakdown of subordinated debts/securities

Non-convertible bond, fixed rate, issued at 98.330% on 18 November 2020 and called "Credemvita s.p.a.", ISIN code XS2253071216 in euros. The security has the following characteristics:

- Nominal value: € 107,500,000;
- Expiry date: 18/02/2031;
- Coupon: Fixed annual rate, set at the time of issue of 3.5% for the first five years. The interest rate is reviewed at the end of the fifth year, without the application of any step-up mechanism;
- Rating: BBB- by Fitch

The loan may be repaid - in addition to the natural maturity date - after the fifth year, or in the circumstance of a "Regulatory Event", namely in the event that the securities are no longer considered eligible (and therefore cannot be included among the elements used for the calculation of level 2 own funds of the Company, or, in accordance with market practice, in the event that the Company is no longer subject to the supervision of the IVASS or at the occurrence of a "Tax Event" (i.e. if, due to the introduction of new tax rules or the amendment of existing ones, the Company would be subject to additional taxes on the Loan or would no longer be able to deduct the interest paid on the Loan).

Item 35 of the liabilities - Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39

Financial liabilities measured at fair value: breakdown

Type of transaction/Amounts	31/12/2022					31/12/2021				
	NV	FV			FV*	NV	FV			FV*
		L1	L2	L3			L1	L2	L3	
1. Deposits from banks	-	-	-	-	-	-	-	-	-	-
1.1 Structured	-	-	-	-	-	-	-	-	-	-
1.2 Other	-	-	-	-	-	-	-	-	-	-
2. Deposits from customers	3,903,984	-	-	3,903,984	3,903,984	4,406,981	-	-	4,406,981	4,406,981
2.1 structured	-	-	-	-	-	-	-	-	-	-
2.2 other	3,903,984	-	-	3,903,984	-	4,406,981	-	-	4,406,981	-
3. Debt securities	-	-	-	-	-	-	-	-	-	-
3.1 Structured	-	-	-	-	-	-	-	-	-	-
3.2 Other	-	-	-	-	-	-	-	-	-	-
Total	3,903,984	-	-	3,903,984	3,903,984	4,406,981	-	-	4,406,981	4,406,981

Key:

FV = fair value

FV* = fair value calculated by excluding the variations in value due to the change in the creditworthiness of the issuer with respect to the issue date.

NV = nominal or notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

Deposits from customers essentially include the amounts collected by the Group's insurance company for the issue of policies with primarily financial characteristics in relation to investments with risks borne entirely by the subscribers.

The nominal value of insurance policies is conventionally indicated at fair value.

Liability item 125 – Valuation reserves pertaining to insurance companies pursuant to IAS 39

Valuation reserves of financial assets of insurance companies pursuant to IAS39: breakdown

Valuation reserves for financial assets available for sale: breakdown

Asset/Amounts	Total 31/12/2022		Total 31/12/2021	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	4,087	176,785	23,467	52,792
2. Equity securities	-	-	-	-
3. Units of UCITS	6,992	61,948	18,893	3,789
4. Loans	-	-	-	-
Total	11,079	238,733	42,360	56,581

Other information

1. Commitments undertaken and guarantees given

	Nominal value on commitments undertaken and guarantees given				Total 31/12/2022	Total 31/12/2021
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired		
1. Commitments to disburse funds	10,705,933	168,891	34,593	986	10,910,403	10,648,932
a) Central Banks	-	-	-	-	-	-
b) Public administration	10,236	-	3	-	10,239	9,886
c) Banks	27,090	725	-	-	27,815	27,474
d) Other financial companies	131,902	1,419	12	-	133,333	99,617
e) Non-financial companies	8,989,263	46,458	19,061	986	9,055,768	8,836,548
f) Households	1,547,442	120,289	15,517	-	1,683,248	1,675,407
2. Financial guarantees given	969,615	46,536	5,065	638	1,021,854	1,106,049
a) Central Banks	483,382	2,372	-	-	485,754	540,847
b) Public administration	98	-	-	-	98	103
c) Banks	1,394	2,410	-	-	3,804	4,233
d) Other financial companies	4,894	110	-	-	5,004	3,469
e) Non-financial companies	404,488	34,757	4,863	618	444,726	472,818
f) Households	75,359	6,887	202	20	82,468	84,579

3. Assets pledged as collateral for liabilities and commitments

Portfolios	Amount at 31/12/2022	Amount at 31/12/2021
1. Financial assets measured at fair value through profit or loss	22,459	-
2. Financial assets measured at fair value through other comprehensive income	3,343,916	5,479,909
3. Financial assets measured at amortised cost	11,452,899	13,937,953
4. Property, plant and equipment	-	-
of which: property, plant and equipment considered inventory	-	-

Item 1. "Financial assets designated at fair value through profit or loss" includes the receivables as surety for the advance on loans with the European Central Bank.

Item 2. "Financial assets measured at fair value through other comprehensive income" includes:

- € 862,0 million as surety for the advance on loans with the European Central Bank;
- € 2.464,6 million as surety on repurchase agreements;
- € 17.3 million as surety on other transactions.

Item 3. "Financial assets measured at amortised cost" includes:

- € 2.287,7 million in receivables transferred to the special purpose entities under the covered bond operation;
- € 5.386,1 million as surety for the advance on loans with the European Central Bank;
- € 716,5 million as initial and changes in margins with clearing brokers;

- € 120,9 million as surety for the Clearing House and Guarantee Fund;
- € 66,5 million as surety with Banca d'Italia for the issue of banker's drafts;
- € 2.356,1 million as surety on repurchase agreements;
- € 538,0 million as surety on other types of collateralised deposits;

5. Asset management and trading on behalf of third parties

Type of services	Amount
1. Trading on behalf of customers	12,405,751
a) purchases	6,874,305
1. settled	6,859,576
2. unsettled	14,729
b) sales	5,531,446
1. settled	5,521,426
2. unsettled	10,020
2. Portfolio management	30,975,820
a) individual	5,744,781
b) collective	25,231,039
3. Custody and administration of securities	59,168,029
a) third party securities in deposit: relating to depositary bank activities (excluding asset management)	-
1. securities issued by companies included in consolidation	-
2. other securities	-
b) third party securities held on deposit (excluding segregated accounts): other	39,407,208
1. securities issued by companies included in consolidation	718,401
2. other securities	38,688,807
c) third party securities deposited with third parties	38,809,230
d) own securities deposited with third parties	19,760,821
4) Other transactions	14,506,322

Item 4. "Other transactions" mostly includes services provided to third parties relative to order receipt and transmission activities.

IFRS 7 requires specific disclosure of financial instruments which:

- have been netted in the balance sheet in accordance with IAS 32;
- may be netted in certain circumstances but are shown in the balance sheet as open balances insofar as regulated by "framework netting agreements or similar agreements", which however do not meet the criteria established by IAS 32 for netting.

For the disclosure of said agreements, the standard requires the effects of the real financial guarantees received and made to be considered.

In this regard, we hereby state that, following analyses conducted, there are no netting agreements in place that entail netting balances on the balance sheet, in accordance with that required by IAS 32. Therefore, in tables 6. and 7., the columns regarding "Amount of financial assets/liabilities offset in the balance sheet" are empty.

7. Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

Instrument type	Gross amounts of financial assets (a)	Amount of financial liabilities offset in balance sheet (b)	Net amount of financial assets recognised in the balance sheet (c=a-b)	Related amounts not subject to balance sheet offsetting		Net amount (f=c-d- e) 31/12/2022	Net amount 31/12/2021
				Financial instruments (d)	Deposits of cash collateral received (e)		
1. Derivatives	635,194	-	635,194	-	609,121	26,073	10,411
2. Repurchase agreements	-	-	-	-	-	-	-
3) Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total 31/12/2022	635,194	-	635,194	-	609,121	26,073	X
Total 31/12/2021	247,526	-	247,526	162,925	74,190	X	10,411

8. Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

Instrument type	Gross amounts of financial liabilities (a)	Amount of financial assets offset in balance sheet (b)	Net amount of financial liabilities recognised in the balance sheet (c=a-b)	Related amounts not subject to balance sheet offsetting		Net amount (f=c-d- e) 31/12/2022	Net amount 31/12/2021
				Financial instruments (d)	Deposits of cash collateral pledged (e)		
1. Derivatives	398,448	-	398,448	-	609,121	(210,673)	(16,039)
2. Repurchase agreements	-	-	-	-	-	-	-
3) Securities lending	-	-	-	-	-	-	-
4) Other transactions	-	-	-	-	-	-	-
Total 31/12/2022	398,448	-	398,448	-	609,121	(210,673)	X
Total 31/12/2021	7,670,190	-	7,670,190	7,414,807	271,422	X	(16,039)

PART C

INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

Section 1 – Interest – Items 10 and 20

1.1 Interest income and similar revenues: breakdown

Item/Type	Debt securities	Loans	Other transactions	Total 31/12/2022	Total 31/12/2021
1 - Financial assets measured at fair value through profit or loss:	510	321	-	831	209
1.1 Financial assets held for trading	508	-	-	508	147
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets measured at fair value, as per mandatory requirements	2	321	-	323	62
2. Financial assets measured at fair value through other comprehensive income	62,037	-	X	62,037	24,858
3. Financial assets measured at amortised cost:	73,216	580,571	-	653,787	428,380
3.1 Loans to banks	8,341	26,702	X	35,043	3,080
3.2 Loans to customers	64,875	553,869	X	618,744	425,300
4. Hedging derivatives	X	X	23,578	23,578	24,325
5. Other assets	X	X	349	349	50
6. Financial liabilities	X	X	X	57,216	106,255
Total	135,763	580,892	23,927	797,798	584,077
of which: interest income from impaired financial assets	-	11,988	-	11,988	11,743
of which: interest income on finance leases	X	66,806	X	66,806	54,121

1.2 Interest income and similar revenues: other information

1.2.1 Interest income from financial assets denominated in currency

Interest income amounts to € 46,918 thousand.

1.3 Interest expense and similar charges: breakdown

Item/Type	Payables	Struc tured	Other transactions	Total 31/12/2022	Total 31/12/2021
1. Financial liabilities measured at amortised cost	(78,654)	(45,686)	X	(124,340)	(47,713)
1.1 Deposits from central banks	-	X	X	-	-
1.2 Deposits from banks	(40,917)	X	X	(40,917)	(310)
1.3 Deposits from customers	(37,737)	X	X	(37,737)	(16,780)
1.4 Debt securities issued	X	(45,686)	X	(45,686)	(30,623)
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities measured at fair value	-	-	-	-	-
4. Other liabilities	X	X	(1)	(1)	(13)
5. Hedging derivatives	X	X	-	-	-
6. Financial assets	X	X	X	(19,471)	(46,721)
Total	(78,654)	(45,686)	(1)	(143,812)	(94,447)
of which: interest expense relating to lease liabilities	(3,178)	X	X	(3,178)	(3,293)

1.4 Interest expense and similar charges: other information

1.4.1 Interest expense on liabilities in foreign currency

Interest expense amounts to € 35,228 thousand.

1.5 Spreads relating to hedge transactions

Item	Total 31/12/2022	Total 31/12/2021
A. Positive spreads on hedging transactions	240,801	184,731
B. Negative spreads on hedging transactions	(217,223)	(160,406)
C. Net spread (A-B)	23,578	24,325

Section 2 – Net fee and commission income/expense – Items 40 and 50

2.1 Fee and commission income: breakdown

Services/Amounts	Total 31/12/2022	Total 31/12/2021
a) Financial instruments	200,280	226,477
1. Placement of securities	92,068	100,842
1.1 With underwriting commitment and/or on the basis of an irrevocable commitment	-	-
1.2 Without irrevocable commitment	92,068	100,842
2. Acceptance and transmission of orders and execution of orders on behalf of customers	15,032	16,937
2.1 Acceptance and transmission of orders for one or more financial instruments	6,791	7,753
2.2 Order execution on behalf of customers	8,241	9,184
3. Other fees and commissions related to activities carried out on financial instruments	93,180	108,698
of which: trading on own account	-	-
of which: individual portfolio management	93,180	108,698
b) Corporate Finance	1,969	2,189
1. Advice on Mergers and Acquisitions	1,969	2,189
2. Treasury services	-	-
3. Other commissions associated with corporate finance services	-	-
c) Investment advisory activities	12,806	13,352
d) Clearing and settlement	-	-
e) Management of collective portfolios	208,369	263,263
f) Custody and administration	3,943	3,694
1. Custodian bank	-	-
2. Other fees and commissions related to custody and administration activities	3,943	3,694
g) Central administrative services for collective portfolio management	-	-
h) Fiduciary activity	1,230	1,261
i) Payment services	221,018	215,424
1. Bank accounts	134,401	122,763
2. Credit cards	28,481	24,442
3. Debit and other payment cards	22,125	34,205
4. Wire transfers and other payment orders	14,664	13,338
5. Other fees related to payment services	21,347	20,676
j) Distribution of third-party services	61,569	53,956
1. Collective portfolio management	-	-
2. Insurance products	59,396	52,478
3. Other products	2,173	1,478
of which: individual portfolio management	-	-
k) Structured finance	-	-
l) Securitisation servicing	-	-
m) Commitments to disburse funds	-	-
n) Financial guarantees given	4,720	4,471
of which: credit derivatives	-	-
o) Financing operations	16,410	13,721
of which: factoring	16,410	13,721
p) Currency trading	3,859	3,187
q) Commodities	-	-
r) Fee and commission income	26,469	22,952
Of which: for management of multilateral trading facilities	-	-
of which: for management of organised trading facilities	-	-
Total	762,642	823,948

The data in the 2021 tables of “Fee and commission income”, Payment services, have been restated in order to incorporate the fees relating to current accounts in a more analytical

manner.

A disaggregation of fees and commissions by technical form is shown below, in line with the requirements of IFRS 15 par. 114. The main types of fee and commission relate to (IFRS 15 par. 119):

- Individual and collective portfolio management: the performance obligation corresponds to € 48 thousand and is usually satisfied over time;
- Placement of securities: this regards commission at the time of placement of funds/SICAV collected, amounting to € 22.126 thousand;
- Provision of third party services: this regards acquisition commission relating to insurance policies amounting to € 8.710 thousand.

The Group receives different types of variable commission such as:

- Success Fees and retainer fees;
- Performance/Overperformance;
- Rappel.

These commissions are received when specific objectives are achieved, envisaged by contract and are recorded when the calculation of the variable amount becomes certain.

In Part L of the Explanatory notes to the consolidated financial statements, the disaggregation of Revenues by operating segment is illustrated.

2.2 Fee and commission expenses: breakdown

Services/Amounts	Total 31/12/2022	Total 31/12/2021
a) Financial instruments	(5,757)	(6,452)
of which: trading in financial instruments	(2,568)	(2,538)
of which: placement of financial instruments	(1,402)	(1,579)
of which: individual portfolio management	(1,679)	(2,246)
- Own	(846)	(1,250)
- Third party portfolio	(833)	(996)
b) Clearing and settlement	-	-
c) Management of collective portfolios	(4,245)	(9,095)
1. Own	(58)	(79)
2. Third party portfolio	(4,187)	(9,016)
d) Securities custody and administration	(2,757)	(2,863)
e) Collection and payment services	(17,537)	(30,557)
of which: credit cards, debit cards and other payment cards	(11,110)	(9,616)
f) Securitisation servicing	-	-
g) Commitments to receive funds	-	-
h) Financial guarantees received	(1,815)	(811)
of which: credit derivatives	-	-
i) off-site offer of financial instruments, products and services	(102,208)	(113,645)
l) Currency trading	-	-
m) Other fee and commission expenses	(27,796)	(25,584)
Total	(162,115)	(189,007)

Section 3 – Dividends and similar income – Item 70

3.1 Dividends and similar income: breakdown

Items/Income	Total 31/12/2022		Total 31/12/2021	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	126	-	13	-
B. Other financial assets measured at fair value, as per mandatory requirements	-	-	-	-
C. Financial assets measured at fair value through other comprehensive income	-1,950	-	153	-
D. Equity investments	-	-	-	-
Total	2,076	-	166	-

Section 4 – Net profit (loss) from trading – Item 80

4.1 Net profit (loss) from trading: breakdown

Transactions/Income	Unrealized profits (A)	Trading profits (B)	Unrealised losses (C)	Trading losses (D)	Net profit (loss) [(A+B) - (C+D)]
1. Financial assets held for trading	175	6,587	(935)	(2,174)	3,653
1.1 Debt securities	22	5,916	(815)	(1,834)	3,289
1.2 Equity securities	65	669	(74)	(62)	598
1.3 Units of UCITS	88	2	(46)	(278)	(234)
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	-	-	-	-	-
2.1 Debt securities	-	-	-	-	-
2.2 Deposits	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Financial assets and liabilities: exchange differences	X	X	X	X	11,256
4. Derivatives	37,536	300,677	(294,377)	(46,209)	(3,743)
4.1 Financial derivatives:	37,536	300,677	(294,377)	(46,209)	(3,743)
- on debt securities and interest rates	37,536	300,676	(294,377)	(46,209)	(2,374)
- On equity securities and stock indices	-	1	-	-	1
- On currencies and gold	X	X	X	X	(1,370)
- Others	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges related to fair value option	X	X	X	X	-
Total	37,711	307,264	(295,312)	(48,383)	11,166

In the table above, results from trading in financial cash assets in foreign currency are indicated separately from those relating to foreign exchange activities.

Section 5 – Net profit (loss) from hedging – Item 90

5.1 Net profit (loss) from hedging: breakdown

Income/Amounts	Total 31/12/2022	Total 31/12/2021
A. Gains on:		
A.1 Fair value hedging instruments	1,418,585	168,705
A.2 Hedged financial assets (fair value)	28,845	129,521
A.3 Hedged financial liabilities (fair value)	580,528	102,864
A.4 Cash flow hedging derivatives	-	-
A.5 Assets and liabilities denominated in foreign currency	-	-
Total gains on hedging activities (A)	2,027,958	401,090
B. Losses on:		
B.1 Fair value hedging instruments	(632,075)	(212,810)
B.2 Hedged financial assets (fair value)	(1,375,869)	(188,326)
B.3 Hedged financial liabilities (fair value)	(16,328)	-
B.4 Cash flow hedging derivatives	-	-
B.5 Assets and liabilities denominated in foreign currency	-	-
Total losses on hedging activities (B)	(2,024,272)	(401,136)
C. Net profit from hedging activities (A - B)	3,686	(46)
of which: results of hedges on net positions	-	-

The Macro Fair Value Hedge accounting method was adopted to hedge the interest rate risk associated with the disbursement of fixed-rate and floating-rate mortgages with a “Cap” option, to hedge the interest rate risk related to demand deposits of customers, and the micro fair value hedge accounting method was adopted to hedge the interest rate risk for several fixed-rate securities held in the “AFS” and “Loans” portfolios, and to hedge the interest rate risk related to several fixed-rate bonds classified under “debt securities issued”.

The hedging, with reference to the measurement of derivative instruments related to equity items (this in particular concerned the micro fair value hedges of debt securities recognised as financial assets at fair value through other comprehensive income), was affected by the changes in interest rates and market tensions, which occurred during the year.

We must also point out that this result must be related to the positive contributions of the above-mentioned financial figures on the financial margin.

Section 6 – Gains/(losses) on disposal/re-purchase – Item 100

6.1 Gains/(losses) on disposal/re-purchase: breakdown

Items/Income	Total 31/12/2022			Total 31/12/2021		
	Gains	Losses	Net profit (loss)	Gains	Losses	Net profit (loss)
Financial assets						
1. Financial assets measured at amortised cost	36,020	(4,514)	31,506	4,485	(1,351)	3,134
1.1 Loans to banks	-	-	-	-	-	-
1.2 Loans to customers	36,020	(4,514)	31,506	4,485	(1,351)	3,134
2. Financial assets measured at fair value through other comprehensive income	19,044	(5,594)	13,450	68,610	(34,353)	34,257
2.1 Debt securities	19,044	(5,594)	13,450	68,610	(34,353)	34,257
2.2 Loans	-	-	-	-	-	-
Total assets	55,064	(10,108)	44,956	73,095	(35,704)	37,391
Financial liabilities measured at amortised cost	-	-	-	-	-	-
1. Deposits from banks	-	-	-	-	-	-
2. Deposits from customers	-	-	-	-	-	-
3. Debt Securities issued	-	-	-	-	-	-
Total liabilities	-	-	-	-	-	-

The trend of the aggregate also shows the transfers of NPL, unsecured and mortgage portfolios, carried out during the year. The transactions resulted in a net capital gain of approximately € 5.2 million.

The contribution of the finance area was positive.

Section 7 – Net result of other financial assets and liabilities measured at fair value through profit or loss – Item 110

7.2 Net change in the value of other financial assets and liabilities measured at fair value through profit or loss:
breakdown of other financial assets measured at fair value, as per mandatory requirements

Transactions/Income	Unrealized profits (A)	Realized profits (B)	Unrealized losses (C)	Realized losses (D)	Net profit (loss) [(A+B) - (C+D)]
1. Financial assets	351	-	(2,106)	(140)	(1,895)
1.1 Debt securities	-	-	-	-	-
1.2 Equity securities	-	-	-	-	-
1.3 Units of UCITS	20	-	(674)	(39)	(693)
1.4 Loans	331	-	(1,432)	(101)	(1,202)
2. Financial assets: exchange differences	X	X	X	X	-
Total	351	-	(2,106)	(140)	(1,895)

Section 8 – Net value adjustments/recoveries – Item 130

8.1 Net value adjustments for credit risk from financial assets measured at amortised cost: breakdown

Transactions/Income	Value adjustments (1)						Recoveries (2)				Total 31/12/2022	Total 31/12/2021
	Stage 1	Stage 2	Stage 3		Purchased or originated credit impaired		Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired		
			Write-offs	Other	Write-offs	Other						
A. Loans to banks	(64)	(104)	-	-	-	-	20	-	-	-	(148)	(112)
- Loans	(39)	(104)	-	-	-	-	-	-	-	-	(143)	(36)
- Debt securities	(25)	-	-	-	-	-	20	-	-	-	(5)	(76)
B. Loans to customers	(5,001)	(6,973)	(2,565)	(99,556)	-	(2,515)	6,483	1,744	45,736	6,961	(55,686)	(28,611)
- Loans	(4,153)	(6,973)	(2,565)	(99,556)	-	(2,515)	6,047	1,744	45,736	6,961	(55,274)	(27,644)
- Debt securities	(848)	-	-	-	-	-	436	-	-	-	(412)	(967)
Total	(5,065)	(7,077)	(2,565)	(99,556)	-	(2,515)	6,503	1,744	45,736	6,961	(55,834)	(28,723)

Adjustments on loans remain at extremely low values (15 bps of cost of credit), record non-recurring components, relating to an update of the scenarios in the IFRS 9 models and an adjustment of the policies on non-performing loans, and confirm, as already highlighted in the chapter on loans, in line with the addendum and provisioning calendar objectives and confirm, as already highlighted in the chapter of the Report on Operations on loans, the absence of significant signs of credit deterioration.

8.1 Net value adjustments for credit risk relating to loans measured at amortised cost subject to COVID-19 support measures: breakdown

Transactions/Income	Net value adjustments						Total 31/12/2022	Total 31/12/2021
	Stage 1	Stage 2	Stage 3		Purchased or originated credit impaired			
			Write-offs	Other	Write-offs	Other		
1. Loans subject to forbearance compliant with the GLs	-	-	-	-	-	-	-	(25)
2. Loans subject to current moratorium measures no longer complying with the GL and not assessed as subject to forbearance	-	-	-	-	-	-	-	(1,156)
3. Loans subject to other forbearance measures	-	(170)	-	(507)	-	-	(677)	(3,715)
4. New loans	1,129	2	-	(13,846)	-	-	(12,715)	(3,194)
Total	1,129	(168)	-	(14,353)	-	-	(13,392)	(8,090)

The table shows the details of the net value adjustments for loans, subject to “moratoriums” or other forbearance measures in place at the reporting date, or which constitute new liquidity granted through public guarantee mechanisms.

8.2 Net value adjustments for credit risk from financial assets measured at fair value through other comprehensive income: breakdown

Transactions/Income	Value adjustments (1)						Recoveries (2)				Total 31/12/2022	Total 31/12/2021
	Stage 1	Stage 2	Stage 3		Purchased or originated credit impaired		Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired		
			Write-offs	Other	Write-offs	Other						
A. Debt securities	(293)	-	-	-	-	-	463	-	-	-	170	503
B. Loans	-	-	-	-	-	-	-	-	-	-	-	-
- To customers	-	-	-	-	-	-	-	-	-	-	-	-
- To banks	-	-	-	-	-	-	-	-	-	-	-	-
Total	(293)	-	-	-	-	-	463	-	-	-	170	503

Section 9 – Profits/losses from contractual changes without derecognitions – Item 140

9.1 Profits (losses) from contractual changes: breakdown

This item shows a net positive balance of € 114 thousand, € 507 thousand of profits and € 393 thousand of losses following the adjustment made to the book values of the financial assets that reflect the changes made to contractual cash flows that do not give rise to derecognitions in the accounts.

Section 10 – Net premiums – Item 160

10.1 Net premiums: breakdown

Premiums from insurance	Direct business	Indirect business	Total 31/12/2022	Total 31/12/2021
A. Life business				
A.1 Gross premiums written (+)	555,766	-	555,766	484,625
A.2 Reinsurance premiums paid (-)	(5,800)	X	(5,800)	(4,774)
A.3 Total	549,966	-	549,966	479,851
B. Non-life business				
B.1 Gross premiums written (+)	-	-	-	-
B.2 Reinsurance premiums paid (-)	-	X	-	-
B.3 Change in gross value of premium reserve (+/-)	-	-	-	-
B.4 Change in provision for unearned premiums ceded to reinsurers (+/-)	-	-	-	-
B.5 Total	-	-	-	-
C. Total net premiums	549,966	-	549,966	479,851

Section 11 – Net other operating expenses/income from insurance activities - Item 170

11.1 Net other operating expenses/income from insurance activities: breakdown

Item	Total 31/12/2022	Total 31/12/2021
1. Net change in technical reserves	(178,248)	(171,715)
2. Claims paid pertaining to the year	(385,191)	(328,727)
3. Other operating income/charges from insurance activities	160	(53)
Total	(563,279)	(500,495)

11.2 Net change in technical reserves: breakdown

Net change in technical reserves	Total 31/12/2022	Total 31/12/2021
1. Life business		
A. Mathematical reserves	(177,657)	(171,924)
A.1 Gross annual amount	(178,228)	(171,823)
A.2 (-) Amount reinsured with third parties	571	(101)
B. Other technical reserves	(591)	209
B.1 Gross annual amount	(591)	209
B.2 (-) Amount reinsured with third parties	-	-
C. Technical reserves for investment risks to be borne by the insured	-	-
C.1 Gross annual amount	-	-
C.2 (-) Amount reinsured with third parties	-	-
Total "life business reserves"	(178,248)	(171,715)
2. Non-life business		
Change in other technical reserves of non-life business other than claims fund, net of amounts recovered from reinsurance	-	-

11.3 Claims settled during the year: breakdown

Charges for claims	Total 31/12/2022	Total 31/12/2021
Life business: expense relating to claims, net of reinsurers' portions		
A. Amounts paid	(379,230)	(325,991)
A.1 Gross annual amount	(383,804)	(331,020)
A.2 (-) Amount reinsured with third parties	4,574	5,029
B. Change in reserves for amounts to be disbursed	(5,961)	(2,736)
B.1 Gross annual amount	(6,248)	(3,028)
B.2 (-) Amount reinsured with third parties	287	292
Total life business claims	(385,191)	(328,727)
Non-life business: expense relating to claims, net of amounts recovered from reinsurers		
C. Amounts paid	-	-
C.1 Gross annual amount	-	-
C.2 (-) Amount reinsured with third parties	-	-
D. Change in recoveries net of amount reinsured with third parties	-	-
E. Change in claims reserves	-	-
E.1 Gross annual amount	-	-
E.2 (-) Amount reinsured with third parties	-	-
Total non-life business claims	-	-

Section 12 – Administrative costs – Item 190

Administrative expenses show an overall growth of more than 1%, reflecting some inflationary dynamics and the growth of the business, as well as the computability over twelve months of the charges relating to the scope of Caricento.

12.1 Personnel expenses: breakdown

Type of expense/Amounts	Total 31/12/2022	Total 31/12/2021
1) Employees	(550,083)	(539,241)
a) wages and salaries	(397,711)	(382,904)
b) social security charges	(98,600)	(95,272)
c) severance pay	(6,006)	(5,859)
d) social security expenses	(81)	(80)
e) provision for staff termination indemnity	(2,104)	(2,597)
f) provision for pension fund and similar obligations:	-	-
- defined contribution	-	-
- defined benefit	-	-
g) contributions to external pension funds:	(21,743)	(21,189)
- defined contribution	(21,743)	(21,189)
- defined benefit	-	-
h) costs related to share-based payments	(3,730)	(2,823)
i) other employee benefits	(20,108)	(28,517)
2) Other staff	(9,448)	(7,446)
3) Directors and Statutory Auditors	(3,893)	(3,970)
4) Retired personnel	(21)	(24)
Total	(563,445)	(550,681)

In accordance with the instructions of Banca d'Italia Circular no. 262 dated 22 December 2005 (and subsequent amendments):

- "Personnel expenses" also include directors' and statutory auditors' fees and costs incurred for atypical employment agreements;
- the sub-item "Other staff" includes fees for coordinated employment agreements.

12.2 Average number of employees by category

	Total 31/12/2022	Total 31/12/2021
1) Employees	6,544	6,343
a) executives	181	176
b) middle managers	3,114	3,006
c) remaining staff	3,249	3,161
2) Other staff	30	33
Total	6,574	6,376

The average number of employees does not include directors and statutory auditors. Part-time employees are usually considered at 50%.

12.4 Other employees benefits

This item includes meal vouchers, staff leaving incentives, other perks, costs of insurance policies taken out for employees, costs for professional refresher courses, etc.

12.5 Other administrative expenses: breakdown

Services/Amounts	Total 31/12/2022	Total 31/12/2021
Taxes	(123,627)	(126,054)
Stamp duties	(107,720)	(111,427)
Municipal property tax	(3,203)	(2,954)
Other	(12,704)	(11,673)
Other expenses	(228,612)	(221,905)
Insurance	(3,681)	(3,064)
ATM	(964)	(666)
Supplies, stationery and printing	(6,799)	(8,310)
Training	(1,852)	(1,427)
Electricity	(6,450)	(5,441)
Rent expenses on property	(1,494)	(1,238)
Other property expenses	(13,999)	(11,340)
Info provider	(15,691)	(13,344)
Third party data processing	(80,709)	(83,288)
Office machines	(107)	(112)
Outsourced banking processing	(7,805)	(10,302)
Marketing	(15,038)	(10,303)
Personnel mobility	(8,309)	(5,852)
Postage	(998)	(1,550)
Consultancy	(11,792)	(14,492)
Legal expenses for credit collection	(6,198)	(6,202)
Legal expenses	(4,286)	(4,607)
Other compensation to external professionals	(1,964)	(2,064)
Networks and interbank services	(2,781)	(2,707)
Telephone expenses	(6,732)	(7,099)
Transportation	(644)	(656)
Armoured car service and cash counting	(2,888)	(2,371)
Security	(4,938)	(4,632)
Surveys and information	(8,131)	(8,111)
Other expenses	(14,362)	(12,727)
Fund contributions	(57,393)	(51,257)
Contributions to Single Resolution Fund - SRF	(34,274)	(22,073)
Contributions to Deposit Guarantee System - DGS	(23,119)	(29,184)
Total	(409,632)	(399,216)

The costs relating to short-term leases amounted to € 58 thousand, the costs relating to low-value leases to € 76 thousand, while the costs relating to leases not included in the valuation of liabilities amounted to around € 2.7 million (non-deductible VAT and other services).

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

13.1 Net provisions for credit risk relating to commitments to disburse funds and financial guarantees given: breakdown

	Total 31/12/2022	Total 31/12/2021
Net provisions for risks for commitments to disburse funds and financial guarantees given	(1,333)	(2,144)
Reallocation in the income statement related to risks for commitments to disburse funds and financial guarantees given	2,320	1,939
Total	987	(205)

13.2 Net provisions relating to other commitments and other guarantees given: breakdown

	Total 31/12/2022	Total 31/12/2021
Net provisions for risks for other commitments and other guarantees given	(3,851)	(2,662)
	(3,851)	(2,662)

The aforementioned item included a provision of 15% of the contribution to the National Restructuring Fund – previously paid, and equal to € 3.9 million as a “guarantee deposit” – whereas the remaining 85% was recognised in the item “Other administrative expenses”.

13.3 Net provisions for risks and charges: breakdown

	Total 31/12/2022	Total 31/12/2021
Net provisions for risks for claim and annulment proceedings	(1,986)	(6,077)
Interest expenses from discounting of the provision for claim and annulment proceedings	465	-
Reallocation in the income statement related to the provision for claim and annulment proceedings	2,750	2,170
Other provisions	(16,161)	(6,747)
Interest expenses related to discounting provisions	5	-
Reallocation in the income statement related to other provisions	3,660	500
Total	(11,267)	(10,154)

Section 14 – Net value adjustments to (recoveries on) property, plant and equipment – Item 210

14.1. Net adjustments to (recoveries on) property, plant and equipment: breakdown

Asset/Income	Depreciation (a)	Value adjustments on impairment (b)	Recoveries (c)	Net Profit (Loss) (a + b - c)
A. Property, plant and equipment				
1 For operational use	(44,400)	(33)	106	(44,327)
- Owned	(20,550)	-	-	(20,550)
- Rights of use acquired through leases	(23,850)	(33)	106	(23,777)
2. Held for investment purposes	(165)	-	-	(165)
- Owned	(165)	-	-	(165)
- Rights of use acquired through leases	-	-	-	-
3. Inventory	-	-	-	-
Total	(44,565)	(33)	106	(44,492)

Section 15 – Net value adjustments to (recoveries on) intangible assets – Item 220

15.1 Net value adjustments to intangible assets: breakdown

Asset/Income	Amortisation (a)	Value adjustments on impairment (b)	Recoveries (c)	Net Profit (Loss) (a + b - c)
A. Intangible assets				
of which: software	(51,493)	-	-	(51,493)
A.1 Owned	(53,775)	-	-	(53,775)
- Generated internally by the company	(6,755)	-	-	(6,755)
- Other	(47,020)	-	-	(47,020)
A.2 Rights of use acquired through leases	-	-	-	-
B. Assets Held for Sale	-	-	-	-
Total	(53,775)	-	-	(53,775)

Depreciation is increasing due to the constant attention paid to investments to support the planning activity and the evolution of the service model.

Section 16 – Other operating income/charges – Item 230

16.1 Other operating charges: breakdown

	Total 31/12/2022	Total 31/12/2021
Amortisation on improvements to third party assets	(4,348)	(4,016)
Contingent liabilities	(14,698)	(16,175)
Other charges	(3,098)	(11,656)
Total Other charges	(22,144)	(31,847)

16.2 Other operating income: breakdown

	Total 31/12/2022	Total 31/12/2021
Rental income	1,574	1,040
Recovery of taxes	113,815	116,054
Recovery of interest for collections and payments in the clearing house	1	-
Contingent assets	8,270	6,425
Other income	48,771	38,317
Negative Goodwill	-	95,589
Total Other income	172,431	257,425

The “Recovery taxes” item includes the recovery of the higher charge resulting from the calculation of stamp duty on securities portfolios.

“Other income” also includes recoveries of “Fast track loan approval process commissions”, regulated by paragraph 2 of Italian Law dated 23 December 2011.

The negative goodwill, or badwill, recorded in 2021 derives from the integration transaction with Caricento.

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

17.1 Gains (losses) on equity investments: breakdown

Income/Sectors	Total 31/12/2022	Total 31/12/2021
1) Jointly controlled companies		
A. Income	7,853	6,417
1. Revaluations	7,853	6,417
2. Gains on disposal	-	-
3. Write-backs	-	-
4. Other income	-	-
B. Charges	-	(636)
1. Write-downs	-	-
2. Impairment losses	-	-
3. Losses on disposal	-	-
4. Other expenses	-	(636)
Net profit (loss)	7,853	5,781
2) Companies subject to significant influence		
A. Income	252	556
1. Revaluations	252	556
2. Gains on disposal	-	-
3. Write-backs	-	-
4. Other income	-	-
B. Charges	(250)	-
1. Write-downs	(250)	-
2. Impairment losses	-	-
3. Losses on disposal	-	-
4. Other expenses	-	-
Net profit (loss)	2	556
Total	7,855	6,337

For joint ventures, item “A. Income, 1. revaluations” includes the gains of Credemassicurazioni consolidated using the equity method; for Companies subject to significant influence, “Income, 1. revaluations” includes the profits of Andxor and the Santamaria Group, which are consolidated using the equity method.

The item “Write-downs” is attributable to the impairment test process of the equity investment held in SBC Fintech Milan 2224.

Section 20 – Gains (Losses) on disposals of investments – Item 280

20.1 Gains (losses) on disposals of investments: breakdown

Income/Sectors	Total 31/12/2022	Total 31/12/2021
A. Property	(13)	900
- Gains on disposal	163	1,047
- Losses on disposal	(176)	(147)
B. Other assets	13,434	9,114
- Gains on disposal	13,664	9,818
- Losses on disposal	(230)	(704)
Net profit (loss)	13,421	10,014

This item includes the capital gain of € 11.1 million for the sale of Gestimlux.

Section 21 – Tax expense (recovery) on income from continuing operations – Item 300

21.1 Tax expense (recovery) on income from continuing operations: breakdown

Income/Sectors	Total 31/12/2022	Total 31/12/2021
1. Current tax (-)	(110,873)	(88,680)
2. Changes of current tax of previous years (+/-)	235	643
3. Decreases in current tax for the year (+)	-	-
3.bis Decreases in current tax for the year due tax credit related to L. 214/2011 (+)	-	-
4. Changes in deferred tax assets (+/-)	(16,071)	(20,965)
5. Changes in deferred tax liabilities (+/-)	(17,896)	(4,586)
6. Tax expense for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(144,605)	(113,588)

Current tax has been recorded on the basis of the tax legislation in force, including the provisions of Italian Legislative Decree no. 38/2005.

21.2 Reconciliation between the theoretical tax charge and the actual tax charge of the financial statements

The overall tax impact on the pre-tax profit is approximately 31.3%.

Consolidated taxable amount	461,591
Ordinary rate applicable	33.07%
Theoretical tax charge	152,648
Effect of the increases compared to the ordinary rate	55,608
Non-deductible costs for IRES purposes	45,998
Non-deductible costs for IRAP purposes	9,610
Effect of decreases compared to the ordinary rate	63,651
Other permanent differences for IRES purposes	22,824
Other permanent differences for IRAP purposes	40,827
Actual IRAP tax charge	144,605

Section 25 – Basic Earnings per share (Basic EPS)

25.1 Average number of ordinary shares – diluted capital stock

	31/12/2022	31/12/2021
Fair value of shares	6.01	5.41
Net profit	316,986	352,593
Weighted number of shares	340,405	335,196
Potential number of shares	-	-
Potential number of diluted shares	340,405	335,196
Earnings per share	0.93	1.05
Diluted earnings per share	0.93	1.05

IAS 33 requires that both basic and diluted earnings per share (EPS) be shown, and that the calculation method be specified for both values. The basic earnings per share derives from the profit or loss attributable to holders of ordinary shares divided by the weighted average number of ordinary shares outstanding during the year.

The fair value of the shares is the weighted average of 2022.

Following the power exercised by the insurance company Credemvita – a financial conglomerate of a predominantly banking nature – to postpone the first-time adoption of IFRS 9 (Deferral Approach) until 2022, the following new Income Statement items have been added to the consolidated financial statements as required by the update of Banca d'Italia Circular no. 262:

Income Statement:

- "Item 115. Net profit (Loss) from financial assets and liabilities pertaining to insurance companies pursuant to IAS 39", which includes all income statement components attributable to the insurance subsidiary with the exception of net premiums and the balance of other operating income/charges from insurance activities, which converge under their own item, of commissions that are represented together with similar bank items and "Net value adjustments (recoveries) pertaining to insurance companies pursuant to IAS 39", which are recognised in item 135, opened for this very purpose;
- Income Statement: "Item 135. Net adjustments (recoveries) pertaining to insurance companies pursuant to IAS 39", which includes any adjustments/recoveries.

The details are provided below:

Income Statement item 115 – Net profit (loss) from financial assets and liabilities pertaining to insurance companies pursuant to IAS 39

Interest income and similar revenues: breakdown

Item/Type	Debt securities	Loans	Other transactions	Total 31/12/2022	Total 31/12/2021
1. Financial assets held for trading	-	-	-	-	-
2. Financial assets measured at fair value	5,493	-	-	5,493	4,116
3. Financial assets available for sale	20,288	-	-	20,288	10,824
4. Financial assets held to maturity	37,113	-	-	37,113	29,188
5. Loans to banks	-	-	43	43	-
6. Loans to customers	-	-	-	-	-
7. Hedging derivatives	-	-	-	-	-
8. Other assets	-	-	-	-	-
Total	62,894	-	43	62,937	44,128

Interest expense and similar charges: breakdown

Item/Type	Payables	Securities	Other transactions	Total 31/12/2022	Total 31/12/2021
1. Deposits from central banks	-	-	-	-	-
2. Deposits from banks	-	-	(27)	(27)	(82)
3. Deposits from customers	-	-	-	-	-
4. Debt securities issued	-	(3,915)	-	(3,915)	(3,909)
5. Financial liabilities held for trading	-	-	-	-	-
6. Financial liabilities designated at fair value	-	-	-	-	-
7. Other liabilities	-	-	(29)	(29)	(42)
8. Hedging derivatives	-	-	-	-	-
Total	-	(3,915)	(56)	(3,971)	(4,033)

Dividends and similar income: breakdown

Items/Income	Total 31/12/2022		Total 31/12/2021	
	Dividends	Income from units of UCITS	Dividends	Income from units of UCITS
A. Financial assets held for trading	-	-	-	-
B. Financial assets available for sale	-	21,911	-	16,038
C. Financial assets measured at fair value	3,881	2,918	3,760	1,498
D. Equity investments	-	-	-	-
Total	3,881	24,829	3,760	17,536

Net profit (loss) from trading: breakdown

Transactions/Income	Unrealized profits (A)	Trading profits (B)	Unrealised losses (C)	Trading losses (D)	Net profit (loss) [(A+B)-(C+D)]
1. Financial assets held for trading	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-
1.2 Equity securities	-	-	-	-	-
1.3 Units of UCITS	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	-	-	-	-	-
2.1 Debt securities	-	-	-	-	-
2.2 Deposits	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Financial assets and liabilities: exchange differences					6,814
4. Derivatives	-	4,986	(1,078)	(3,082)	(1,134)
4.1 Financial derivatives:-		4,986	(1,078)	(3,082)	(1,134)
- On debt securities and interest rates	-	-	-	-	-
- On equity securities and stock indices	-	4,986	(1,078)	(3,082)	826
- On currencies and gold					(1,960)
- Others	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
Total	-	4,986	(1,078)	(3,082)	5,680

Gains/(losses) on disposal/repurchase: breakdown

Items/Income	Total 31/12/2022			Total 31/12/2021		
	Gains	Losses	Net profit (loss)	Gains	Losses	Net profit (loss)
Financial assets						
1. Loans to banks	-	-	-	-	-	-
2. Loans to customers	-	-	-	-	-	-
3. Financial assets available for sale	14,864	(8,573)	6,291	47,146	(18,890)	28,256
3.1 Debt securities	1,997	(2,846)	(849)	20,573	(3,788)	16,785
3.2 Equity securities	-	-	-	-	-	-
3.3 Units of UCITS	12,867	(5,727)	7,140	26,573	(15,102)	11,471
3.4 Loans	-	-	-	-	-	-
4. Financial assets held to maturity	-	-	-	-	-	-
Total assets	14,864	(8,573)	6,291	47,146	(18,890)	28,256
Financial liabilities						
1. Deposits from banks	-	-	-	-	-	-
2. Deposits from customers	-	-	-	-	-	-
Debt securities issued	-	-	-	-	-	-
Total liabilities	-	-	-	-	-	-

Net change in the value of financial assets and liabilities measured at fair value: breakdown

Transactions/Income	Unrealized profits (A)	Realized profits (B)	Unrealized losses (C)	Realized losses (D)	Net profit (loss) [(A+B)- (C+D)]	
					31/12/2022	31/12/2021
1. Financial assets	7,967	11,035	(428,642)	(138,041)	(547,681)	262,534
1.1 Debt securities	131	239	(35,632)	(1,496)	(36,758)	(7,651)
1.2 Equity securities	3,993	405	(25,451)	(3,338)	(24,391)	31,232
1.3 Units of UCITS	3,843	10,391	(367,559)	(133,207)	(486,532)	238,953
1.4 Loans	-	-	-	-	-	-
2. Financial liabilities	577,899	-	-	-	577,899	(209,403)
2.1 Debt securities	-	-	-	-	-	-
2.2 Deposits from banks	-	-	-	-	-	-
2.3 Deposits from customers	577,899	-	-	-	577,899	(209,403)
3. Financial assets and liabilities: exchange differences	X	X	X	X	-	-
4. Credit and financial derivatives	-	-	-	-	-	-
Total	585,866	11,035	(428,642)	(138,041)	30,218	53,131

PART D

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

The detailed information envisaged by IAS 1 on the consolidated statement of comprehensive income is provided (amounts gross and net of taxation, reversals to profit & loss, etc.)

DETAILED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Item	31/12/2022	31/12/2021
10. Profit (loss) for the period	316,986	352,593
Other income without reversal to income statement	10,008	(12,412)
20. Equity securities measured at fair value through other comprehensive income:	3,169	(12,489)
a) change in fair value	3,369	26,472
b) transfers to other components of shareholders' equity	(200)	(38,961)
Financial liabilities measured at fair value through profit or loss (changes to own credit rating):	-	-
a) change in fair value	-	-
b) transfers to other components of shareholders' equity	-	-
40. Coverage of equity securities measured at fair value through other comprehensive income:	-	-
a) change in fair value (hedged instrument)	-	-
b) change in fair value (hedging instrument)	-	-
50. Property, plant and equipment	-	-
60. Intangible assets	-	-
70. Defined benefit plans	9,893	(1,099)
80. Non-current assets and groups of assets held for sale and discontinued operations	-	-
90. Share of valuation reserves of equity investments valued at equity	-	-
100. Income tax relating to other income without reversal to income statement	(3,054)	1,176
Other income with reversal to income statement	(467,329)	(35,836)
110. Hedge of foreign investments:	-	-
a) changes in fair value	-	-
b) reversal to income statement	-	-
c) other changes	-	-
120. Exchange differences:	-	-
a) change in value	-	-
b) reversal to income statement	-	-
c) other changes	-	-
130. Cash flow hedges:	(142,501)	(40,858)
a) changes in fair value	(142,501)	(41,174)
b) reversal to income statement	-	316
c) other changes	-	-
of which: results on net positions	-	-
140. Hedging instruments (elements not designated):	-	-
a) change in value	-	-
b) reversal to income statement	-	-
c) other changes	-	-
Financial assets (other than equity securities) measured at fair value through other profitability overall	(229,597)	(12,007)
a) changes in fair value	(226,120)	53,083
b) reversal to income statement	(3,100)	(65,090)
- adjustments for credit risk	(115)	(523)
- realised gains/losses impairment	(2,985)	(65,352)
c) other changes	(377)	785
Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS39	(308,519)	417
a) changes in fair value	(299,230)	(367)
b) reversal to income statement	(9,289)	784
- impairment losses	-	-
- realised gains/losses	(9,289)	784
c) Other changes	-	-
160. Non-current assets and groups of assets held for sale and discontinued operations:	-	-
a) changes in fair value	-	-
b) reversal to income statement	-	-
c) other changes	-	-
170. Share of valuation reserves of equity investments valued at equity:	(7,178)	(994)

a) changes in fair value	(7,178)	(994)
b) reversal to income statement	-	-
- impairment losses	-	-
- realised gains/losses impairment	-	-
c) other changes	-	-
180. Income tax relating to other income with reversal to income statement	220,466	17,606
190. Total other income	(457,321)	(48,248)
200. Comprehensive income (Item 10+190)	(140,335)	304,345
210. Consolidated comprehensive income attributable to minority interests	16	166
220. Consolidated comprehensive income attributable to Parent Company	(140,351)	304,179

PART E

INFORMATION ON RISKS AND RELATIVE HEDGING POLICIES

Introduction

Summary of the organisation of the Bank's risk governance, of the relative processes and of the key functions

The Credem Group has always strived to achieve a high level of quality in risk management, considered it fundamental and as a strategic objective in order to:

- guarantee the safeguarding of company capital and ensure the utmost effectiveness and efficiency in the value creation process;
- integrate the risk-return dimension into the decisional and operational processes of the different business areas;
- ensure the consistency of operational processes with internal strategies, policies and regulations.

The governance bodies and the specialist functions involved in the process of risk control and management are:

- The Parent Company Board of Directors (body with strategic supervisory responsibility) which assesses all types of risk at consolidated level and approves risk assumption, broken down by the Companies and Business Units identified as relevant in terms of contribution to the Group's risk, through a detailed Risk Appetite Framework process, taking into account the business model and Strategic Plan and in compliance with ICAAP and the internal control system. Credem considers the possibility that, within the identified time horizon, the risk may undergo significant changes in the presence of adverse market trends and/or characterised by high volatility of the different risk factors; to take account of this and ensure, in every situation, that the Group has sufficient margins to operate within the Risk Capacity, thresholds of tolerance to the Risk Appetite (Risk Tolerance) are defined; they represent the maximum change that the Credem Group is willing to accept in stress scenarios.
- The Executive Committee (body with management responsibility), which establishes operating thresholds in line with the risk appetite, manages the implementation of the RAF and authorises surpassing the risk appetite within the limit of the tolerance threshold.
- The Board of Statutory Auditors is responsible for control and supervision.

The Boards of Directors of the individual companies adopt the objectives established by the Board of Directors of the Parent Company in relation to the company mission and risk profile, and approve the structure of the internal operating limits and powers within the scope set by the Board of Directors of the Parent Company.

The Management of the individual companies conduct their business operations in compliance with the powers and operating limits for risk assigned by the respective Boards of Directors.

GROUP RISK AND SUSTAINABILITY COMMITTEE (GRC).

The Committee plays a supporting role - which entails consultation, examination and the formulation of proposals and opinions - with a view to assisting the Board of Directors in its assessments and decisions relating to risk management and to the internal control system, to guarantee the adequacy of the same in terms of the characteristics of the business and of the Group with relation to the development of the organisation and its operations, as well as of the relevant legislative scenario. The Committee also supports the Board of Directors in assessing the Group's Sustainability strategy, including the monitoring of environmental, social and governance risks, and the analysis of the Non-Financial Statement pursuant to Italian Legislative Decree no. 254/2016 and the Code of Corporate Governance 2020 of listed companies.

With particular reference to the duties regarding risk management and control, the Committee performs the following support functions:

- it assesses the effectiveness of the assumptions and the analyses contained within the Recovery Plan and in its subsequent updates, proposed by the ERISK Function, and expresses a grounded opinion regarding its subsequent submission to the BoD;
- it assesses, based on information from the Group Recovery Management Committee

(hereinafter Recovery Committee), the actual existence of a state of recovery, expressing a reasoned opinion in this regard, with a view to its subsequent presentation to the BoD;

- it assesses, based on information from the Recovery Committee, the actual existence of conditions to close the state of recovery, expressing a reasoned opinion in this regard, with a view to its subsequent presentation to the BoD;
- carries out the evaluation and expresses its opinion in order for the Board of Directors to define and approve the Risk Appetite Framework (known as RAF, with a special reference to the evaluation of the risk objectives and of the tolerance thresholds);
- it monitors the performance of the risk profile assumed as a whole in relation to the Risk Appetite objectives and to the tolerance thresholds in respect of all the indicators in the Group's RAF;
- advises on the risk measurement, control and relevance analysis methods, also for internal capital calculation purposes;
- acknowledges the assessments related to the relevance analysis and analyses any new risk that may emerge;
- evaluates the policies and practices for assessing the business operations (e.g. fair value policy and guidelines and criteria for the write-down of loans), verifying that the prices and conditions of transactions with customers are consistent with the business model and risk strategies;
- without prejudice to the responsibilities of the Group Remuneration Board Committee, collaborates with the latter in order to ensure that the remuneration policy reflects and promotes sound and effective risk management; in this regard, it ensures the consistency of short and medium term incentive systems with the RAF;
- without prejudice to the responsibilities of the Group Remuneration Board Committee, also takes part in the definition of the individual objectives of the Head of the Internal Audit Function and the associated subsequent reporting.

As part of the assessment and proposal of the environmental, social and governance sustainability strategy, assisted by the Group Sustainability Committee, the Committee:

- reviews in advance, providing an opinion to the CA, the materiality analysis and the consequent matrix proposed by the Group Sustainability Committee;
- evaluates in advance, providing an opinion to the Board of Directors, the strategic proposition in matters of environmental, social and governance sustainability, and the related milestone plan proposed by the Group Sustainability Committee;
- contributes to the identification, measurement, management and monitoring of the main environmental, social and governance risks, in order to contribute to the sustainable success of the Group, taking into account the characteristic activities and the controls identified by the Area Wealth Sustainability Committee;
- verifies the effectiveness of the supervision of the Group's environmental, social and governance risks, on the basis of the planning and reports sent by the Group Sustainability Committee and by the other company Departments, taking into account the characteristic activities and safeguards identified by the Wealth Area Sustainability Committee;
- oversees the process for the preparation of the Non-Financial Disclosure (NFD):
 - expressing an opinion for the Board of Directors, without prejudice to the powers of the Board of Statutory Auditors and the Audit Service, regarding the completeness and correctness of the NFS;
 - carrying out an adequate evaluation and proposal activity so that the Board of Directors can define the guidelines and objectives regarding the relevant issues and the indicators to be reported, also on the basis of the proposals of the Group Sustainability Committee;
 - supervises the reporting activities and the work of the Institutional Relations and Sustainability Office and all Relevant Functions.

GROUP RISK MANAGEMENT COMMITTEE

The mission is to inform the Executive Committee (EC) on the monitoring of the overall risk taken by each company and of its monitoring within the strategies and methods defined by the Parent Company in the Risk Appetite Framework. Periodically, the Committee:

- monitors the overall risk taken by each company both at management level and with regard to the supervisory absorptions, with reference to the Tableau de Bord for monitoring the Risk Appetite Framework (known as "Level I indicators" or "RAF indicators"). With regard to Credembanca only, this analysis is conducted at individual Business Unit level;

- as part of the monitoring activities defined in accordance with the prudential supervisory rules laid down by the European Central Bank (known as SREP process - Supervisory Review and Evaluation Process), reports the Level II indicators or “SREP indicators”, namely operational indicators for which the RAF does not provide a definition of appetite and tolerance, but whose purpose is to strengthen monitoring and control activities. The list of these indicators is included as an attachment to the Credem Group Recovery Planning and Risk Appetite Regulations, where for each of them the Governance Committee or internal department is indicated, which analyses, within its scope, their development in operational terms. The calculation methodologies for each indicator are shown in the manual “Risk Indicators”: the Risk Management department is responsible for its disclosure and updating. On at least an annual basis, in parallel with the planning processes, approves the alert thresholds and assesses consistency with the Appetite and Tolerance values of first-level RAF indicators.
- also analyses any internal or external event that can considerably change the risk profile and therefore request the competent bodies, through the Risk Officer (hereinafter RO), to carry out additional revisions of the RAF;
- analyses the consistency of the conditions applied to customers depending on the assumed risk;
- assesses specific analyses proposed by the RO that are considered examples of the trends of the various risk factors;
- makes valuations in accordance with the responsibilities assigned to Senior Management by regulations on Risk Management, particularly those relating to internal models.

GROUP RECOVERY MANAGEMENT COMMITTEE

This Committee was established to provide support to the Board of Directors in the management of the recovery states governed by the Recovery Plan, and has advisory and decision-making powers. Under the Plan, the Committee is tasked with the following functions if the recovery thresholds are surpassed:

- it analyses situations of tension or crisis based on supporting elements contributed by the various company functions, coordinated by the Risk Officer, who ensures they are suitably presented to the committee;
- it assesses the effective existence of the recovery state, formalising the outcome of the analyses conducted
- within a reasoned proposal to be submitted to the approval of the BoD, after obtaining the opinion of the Group Risk Committee (hereinafter Risk Committee);
- once a recovery state has been confirmed, it assesses the possibility of promptly activating recovery options, with the relative preparatory actions, assessing the feasibility and effectiveness of bringing the indicators of the Recovery Plan back to within their defined limits;
- with the support of the relevant company functions, it proposes the recovery options within a Plan of Action to the BoD, together with the actions to be taken;
- once a state of recovery has been confirmed:
- either coordinates internal and external communication;
- or coordinates the preparation of the disclosure for the Supervisory Authority, to be submitted to the approval of the Risk Committee and the BoD;
- it assesses whether the conditions to close the state of recovery have been fulfilled and makes a reasoned proposal to the BoD in this regard, obtaining the opinion of the Risk Committee;
- through its Secretary the Risk Officer, it monitors the implementation of the recovery options and whether the indicators of the Recovery Plan have returned to within the envisaged thresholds.

The Committee is also informed by the BoD if the Tolerance threshold is surpassed, as it is considered a warning threshold for the Recovery indicators and may be convened whenever there are significant signs of deterioration.

The aim of the Risk Management department, by means of the Risk Officer and of his/her collaborators, is to:

- ensure the measurement and precise and future control of the exposure to different types of risk, in particular, market, credit, interest rate, liquidity and operational risk;
- monitor capital absorptions;
- propose to the Management Body and to General Management, with the other competent company functions, the definition and revision of the operating limits in line with the allocated

- follow regulation developments and provide the Supervisory Authorities with the information required by the regulations in force in relation to internal models;
- develop and maintain risk measurement, management and control systems compliant with the regulations.

The Risk Management department is required to be authoritative, given the position it holds within the organisation and its mandate, and to be professional, understood as possessing technical expertise and adequate experience in this position. The same is guaranteed organisational solutions able to preserve the independence of the business units entrusted with the assumption and economic management of risk, specifically:

- the hierarchical placement within the Enterprise Risk Management Service (ERISK) under the management body (Executive Committee);
- independent access to Management Bodies;
- an incentive system based on the Key Performance Indicators relating to control objectives, not dependent on the bank's economic results;
- envisaging situations of conflict of interest when assigning competences;
- the option to request the adoption of reliable information systems to adequately identify, measure and monitor all of the risks assumed or to be assumed in the various operating areas and to set in place suitable reporting procedures at the various management levels;
- expressing opinions, in advance, on significant transactions that are the responsibility of the department and being consulted with regard to those assigned to Management Bodies;
- the option to assess proposals on guidelines and regulations regarding the assumption of risk in advance, including penetration into new markets and subscribing to new products.
- To better illustrate the activities performed, the organisational structure of the Risk Management department is shown below, along with a description of its main areas of activity.
- The missions of the Group Risk Management department offices include:
- The Risk Officer: the department coordinator;
- The "Operational and Credit Risks" (OCR) office: assists Credembanca and the Credem Group in defining the operating principles of the Group Risk Management model and of the structure of operating limits and delegated powers, overseeing, in accordance with the Risk Appetite Framework, their functioning, compliance and development, restricted to the assessment of operating and credit risks.
- The Rating Office (RTO) analyses and resolves on the counterparty rating and override proposals on Credembanca and Credemleasing customers forming part of the "Corporate Regulatory Unit" ensuring the supervision of the entire assignment process. It develops, oversees and maintains the model for the automatic and judgemental assignment of the rating for the Corporate Regulatory Unit in its quantitative, qualitative and group membership components.
- The "Internal Model Validation" (IMV) office, which submits the rating system, and more generally, the validated internal models to an internal validation process in order to verify on an on-going basis, repetitively, the reliability of results and to maintain consistency with legislative provisions, with company operating requirements and with the development of the reference market. It checks the suitability of the method-based and process choices and of the impairment activities in light of the IFRS 9. As regards the risk parameters for internal models and IFRS9 impairment, and the models/metrics relating to the IRRBB rate risk and liquidity risk, it carries out periodic checks. It also performs second-level checks on loan performance monitoring activities. It co-ordinates activities relating to the risk model and carries out the self-assessments. It assists the Risk Officer to draw up the Self-Assessment of the ICAAP and ILAAP processes. It oversees and validates the valuation models for pricing, fair value parameters and levels in accordance with the criteria established in the Group's Fair Value Policy, also drawn up in line with legislative and accounting provisions in force.
- The "RAF and Stress test Integration" (RSI) office, which provides support to the Risk Officer and the Group Risk Committee in quantifying and managing exposure and the relative Risk Tolerance, through the application of transversal stress scenarios, to all risks classed as significant in the RAF, with specific regard to their integration, in accordance with the relevant internal regulations. It assists the Risk Officer in defining the criteria to identify the Most Significant Transactions and in drawing up the relative preventive opinions, in accordance with the relevant internal regulations.
- It assists the Risk Officer in the preparation, updating and management of the Recovery and Resolution Plan. For the Risk Management department, it coordinates the activities requested

- by ECB and interfaces with ERA.
- The “Finance and Asset Management Risk” (FAR) office, which assists Credembanca and the Credem Group in defining the operating principles of the Group Risk Management model and of the structure of operating limits and delegated powers, overseeing their functioning, compliance and development, as regards the financial risks of its own portfolio and of third party portfolios in the form of units of UCITS and portfolio management.
- The “Data Risk Management” (DAM) office, which assists Credembanca and the Credem Group in defining the operating principles of the Group Risk Management model, overseeing the functioning, compliance and development of the same, restricted to Data Management processes (Data Quality, Data Reporting, Data Modelling and Solution).
- The “Insurance Risks” (RAS) office, which contributes to the definition, monitoring and assessment of the risk management system of Credemvita, including through support and advisory services to other company functions. It coordinates assessment activities, related to products in the portfolio, the launch of new products and strategic decisions.
- It ensures, in line with business objectives, risk assessment and mitigation at a level deemed acceptable by the company, based on its own Risk Appetite Framework.
- It also assists Credembanca and the Credem Group in defining the operating principles of the Group Risk Management model and of the structure of operating limits and delegated powers, overseeing, in accordance with the Risk Appetite Framework, their functioning, compliance and development, restricted to the insurance risks.

Description of the bank’s risk culture and the manner in which its circulation is guaranteed.

The Board of Directors is responsible for the internal control system, in compliance with specific supervisory regulations for banks issued by Banca d’Italia. Credito Emiliano’s Board of Directors has drawn up the guidelines for internal control systems, to guarantee that the main company risks are adequately identified, managed and monitored.

The guidelines of the internal control system, represented by a set of rules, procedures and organisational structures, which seek to permit, through an adequate process of identification, measurement, management and monitoring of the main risks, business activities to be conducted in a sound and prudent manner, are drawn up by the Board of Directors, which assesses their adequacy in terms of the characteristics of the business, with the assistance of the specific Group Risk Committee and of the company’s control functions. Crédito Emiliano’s internal control and risk management system is structured as follows:

- “line” controls on the proper performance of daily activities, conducted by the same functions that carry out the activities;
- controls set in place by the heads of operating/accounting administrative units, or incorporated into procedures;
- controls on the management of credit risk (including interest rate risk), market and operational risks entrusted to a specific autonomous Risk Management department, which is also responsible for the liquidity risk profile related to strategic risk;
- second-level controls, which seek to monitor measures to counter and mitigate non-compliance risk, including measures against money laundering and terrorism financing;
- controls associated with the process of financial disclosures;
- internal auditing activities, conducted by the Audit Service.

The Credem Group conducts the ICAAP at least once a year. The objective of the ICAAP process entails an independent assessment by the Credem Group, at consolidated level, of its current and future capital adequacy in relation to the risks to which it is exposed and company strategy.

In accordance with the ICAAP process and business objectives, the Board of Directors of the Parent Company assesses all types of risk at consolidated level and approves risk assumption broken down by Company and Business Units identified as significant for the contribution to Group risk, through a structured Risk Appetite Framework process.

The RAF considers the possibility that the risk profile may undergo significant changes in the presence of adverse market trends and therefore Risk Tolerance thresholds are defined, which represent the maximum change that the Credem Group is willing to accept in stress scenarios.

Moreover, the Risk Management Committee reports the Level II indicators, i.e. those operational indicators for which the RAF does not provide the definition of appetite and tolerance, but aimed at strengthening the monitoring and control activities. The calculation methodologies for each indicator are shown in the manual “Risk Indicators”: the Risk Management department is responsible for its disclosure and updating.

During the year the Board of Directors, with the assistance of the Group Risk Committee, assessed

the functioning of the internal control system, considering it to be, on the whole, adequate, efficient and implemented effectively with regard to the characteristics of the bank and of the Group. This opinion takes into account the plan for the implementation of the improvement measures identified following audits conducted by the Control Functions.

The Head of the Audit Service, as the Head of the Internal Audit department, has been appointed by the Board of Directors, on the proposal of the Group Risk Committee assisted by the Appointments Committee, following the approval of the Board of Statutory Auditors.

The Board, after receiving the opinion of the Group Remuneration Committee, pursuant to the Banca d'Italia provisions in this regard, approves the remuneration policy for the Heads of all control functions. Incentive policies are drawn up in line with the tasks assigned, taking care to avoid situations of conflict as regards the areas of the company they monitor.

For further details, please refer to the document entitled "Annual report to the shareholders' meeting regarding the Group remuneration policy" and in particular the paragraph entitled "Remuneration of heads of the company's control functions".

The Credem Group has envisaged specific procedures for the coordination of the various parties involved in the internal control and risk management system. Coordination is guaranteed as follows:

- the Board of Directors and the Board of Statutory Auditors receive reports produced by third- and second-level functions as well as by the relative board and interfunctional committees. Note that the Board of Statutory Auditors is also informed during individual meetings of the Committees and of the Board of Directors;
- the reports produced by second-level functions are sent to the Internal Audit department;
- internal control matters and the relative risks are analysed by the Group Risk Committee, which also records the participation of the Head of the Audit Service, including in the role of Secretary (and therefore informed of all matters discussed by the Committee), the participation of the Head of the Risks Service, the participation of the Manager responsible for preparing the company's financial reports and of the Head of the Compliance and Anti-Money Laundering department, the latter in meetings relevant to their areas, and the potential attendance of any additional guests, whose participation is deemed appropriate, as already indicated previously.

The monitoring of critical issues and supervisory actions occur on a quarterly basis via a single Tableau de Bord for all FACs submitted to the Group Risk Committee and sent to the Supervisory Authority.

With a view to maintaining a strong focus on matters regarding the management of risks relating to banking activities, for several years now the Credem Group has organised training courses at all levels of the organisation, including management bodies.

Impacts resulting from the COVID-19 pandemic and Russia-Ukraine Conflict

Following the spread and persistence of COVID-19 and the consequent context of strong macroeconomic and financial uncertainty, some extraordinary measures were also maintained for 2022.

The Russia-Ukraine conflict also contributed to accelerating inflation and increased market volatility.

In this context, the Executive Committee maintained the higher monitoring frequency for the Risk Appetite Framework, increasing from quarterly to monthly for a significant set of indicators (the Leverage indicators and the MREL-TREA indicator were added to those in force in 2021). A monthly Dashboard was also prepared for the JST including the following topics: RAF Monthly Monitoring, P&L and Provisioning, Liquidity Balance.

Based on the results of the Forecast, starting from the monitoring of June, some RAF 2022 thresholds (Risk Appetite and/or Risk Tolerance) will be revised concerning in particular the area of Capital, Financial Conglomerate, Profitability.

Climate and environmental risks

The Enterprise Risk Management Service (ERISK) has also been entrusted with the identification, assessment, measurement and monitoring of climate and environmental risks (C&E).

Identification: the function, as part of the activities carried out for the materiality analysis, is responsible for the assessment of these risks, through specific analyses aimed at measuring the Credem Group's exposure by adopting methods in line with the practices adopted by the Regulator and with the best practices observed on the market.

ERISK also coordinates the measurement and monitoring activities relating to C&E risk factors in the main risks in line with the risk map used for materiality analyses.

In 2022, the department participated in inter-departmental working groups on ESG risk

management and in the activities required by the European Central Bank (assessment questionnaire and definition of the relative action plan, Climate Stress Test and Climate Thematic Review).

In line with the action plan communicated to the European Central Bank, changes were also made to the risk relevance analysis used by the ENTERPRISE RISK MANAGEMENT function and at the basis of the main risk management processes (RAF, ICAAP, ILAAP, RRP, etc.), in particular in order to fully grasp the impact of climate and environmental risks on the main existing risk categories, the integration of the latter was assessed, identifying for each at least one new related risk sub-category.

More specifically:

- credit risk linked to physical and transition risks: risk that a meteorological event (acute and/or chronic), other environmental factors (e.g. water stress, pollution) or the transition to a more sustainable economy (e.g. low-emission economy carbon) may have an impact on the creditworthiness of the counterparty or on the value of the guarantees in the short, medium and/or long term
- market risk linked to physical and transition risks: risk that a weather event (acute and/or chronic), other environmental factors (e.g. water stress, pollution) or the transition to a more sustainable economy (e.g. low-emission economy carbon) may lead to an unfavourable trend in market variables and therefore a reassessment of market risk in the short, medium or long term
- operational risk linked to physical and transition risks: risk that environmental events, resulting from acute natural events (e.g. landslides, floods) and/or chronic events (e.g. rise in temperatures) or from the transition to a more sustainable economy, may have an impact in the short, medium and/or long term on the organisation (in terms of operating losses, for example due to sanctions)
- liquidity risk linked to physical and transition risks: risk that a meteorological event (acute and/or chronic), other environmental factors (e.g. water stress, pollution) or the transition to a more sustainable economy (e.g. low-emission economy carbon) may have an impact on stable funding sources in the medium and long term (e.g. due to an unexpected redefinition of prices) and on the securities of the institution
- strategic and business model risk related to physical and transition risks: The risk of incurring losses due to the low reactivity to reposition the business in order to adapt to external changes (market, regulatory, etc.) directed towards a more sustainable (e.g. low carbon emissions) and to cope with/mitigate the impacts of a possible occurrence of weather events (acute and/or chronic) and other environmental factors (e.g. water stress, pollution).
- reputational risk linked to physical and transition risks: current or prospective risk of suffering losses attributable to business conduct and conduct with respect to which the public, counterparties of the entity and/or investors associate the Group with adverse climatic and environmental effects.
- ESG risks: risks of a negative financial impact deriving from the current or future effects on the counterparties or on the assets invested by the following factors:

- Environmental: related to the possible impacts of processes, products and services on natural resources, air, water, soil, biodiversity and human health;
- Social: linked to safety, conditions and health at work, workers' rights, human rights, participation and gender equity, etc.;
- Governance: related to anti-corruption, anti-money laundering, presence of initiatives and rules aimed at guaranteeing business ethics, solid and transparent governance, risk management and cybersecurity.

On the basis of these definitions, the materiality analysis was carried out using quantitative approaches (for credit and market risk in the relative paragraphs) or qualitative (for other types of risk).

Other environmental climate risk management activities carried out in 2022 were:

- The integration within the Risk Appetite Framework Document of a qualitative “statement” relating to climate and environmental risks, as reported below:
- "In continuity with the materiality analyses carried out on climate and environmental risks, the Group is committed to continuing to integrate ESG factors into its decision-making processes, also in view of the ECB's expectations regarding climate and environmental risks. It is believed that this process is necessary in order to guarantee effective supervision over time, aimed at establishing a reliable approach to measure, monitor and manage these risks with a view to maintaining/reducing the Group's level of exposure. To this end, the Group prepares to monitor the overall exposures and the progress of the activities envisaged in the updated plan through periodic evaluation by the responsible function. The risk profile is determined on the basis of two dimensions:
 - The Group's exposure to climate and environmental risks is determined through an assessment of the results of the materiality analyses on physical and transition risks on an annual basis and the monitoring of level II indicators defined in relation to these risks.
 - The Group's level of control with respect to climate and environmental risks: is determined through a periodic expert assessment with respect to the progress of the Group in the evolution path envisaged by the updated plan.

The assessments with reference to the level of exposure and supervision determine a qualitative metric of the risk profile through the monitoring matrix illustrated in the RAF Document.

The level of risk appetite therefore reflects the Group's commitment to continue the evolution path in compliance with the updated plan which is considered fundamental. Compared to 2022 and following the introduction of II level monitoring indicators, the Risk Appetite was also calibrated in relation to the level of exposure in reduction or maintenance.”

- Integration with environmental climate factors of the stress scenario used for the 2022 Recovery Plan;
- Introduction from 2023 of specific second-level indicators for credit and market risk monitored in the Group Risk Management Committee.

Section 1 - Risks associated with the consolidation of accounts

This section provides information on the companies included in the consolidation of accounts.

Quantitative information Credit

quality

A.1.1 Breakdown of financial assets by portfolio and credit quality (book value)

Portfolios/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	77,932	211,698	34,403	405,101	43,102,075	43,831,209
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	6,159,472	6,159,472
3. Financial assets measured at fair value	-	-	-	-	-	-
4. Other financial assets measured at fair value, as per mandatory requirements	-	-	-	-	43,960	43,960
5. Financial assets held for sale	-	-	-	-	-	-
Total 31/12/2022	77,932	211,698	34,403	405,101	49,305,507	50,034,641
Total 31/12/2021	101,890	242,066	34,887	263,898	55,067,859	55,710,600

A.1.2 Breakdown of financial assets by portfolio and credit quality (gross and net values)

Portfolios/quality	Non-performing				Performing			Total (net exposure)
	Gross exposure	Overall value adjustments	Net exposure	Total partial write-offs*	Gross exposure	Overall value adjustments	Net exposure	
1. Financial assets measured at amortised cost	735,659	411,626	324,033	17,353	43,598,561	91,386	43,507,175	43,831,208
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	6,161,049	1,577	6,159,472	6,159,472
3. Financial assets measured at fair value	-	-	-	-	X	X	-	-
4. Other financial assets measured at fair value, as per mandatory requirements	-	-	-	-	X	X	43,960	43,960
5. Financial assets held for sale	-	-	-	-	-	-	-	-
Total 31/12/2022	735,659	411,626	324,033	17,353	49,759,610	92,963	49,710,607	50,034,640
Total 31/12/2021	819,040	440,195	378,845	11,043	55,406,463	89,330	55,331,760	55,710,605

Portfolios/quality	Assets with evident poor credit quality		Other assets
	Accumulated losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	52,264
2. Hedging derivatives	-	-	1,090,239
Total 31/12/2022	-	-	1,142,503
Total 31/12/2021	-	-	268,612

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

A structured entity is an entity structured in such a way that the voting rights or similar rights are not considered relevant to establish control, as in the case in which voting rights only refer to administrative activities and the relevant activities are conducted by means of contractual arrangements.

For special purpose vehicles and investment funds, control is considered to exist when the Group has contractual rights to manage the entity's significant activities and is exposed to the entity's variable returns.

B.1 Consolidated structured entities

The Group has no consolidated structured entities.

B.2 Structured entities not consolidated in the accounts

The Group has no structured entities not consolidated in the accounts.

B.2.1 Structured entities not consolidated for supervisory purposes

The Group does not have structured entities not consolidated for supervisory purposes.

B.2.2 Other structured entities

The Group has no other structured entities.

Section 2 - Risk of prudential consolidation

This section provides information on the companies included in prudential consolidation (companies belonging to the Banking Group).

1.1 Credit risk

Qualitative information

1. General aspects

According to the provisions of accounting standard IFRS 9, expected credit losses must be estimated by evaluating a range of possible scenarios adequately weighted so as to reflect a target amount with relation to the different levels of probability of the scenarios occurring.

To this end, the impairment model considers three future macroeconomic scenarios: a central scenario consistent with planning processes, ICAAP and RAF and two further consequential scenarios, to represent a range of variability between the hypothetical plausible scenarios:

- “Good scenario” - scenario with low likelihood that better scenarios will emerge;
- “Baseline Scenario” - central scenario in line with planning processes, ICAAP and RAF;
- “Bad scenario” - scenario with low likelihood that worse scenarios will emerge.

These scenarios are selected from those provided periodically by an external provider and are approved by the Board of Directors. Each is accompanied by the relative probability of occurrence, and provides future forecasts for the main macroeconomic indicators over a three-year horizon, with observations made at quarterly intervals.

The table below shows the macroeconomic scenarios adopted to calculate weighted expected losses, including the weighting defined consistent with the relative probability of occurrence:

IFRS 9 scenario	Description of the scenario	Weight
<i>“Good”</i>	Stronger Near-Term Recovery Scenario (“S1”): a scenario with a probability of 10% that a better scenario will occur and a 90% probability that a worse one will	10%
<i>“Baseline”</i>	Baseline scenario: <i>a scenario with a probability of 50% that a better scenario will occur and 50% that a worse one will</i>	80%
<i>“Bad”</i>	Deep Recession Scenario (“S3”): <i>a scenario with a probability of 90% that a better scenario will occur and 10% that a worse one will</i>	10%

For the purpose of defining the scenarios, GDP is the anchor point variable whose performance is considered as a representative indicator of the overall economic framework. Based on the trend of GDP, the trend of the other important macroeconomic variables is defined. A probability of occurrence is associated to each scenario based on their reference percentile in the distribution of changes of GDP on the scenarios generated.

The effect of the scenarios is then translated into the Impairment model using specific Satellite models that identify the most significant variables to represent the most significant correlation between the economic cycle and internal data, also in terms of time variance (taking the separate drivers into consideration also at various time lags with respect to the reference figure).

The latter are used to calculate the forward-looking components for all parameters that contribute to the calculation of ECL: PD, LGD and EAD/PrePayment.

With reference to value adjustments, it is confirmed that the Baseline Scenario presents a trend that is more comparable to the favourable scenario than to the adverse one. In this sense, the inclusion of the Bad Scenario has a highly detrimental effect on the overall estimate of the Adjustments (also having a higher weighting than the Standard) compared to the improving effect of the favourable Scenario which is cancelled by attributing a weighting of 0% to it.

Additional considerations may be made for exposures classified in “stage 3”. With regard more specifically to non-performing loans, it should be noted that, even in the presence of a substantial equivalence of the definition of non-performing loans (credit-impaired financial assets) in IFRS 9 is substantially the same as that in the accounting standard it replaces (IAS 39), the methods of calculating the ECL lifetime have also had methodological consequences for the purposes of the

valuations to be carried out in this sector, mainly in relation to:

- The inclusion of forward-looking information, such as that relating to scenarios macroeconomic scenarios, recovery estimates and times, the probability of migration to lower classes, as well as information that may have an influence on the value of the collateral or on the expected duration of its recovery;
- The consideration of alternative recovery scenarios, such as those for the sale of credit assets, in connection with possible sales of units of the non-performing portfolio, in relation to the corporate targets for the reduction of non-performing assets, to which a probability of occurrence must be attributed, to be considered as part of the overall assessment.

Taking into consideration the above and in line with the guidelines and objectives related to the NPL portfolio, the write-downs on impaired loans are applied through two different methodologies:

- Specific write-downs on individual exposures, in relation to the adjustments applied to said exposures, during the current period, the expected losses on non-performing loans are determined analytically based on the recovery forecasts made by the manager or resulting from the application of the internal regulation "guidelines and criteria for the write-down of loans of the Credem Group", discounted as a function of the original effective interest rates and of the relative envisaged recovery time. Considering that the recovery forecasts use the specific situation of the borrower as reference, the use of sensitivity analyses for the expected losses for these exposures is not considered consistent. Nevertheless, it cannot be ruled out that a deterioration of the creditworthiness of the borrower, also due to possible negative effects on the economy related to the exhaustion of the support measures put in place to tackle the international spread of the Coronavirus in addition to the effects of the Russia-Ukraine conflict, which could result in the recognition of further losses with respect to those considered at December 2022. It should be noted, in relation to the Russia-Ukraine emergency, that extraordinary activities were carried out in relation to risk management as well as credit strategy. On the latter, forward-looking analyses of the main energy-intensive sectors impacted by the emergency situation have been carried out, and are currently being updated, also in relation to the increase in operating costs and therefore intervening on credit and commercial actions. On the other hand, with respect to monitoring activities, specific actions concerned the entire credit portfolio, identifying the customers potentially most impacted by energy costs, raw material costs and raw material shortages, on the basis of the sectors identified as the most vulnerable (the most affected include the paper industry, the production of ceramic tiles, the Metallurgy, Automotive and lastly the Wood/Agri-food sectors);
- Write-downs determined according to a specific model, which may be applied to a portfolio of bad loan exposures valued on a disposal basis (hereinafter referred to as the "Stage 3 Sub-Model Portfolio" or "Portfolio").

At 31 December 2022, there are no positions classified in the Stage 3 sub-model portfolio.

Historically, the Credem Group has always considered high credit quality to be a cornerstone of its capital stability and a strategic factor in the value creation process. The fundamental principles on which the disbursement of credit is based are as following:

- consistency with the notion of domestic commercial bank when assessing the customer's business activity, its size and its geographic location with respect to the Credem network;
- the technique adopted for risk assessment, which provides an objective and coherent basis for granting credit, in line with the purpose and the financial needs of customers, with their capital and financial structures and with their relative historic and prospective repayment capacities;
- the quality and adequacy of information, in accordance with the data governance principles defined by the Credem Group, which represent a fundamental requirement for the objective valuation of a risk profile, briefly expressed as a rating;
- the fractioning of credit risk pursued by diversifying the customer portfolio with a selective approach consistent with the capital and risk/return objectives;
- consolidated assessment of counterparties at Group level, in order to obtain a coherent and non-fragmented perception of the risk profile of each individual or Group counterparty;
- the attention paid to formal correctness, before credit is disbursed, also through the support of specialist departments of the Group, which provide any necessary technical or other advice;

- attentive management of customer relationships by front offices and the checks conducted by dedicated central offices guarantee the correct application of credit lines, the continuous updating of customer information, the prompt identification of non-performing loans and the adoption of the measures needed to recover the relative exposures;
- the adoption of rigorous policies to classify and hedge non-performing loans and receivables, preferring, where possible, policies aimed at settlements, reaching out-of-court agreements with counterparties, therefore containing recovery costs.

With reference to credit risk issues, it should be noted that the Group publishes the information required by the "Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis" published by the EBA(EBA/GL/2020/07) in the public disclosure "Third Pillar" or "Pillar 3".

1.1 Impacts deriving from the macroeconomic scenario, the RU-UA crisis and climate risk in relation to credit risk

In the course of 2022, the level of uncertainty relating to the global macroeconomic situation was further increased due to the outbreak of the conflict between Russia and Ukraine (i.e., the RU-UA Crisis), which made the macroeconomic forecasts and the relevant scenarios used under IFRS 9 potentially unstable. For this reason, since June 2022, in addition to the effects of the Covid-19 pandemic, the objective has been to also manage this additional factor of uncertainty.

Credito Emiliano has implemented the indications of the various Regulators concerning the application of the accounting standard IFRS 9 on the classification of financial instruments and related measurement of expected losses.

In particular, Credito Emiliano has mainly acted on the methodology for determining the IFRS 9 risk parameters dedicated to performing exposures and will continue to monitor the IFRS 9 methodological framework with a view to Covid-19 and RU-UA Crisis in order to assess the need to adopt subsequent updates with respect to what is in force at this accounting date. The current framework for the classification of exposures in the 3 stages envisaged by the Regulations has not changed. This approach made it possible to manage the pro-cyclical nature of the ongoing emergency situation, as specifically requested by the European Central Bank (i.e. ECB) with specific letters dated 1 April and 4 December 2020, and to continue to promptly identify any deterioration in credit quality, accompanied by an increase in the associated expected loss. This section is structured as follows:

- Assessment of the significant increase in credit risk (SICR);
- Measurement of expected losses.

As described in detail below in the document, the first section is dedicated to illustrating the rationale that led Credito Emiliano to maintain its staging approach to financial instruments, and also describes the relationships of this classification activity with the debt repayment facilitation measures implemented by the Group in the current emergency context. The second section, on the other hand, is dedicated to an analytical description of the changes made in relation to the IFRS 9 measurement models, together with the assumptions underlying the aforementioned changes.

The climate, environmental, physical and transition risks have been integrated into the relevance analysis through which the Credem Group periodically assesses the materiality of all the risks to which it is exposed. In particular, the Group has developed a quantitative methodology to measure the level of concentration of the loan portfolio and the investment portfolio towards those companies whose economic activity is considered particularly sensitive to transition risks. With regard to physical risk, the Group has developed a methodology to measure the potential effects deriving from weather events on its portfolio of credit guarantees and on its real estate lease portfolio, based on geographical location and on the selection of types of weather events. The project started has led to the drafting of a multi-year action to align Credem and the group companies active in lending with the provisions of the ECB Guide on Climate related & Environmental risks (C&E), published in 2020. In the credit area, an initial integration of C&E risks was carried out in the credit assessment processes for the corporate segment and in 2023 the integration in the assessment and monitoring activities will be extended to the other customer segments.

Participation in the Climate Stress Test was particularly significant. Among other things, the exercise included:

- the measurement of interest and commission income generated by counterparties belonging to sectors high greenhouse gas emissions defined by the ECB;
- the quantification of greenhouse gas emissions financed for

- the main counterparties belonging to highly issuing sectors, based on the metric that measures carbon intensity;
- the assessment of the distribution of exposures by NACE most impacted by transition and physical risk.

2. Credit risk management policies

2.1 Organisational aspects

At present, the Credit Service of Credito Emiliano is organised into three areas of responsibility:

- Credit Strategy and Monitoring, which establishes the objectives and the guidelines for credit development as a business line in accordance with objectives and the group's RAF, performs controls on the credit supply chain, draws up internal regulations and defines the main tools, processes and models supporting the entire credit process (without prejudice to the assignments of responsibility to the ERISK department in relation to models falling within the IRB scope);
- Credit Management, which through decision-making activities and technical advice to commercial offices and to companies within the consolidation scope ensures that the risk profile of loans over time is consistent with the defined strategy objectives while overseeing the correct repayment of non-performing positions;
- Non-performing Credit, which handles the management and recovery of non-performing loans.

Credit Strategy guidelines are approved by the specific Group Credit Strategy Committee and resolved upon by the Board of Directors. With regard to the NPL scope, the Group's Non Performing Credit Committee defines specific strategic and monitoring actions, including with regard to the performance of the relevant SREP indicators,

Credit risk management also involves, with regard to their respective areas of competence, the processes of responsibility of the Group ERisk Service:

- The Risk Appetite Framework: in which tolerances and appetites are defined for the indicators relating to credit risk both in terms of performing loans and non-performing loans;
- Management of the internal rating system, in particular Rating Office for the assignment of ratings to counterparties falling within the Corporate Regulatory Function, Operational and Credit Risks for the responsibility of the Corporate and Retail Rating System and for the calibration of parameters as well as the internal function for validation.

The provisions introduced by reference regulations for adopting internal models and subsequent amendments were therefore systematically acknowledged by Credito Emiliano S.p.A. as an opportunity to improve risk management and increase the value generated for shareholders, thanks to its historical asset credit quality as well as the widespread and consolidated use of rating instruments in the assessment, disbursement, monitoring and pricing of loans.

2.2 Management, measurement and control systems

Credit assessment and disbursement activities are differentiated on the base of the type of customer. More specifically, for the corporate segment, an "expert" system is in place to guide formulation of the loan proposal and forms the basis of the rating system. This method is based on an analysis of the economic-equity items of the financial statements supported by an evaluation of cash flows and data from the Automated Interbank Risk Service, as well as qualitative assessments of competitive positioning, business risks and belonging to the Group.

For the Small Business segment, as part of the same general assessment method, differentiations were applied in order to give greater weight to information in terms of performance and data from the Automated Interbank Risk Service, which provide an important contribution to the predictive capacity of default. A rating system has been developed for the small business and private consumer segment, specifically adjusted for this type of customer to support the approval process of transactions.

Moreover, for all Bank customers, an internal Loss Given Default (LGD) model is in place, which assesses the potential loss given the counterparty's default, taking into consideration the counterparty type, amount of exposure, technical form and any guarantee backing the position.

All systems are directly integrated into the loan proposal; the new Electronic Credit Procedure is operational for all private managers and companies. The platform ensures high data quality and efficiency in the credit approval and rating processes.

A fundamental credit governance pillar is also represented by the assignment "ad personam" of delegated powers, after assessing fundamental elements of the decision-making individual, such as expertise, results achieved in credit management and disbursement and training undertaken. Delegated powers are based, for Credembanca only at present, on the "Weighted Agreement" indicator, which by allocating weights to the individual components of the position assigned, identifies the level of risk in accordance with policies and historical default data.

In recent years, also thanks to technological investments and the use of Advanced Analytics, the "automated" mechanisms to support monitoring and origination have also been strengthened, also with a view to Openbanking.

In support of both origination and post-origination performance monitoring we find IMA (Performance Monitoring Indicator) or an Early Warning Model, with the aim of predicting anomalous credit behaviour before it occurs. This indicator is also at the basis of the calculation of the Maximum Grant Agreement (MAC), which is the maximum level of a credit line automatically attributable to a counterparty.

These tools allow greater industrialisation in the credit granting process by also enabling automatic campaigns. These indicators also take into account the economic context of reference at various historical moments (for example, the Covid-19 pandemic, the Russia-Ukraine conflict) on the basis of forward-looking assessments, so that commercial actions are contextualised and graded as necessary. Furthermore, these Early Warning methods are also making it possible to progressively overcome the concept of deadlines for periodic reviews to move to the logic of merit reviews required by event, that is, in the presence of identified reasons for expected credit risk.

Starting from 2020, Credem has carried out an assessment with reference to the EBA document relating to the guidelines on loan origination and monitoring, with the aim of identifying the impacts that the regulation may have determined on governance, credit strategies, credit processes and systems IT.

During 2022, further organisational and governance interventions were carried out to achieve full compliance with the regulatory indications of the EBA guidelines.

The office that sets and controls credit limits is supported by a specific Group Credit Committee, which establishes, among other things, the main Credit Limit on which the Policy is based, which is the "Maximum Exposure Limit" (MEL), i.e. the maximum credit risk that the Group intends to undertake vis-à-vis a counterparty (or group of related parties) including the exposures resulting from securities. The definition of this threshold is based on Group Eligible Capital and Supervisory thresholds. The Committee is also responsible for reporting positions which, following specific decisions, exceed the defined thresholds. Exceeding the "Maximum Exposure Threshold" is classified as a "Most Significant Transaction" pursuant to the 15th update dated 2 July 2013 of Circular no. 263 of 27 December 2006.

Credem Group has determined that the identification of the governance bodies is a prerequisite for risk management from a consolidated perspective:

- Parent Company BoD: responsible for defining the general risk management and risk appetite guidelines, approving internal regulations that also govern the structures of specific limits;
- BoDs of the individual companies adopt the objectives established by the Parent Company BoD in relation to the company mission and risk profile;
- Executive Committee (hereinafter EC): management body of the Parent Company;

In addition, specialist functions have been set up within the Parent Company, and in particular:

- Group Risk Committee (hereinafter also Risk Committee);
- Risk Management Committee;
- The Risk Management department, which is part of the Enterprise Risk Management Service (ERISK).

The Risk Management Department is composed of the Head of the Risk Management Department (Risk Officer), identified as the head of the ERISK Service, and of three different areas:

- Credit, Operations, and Rating Management area;
- Finance and Insurance area;
- Validation, Stress Test, and Data Management area.

At portfolio level, periodic analyses and monitoring are carried out by the Risk Management department.

The Risk Committee plays a supporting role - which entails consultation, examination and the formulation of proposals and opinions - with a view to assisting the Board of Directors in its assessments and decisions relating to risk management and in general to the internal control system, to guarantee the adequacy of the same in terms of the characteristics of the business with relation to the development of the organisation and its operations, as well as of the relevant legislative scenario.

In particular, the Risk Management department allows the Board of Directors, assisted by the Risk Committee and the Board of Directors of the Company (within its scope), to carry out an appropriate assessment for deciding:

- the Risk Appetite Framework (with a special reference to the assessment of the risk objectives and tolerance thresholds) ensuring that the implementation is consistent with the risk objectives and the tolerance thresholds approved;
- the quarterly performance of the risk profile assumed as a whole in relation to the Risk Appetite objectives and to the tolerance thresholds in respect of all the indicators in the Group's RAF.

On 2 October 2015, Banca d'Italia authorised the Credem Group to use the IRB Advanced method (PD, LGD and EAD parameters) from 30 September 2015 to quantify the capital requirement against customer credit risk classified under the Corporate and Retail supervisory function of Credito Emiliano and Credemleasing. As regards internal models, the Risk Management department allows the Board of Directors, assisted by the Risk Committee and the Board of Directors of the Company (within its scope), to carry out an appropriate assessment for deciding:

- the compliance of the internal models with the instructions envisaged by the prudential regulations subject to the opinion of the Board of Statutory Auditors;
- the risk parameters related to the internal models used subject to the opinion of the validation function;
- the criteria for identifying the Most Significant Transactions (MST) and approving the related annual reporting.

Specifically, with reference to the credit risk for the activities required by prudential regulations, the Risk Management department via the Operational and Credit Risks office:

- carries out all the activities required from this office by the Regulations of the "Management of the internal rating system";
- carries out management activities concerning the quantification of the credit risk in support of other functions, also with reference to transactions with associated parties and verifying the adequacy of the assessments made on non-performing loans.

Moreover, the Internal Model Validation office:

- validates the internal models as required by the "Internal Rating Management System" Regulations and the Group Risk Management Regulations;
- checks the monitoring of the loan performance.

CONSOLIDATED FINANCIAL STATEMENTS – EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.3 Methods used to measure expected losses

As already illustrated in part A of these Explanatory notes to the consolidated financial statements, the IFRS 9 provides criteria for measuring expected losses that are broken down into three increasing levels of credit deterioration. Financial instruments are grouped into three stages (categories or buckets), based on credit risk and the increase in credit risk between initial recognition and the reporting date of the financial statements. In detail:

- Stage 1: performing financial instruments that did not undergo a significant increase in their risk level following initial recognition, or that had a low level of risk at the measurement date (low credit risk scope). In this case, a value adjustment is defined equal to the expected loss within the next 12 months of the residual life of the instrument.
- Stage 2: performing financial instruments that did not undergo a significant increase in their risk level following initial recognition and which do not have a low level of risk at the measurement date. In this case, an adjustment is defined equal to the expected loss over the entire residual life of the instrument (lifetime expected losses).
- Stage 3: impaired financial instruments, which show objective evidence of impairment. The value adjustment is analytically defined and covers the expected loss over the entire residual life of the loan (lifetime expected losses).

In general, the allocation rules for the three stages defined by the Credem Group are based on the main elements provided by the internal rating system as well as on the main credit deterioration indicators monitored by the Credem Group for the management of risk.

Credito Emiliano identifies the presence of a significant increase in credit risk (SICR) as a deterioration of at least two classes in the counterparty's rating from the time of initial recognition. At the same time, rating classes that are comparable to the "investment-grade" category are considered low-risk profiles; exposures that at the measurement date fall into these categories are classified by the relevant internal application in Stage 1, without the need to check for any deterioration in creditworthiness following initial recognition (low credit risk exemption).

Furthermore, the presence of forbearance measures or continuous past due of more than 30 days is considered an objective sign of a deterioration in creditworthiness; therefore, financial instruments displaying such signs are classified directly in stage 2 without assessing the simultaneous presence or absence of a significant increase in credit risk or adherence to a low-risk profile.

To identify non-performing loans, and their allocation in the Stage 3 risk bucket, the Credem Group refers to the internal definition of non-performing loans governed by the "Group Credit Policy" regulation. This regulation specifies that the categories of non-performing loans are considered "default" in compliance with the relevant supervisory provisions of Banca d'Italia (Circular no. 272 of 30 July 2008 "Accounts Matrix", Sec. B) Chapter II, "Credit Quality" - 16th update of 2 November 2022) listing the criteria and characteristics required for each category. The default definition includes the following categories, which represent default states of increasing severity:

- past-due and/or overdue non-performing exposures (PS);
- unlikely to pay (IP);
- bad loans (Z).

For the financial instruments allocated in stage 3, value adjustments are defined on an "expert" basis in relation to evidence of management and recovery of non-performing loans: for each problem/non-performing loan, a percentage of coverage is identified that is suitable to represent the expected losses in the residual life of the loan, in relation to the analysis of significant characteristics such as: type of credit product, amount of credit exposure, ageing of the deterioration state, presence of supporting guarantees (type of guarantee and level of "loan to value" coverage).

In the case of financial instruments allocated in stages 1 and 2, the expected losses are calculated by categories of loans that are homogeneous in terms of credit risk. In particular, with each asset containing similar characteristics in terms of credit risk, the following are associated:

- a probability of default (PD);
- a loss Given Default (LGD) that is also commensurate with the type of financing, i.e. the technical form, guarantee type or other relevant factors;
- an Exposure at Default (EAD).

In general, the risk parameters adopted by the Group to determine value adjustments are based on the same assumptions and estimation techniques as those used for internal models validated to quantify the capital requirement for credit risk using the IRB Advanced method (PD, LGD and EAD parameters). Unlike the latter, which are defined using a through-the-cycle approach and include adverse macroeconomic conditions (downturn recession period), the parameters adopted to determine value adjustments in accordance with IFRS 9 are based on a precise ("point in time") and forward-looking logic; so as to be able to represent the current and expected macroeconomic situation in the short to medium term. Therefore, they are estimated by taking historic data into consideration, where trends and correlations with credit risk have been identified, both forecast indicators of expected events as well as forecasts on the performance of the macroeconomic cycle. Hence, value adjustments are calculated by assessing a range of possible results so as to reflect a target amount weighted in relation to the probability of occurrence for the different scenarios. Specifically, the Group considers three scenarios of increasing severity, and projects the trend on risk parameters adopted to measure expected losses, so that they reflect the macroeconomic conditions expected from these scenarios. The techniques used to condition the macroeconomic cycle are consistent with the Group's approach to conducting stress testing exercises conducted by European supervisory bodies:

- methods of conditioning the probability of default (PD) cycle, which combine assumptions of changes in the counterparty's creditworthiness (i.e. changes in the valuation of future ratings associated with the counterparty) with assumptions of changes in the probability of default associated with each risk profile (adoption of internal "satellite models", which express the relationship between the probability of default and the main macroeconomic factors);
- methods of fine-tuning the cycle of loss given default (LGD), which combine assumptions of changes in the level of credit deterioration (i.e., transfers between different default states) and assumptions of changes in the level of coverage of guarantees supporting the loan, thereby affecting the ability to collect and the amount of loss recognised in the event of default.

In general, the detailed criteria followed to determine the value adjustments for each stage are governed by the internal policy "Loan Write-Down Policy" and "Guidelines and criteria for the write-down of securities"; updated and submitted for approval by the Board of Directors on at least an annual basis. In 2022, the "Loan Write-Down Policy" was further updated and refined following the changes introduced in 2021, due to the analyses of the historic trend of write-downs applied up until the end of the previous year

Assessment of the significant increase in credit risk (SICR)

As anticipated, the IFRS 9 framework in use by the Group relating to the staging of performing financial instruments was maintained unchanged during the COVID-19 emergency. The approach adopted is based on an analytical classification principle, i.e. based on the analysis of individual positions. The *staging* drivers used are:

- Assessment of Significant Increase in Credit Risk (i.e. SICR) by measuring the change in the rating at the reference date compared to the date of origination of the position: if a worsening delta equal to or greater than 2 notches on the rating masterscale² is detected, the position is automatically classified as stage 2. Otherwise, the position is classified as stage 1. This criterion is relative, requiring comparison with the credit situation at the time the loan was granted;
- Backstop criterion on days past due: if 30 or more days of continuous past due are detected, the position is automatically classified as stage 2
- Backstop criterion on forbearance measures: in the case of a forbore performing classification, the position is automatically classified as stage 2.

It should be noted that the 2 notch worsening threshold has not been changed as part of the COVID-19 contingency, and that it is applied indiscriminately regardless of the portfolio/segment and the rating class of the position under analysis.

² If the rating at the reference date is included in one of the first 4 classes, the position is automatically maintained in stage 1 by virtue of the Low Credit Risk Exemption.

Measurement of expected losses

Description of the scenario

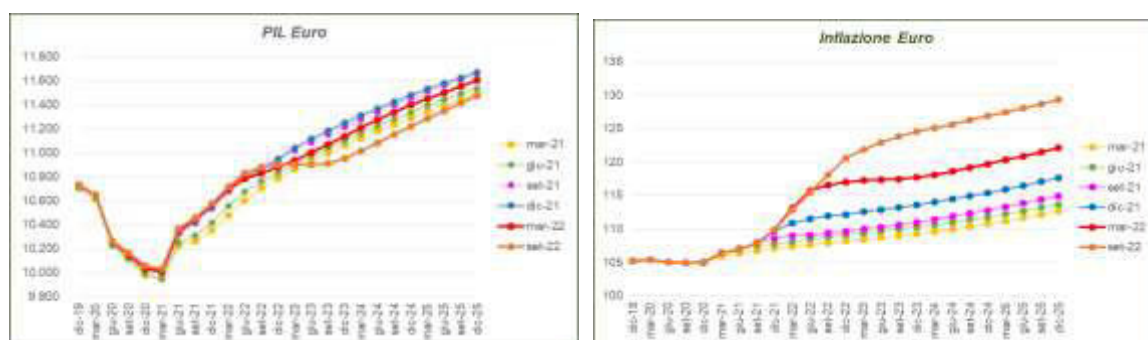
The scenarios are provided by an external provider. In detail, three Scenarios are identified: Baseline (as indicated by the Supplier), Bad and Good (respectively identified as Scenarios S3 and S1 of the same supplier). For these different scenarios, the related probabilities of occurrence are also provided, which are used to weight the different derived ECL estimates and arrive at the overall estimate.

Following the health emergency linked to the Covid-19 pandemic, the Institutes were called upon to set up mechanisms for monitoring the Scenarios underlying the models and the related sensitivity in contexts of high volatility.

Furthermore, in the course of 2022, the level of uncertainty relating to the global macroeconomic situation was further increased due to the outbreak of the conflict between Russia and Ukraine (i.e., the RU-UA Crisis), which made the macroeconomic forecasts underlying the macroeconomic scenarios used under IFRS 9 potentially unstable. For this reason, given the easing of the health emergency and its repercussions on the global economy, the main factor of uncertainty to be managed in December 2022 concerns the RU-UA crisis.

In this context, the Group confirmed the use of the provider already in use, however assessing from time to time the weighting to be attributed to the three available macroeconomic scenarios. In December 2022, it was decided to recalibrate the weighting of the scenarios, defining a stricter alternative weighting compared to December 2021: 0% Good, 60% Bad, 40% Baseline (compared to the previous 0% Good, 40% Bad, 60% Baseline). The main rationale underlying this choice is given by the potential continuation of the RU-UA Crisis and the related macroeconomic impacts, with particular reference to inflation trends.

In addition, in order to evaluate any necessary treatment to carry out in order to manage the particularities deriving from a prospective macroeconomic situation strongly influenced by the RU-UA crisis, the expected trends of the European GDP and European Inflation variables relating to the various deliveries, including that of September 2022 used in this update on the accounting records for December 2022, are shown below.



As can be seen from the charts, the outbreak of the RU-UA crisis, and the consequent inclusion of the relative expected trends in the macroeconomic projections has led to a drastic increase in the forecasts for the European inflation variable compared to the previously used deliveries. For this reason, a decision was made to insert a further dedicated corrective starting from this update (i.e. accounting date of December 2022 using the scenarios of September 2022) to manage the impact on the risk parameters of forecasts on the inflation variable, particularly affected by the RU-UA crisis.

In detail, considering that the satellite models were developed starting from a historical series that shows a negative correlation between default rates and inflation and not characterised by exogenous shocks similar to the RU-UA crisis, prudential measures were introduced to avoid projecting a sharp reduction in default rates (and consequently Danger Rate).

Adaptation of models and overlays

The quantification of ECLs is based on:

- the application of scenarios provided by the external provider to the satellite models developed internally;
- the application of scenario effects (i.e. shifts) to migration matrices including PDs and the adoption of the Markovian approach and survival analysis approach to quantify PDs from a lifetime forward-looking perspective;
- the integration of forward-looking approaches also in the LGD through the incorporation of forward-looking information on the performance of the real estate market and application of the shifts to the Danger Rate in line with that carried out for the PDs.

These rules were identified with a view to minimizing discretionary interventions in the quantification of loan loss provisions.

In the context of Covid-19 and the RU-UA crisis, some adjustments to the models (overlay factors) were defined and implemented to take into account the effects related to the extraordinary nature of the macroeconomic context that has emerged and the measures to support the economy issued by the Government. With regard to the current update of the Framework, the only overlay remaining in force relates to:

- a) the sterilisation of the expected prepayment rates, i.e. setting to zero the estimated probabilities of observing early repayment events of the debt as part of the process of determining the expected losses on performing instalment loans.** It should be noted that this correction only has an impact on the forward-looking lifetime prepayment curves of instalment products.

Sensitivity analysis of scenarios

The information relating to the average values of the main macro-economic and financial indicators used in the scenarios, relating to the three-year period 2023-2025 is provided below. It should also be remembered that the comparative analysis of the latter with the Scenario provided by the ECB resulted in the following alternative weighting: 0% Good, 60% Bad, 40% Baseline.

The actual reference value is shown for each indicator (in this case September 2022) in absolute terms, the value of the same variables in the Baseline scenario and the percentage change with respect to it of the scenarios designated as adverse and favourable for each of the 3 year-ends within the time horizon in which the standard requires a forward-looking approach to be adopted for estimates of ECL.

Macro-variable	Final	Dec-23			Dec-24			Dec-25		
	Sep-22	Bad	Baseline	Good	Bad	Baseline	Good	Bad	Baseline	Good
GDP Italy	1,733	-6.23%	1,743	1.92%	-5.56%	1,780	1.72%	-4.51%	1,811	1.61%
GDP Euro	10,903	-6.09%	11,015	2.20%	-5.43%	11,286	1.96%	-4.39%	11,535	1.84%
Unemployment rate	7.92%	35.29%	8.53%	-4.07%	27.93%	8.45%	-3.77%	19.43%	8.40%	-2.94%
Industrial Production Index	104	-13.15%	106	3.78%	-9.16%	109	3.07%	-7.48%	112	2.85%
Italian Residential Property Price Index	2,077	-11.48%	2,116	3.13%	-17.79%	2,211	4.07%	-19.96%	2,341	4.59%

Treatment of public guarantees

In the ECL calculation, State guarantees provided as an extraordinary response to support the real economy in the context of the ongoing health emergency are considered in the same way as other State guarantees in the portfolio. There are no ad hoc treatments, the guarantees contribute to mitigate the ECL on the relationships to which they are associated through a substitution principle: the portion covered by them is, therefore, associated to the risk level of the issuer (in this case the Italian State, with a DBRS BBBH rating) instead of that of the counterparty.

2.4 Credit risk mitigation techniques

Collateral and guarantees are of particular importance in the Credem Group's lending strategies insofar as they enable mitigation in the complex life cycle of the loans, albeit being additional in the assessment and granting process of the loan, where the fundamental element is the assessment of the customer's ability to repay the loan. In this sense, acquiring

collateral and guarantees involves an in-depth analysis, both in the acquisition phase and in monitoring and management phase.

General principles have been defined for property collateral, in accordance with legislative requirements, which enable a sound and prudent process of valuation of the property which is to be used as collateral to be made:

- Independence of the valuation by using independent external appraisers unrelated to the lending process.
- Compliance and consistency of the valuation, adequate to the complexity of the transaction, its size and the type of property, to identify the market value on which the loan to value indicator is calculated.
- A robust system of controls, in accordance with legislative requirements, to oversee the valuation process.

Given the importance of the mortgage loans segment in the overall portfolio, and with a view to adaptation to supervisory provisions, a periodic monitoring process for the value of mortgaged properties has been set in place as regards real estate mortgage loans, in order to properly assess the degree of coverage of collateral.

The weighting to be applied to the various mortgage transactions, based on the nature of the property, is included in the "Regulation for the assumption of credit risk for customers". The Credit Strategy Committee also periodically proposes guidelines in terms of the average Loan To Value of the portfolio and of new loans. In particular, due to the very nature of medium-term credit, collateral for mortgage loans is envisaged on the basis of varying percentages, depending on the type of the loan.

For collateral in the form of securities, safety margins are applied according to the type of product acquired as a guarantee and to the issuer rating, if applicable. In addition, collateral in the form of securities and their valuation for the purposes of Credit Risk Mitigation are constantly monitored. As regards sureties, their valuation is always carried out on the basis of a prudential assessment of the assets of guarantors.

As regards public guarantees, the Credem Group adopts specific procedures to comply with the *modus operandi* required by the legislative provisions issued by the Government or by the entities that issued said guarantees.

3. Non-performing exposures

3.1 Management strategies and policies

The Non-performing Credit department provides technical support to the bank network in managing problem and non-performing loans and in calculating the write-downs.

Within this department, credit collection is managed according to processes established on the basis of the channel/segment, the type of loan and the level of irregularity, and is conducted by central offices or by local offices. The business model allows for an all-inclusive vision of the loan throughout the life cycle, enhancing the fluidity and integration of processes and continuity of vision. In particular, there are central structures dedicated to the management, monitoring and recovery of positions with a status of Unlikely To Pay or Bad Loan. There is also an organisational unit responsible for managing outsourcing companies in order to directly and centrally oversee relations with said companies. The valuation of losses is based on extremely prudent criteria, following the indications of the document approved by the Board of Directors entitled "Loan Write-Down Policy"; the purpose of this document is to guide and standardise the work of the offices in charge of managing non-performing loans, in terms of calculating the relative write-downs, both for statutory purposes and as regards recovery times. The ECB Guidelines recommend that Banks establish a clear strategy aimed at reducing the amounts of NPLs in a credible, sustainable and timely manner. Although those guidelines are a non-binding instrument, the Banks are required to promote rapid convergence towards the indications provided. During the first half of 2018, the Credem Group, starting from the evidence that emerged from the assessment/gap analysis phase, and on the basis of the classification of shared remediation actions, has defined, on a voluntary basis, the first NPL Strategic-Operational Plan for the period 2018-2022, subsequently updated annually. In December 2022, the Credem Group, in line with the Group Strategy Planning, updated the NPL Strategic-Operational Plan for the period 2022-2026.

3.2 Write-offs

Autonomy with respect to the valuation of losses and write-offs is almost completely centralised under monocratic structures, thus enabling particularly short response times to settlement proposals; in any case, recourse to this measure is of a marginal nature and only occurs when the actions of direct (or through the *outsourcer/legal network*) recovery or sale have not had the desired effects. By virtue of the residual/secondary use compared to the other envisaged collection activities, as well as due to the lower stock of NPLs, the amount of write-offs remains at contained levels.

3.3 Purchased or originated credit impaired assets

In accordance with the IFRS 9 accounting standard, loans considered impaired from the moment of their initial recognition in the financial statements, because of the high associated credit risk, are defined as Purchased or Originated Credit Impaired (POCI) Asset. Consequently, if at the time of initial recognition a credit exposure recognised in item 30 "Financial assets valued at fair value through the comprehensive income" or in item 40 "Financial assets valued at amortised cost", is impaired, it is qualified as Purchased or Originated Credit Impaired (POCI) asset.

These receivables, pursuant to IFRS 9, are valued by setting aside – from the date of initial recognition – provisions to cover losses that cover the entire residual life of the credit (Expected Credit Loss lifetime). As impaired loans, they are initially recognised as Stage 3, although they may be moved to Stage 2 over their lifetime if, based on the credit risk analysis, they are no longer impaired. These assets are never classified as part of Stage 1 since the expected credit loss must always be calculated considering a time horizon equal to the residual duration.

The POCI receivables recognized in the Group's financial statements, consistently with the provisions of the IFRS 9 Principle, are divided into two types of:

- Purchased credit impaired financial assets (hereinafter, also "PCI"), credit exposures already impaired at the time of purchase, including in the context of business combinations;
- Originated credit impaired financial assets (hereinafter, also "OCI"), credit exposures originated in the case of restructuring transactions of impaired exposures that have resulted in the provision of new finance or have introduced material changes to the original contractual terms.

In December 2022, the receivables falling into this category, present in the balance sheet assets of Credito Emiliano Group, derive from the merger by incorporation of the former Cassà di Risparmio di Cento and from the operations of Avvera S.p.A.

4. Financial assets subject to commercial renegotiations and forbearance exposures

In March 2014, given the changes in regulations, which placed supervisory powers in the hands of the European Central Bank and the application of new EU legislation on supervisory reporting, the "Guidelines to identify and manage forborne exposures", which were then assimilated by the Group credit policy, were approved.

In line with EBA standards, forborne means exposures against which forbearance measures have been agreed, namely measures to sustain debtors who are facing, or are about to face, difficulties in meeting their financial obligations (financial hardship status).

In general, possible forbearance measures agreed for the debtor in financial difficulty may fall into the following categories:

- changes to the terms and contractual conditions of an exposure that the counterparty is unable to repay, with new conditions that would not have been agreed if the customer had not been in financial difficulty;
- partial or total refinancing of the debt, which would not have been agreed in the absence of financial difficulty of the counterparty.

In accordance with the reference standards, classification in the forborne portfolio is independent of the classification as default or of the presence of specific write-downs. By virtue of the unique characteristics of these types of exposures, the evaluation and granting of forbearance measures is delegated to central decision-making structures, through the use of automated systems for alerting the presence of "potential" forborne, addressing credit proposals to the competent bodies and the expiry of terms relating to the cure period and probation period.

In relation to this type of exposure, the instructions in the ECB Guidelines on NPLs were followed,

which have an impact on both processes and on applications to enable adequate tracking of the valuations made at the time forbearance measures were granted, as well as the valuations of the triggers on Unlikely To Pay exposures, with the involvement of the Risk Management department to draw up a binding opinion in cases of repeated measures.

The amortised cost before the change to the financial assets, for which the contractual cash flows were changed during the year, amount to around € 51.8 million.

Disclosure to the public of information regarding capital adequacy, exposure to credit risk and the general features of the systems set up to identify, measure and manage risk, envisaged by Regulation (EU) no. 575/2013 (CRR), publication of the disclosure related to "Pillar 3", shall be communicated to the market in accordance with legal requirements, on the website www.credem.it.

Quantitative information A Credit

quality

A.1 Non-performing and performing credit exposures: amounts, value adjustments, changes and breakdown by business segment

A.1.1 Prudential consolidation – Breakdown of financial assets by past due ranges (book value)

Portfolios/risk stages	Stage 1			Stage 2			Stage 3			Purchased or originated credit impaired		
	1 to 30 days	Over 30 to 90 days	Over 90 days	1 to 30 days	Over 30 to 90 days	Over 90 days	1 to 30 days	Over 30 to 90 days	Over 90 days	1 to 30 days	Over 30 to 90 days	Over 90 days
1. Financial assets valued at cost amortised	293,795	367	4,477	52,417	48,517	5,472	20,292	17,993	172,635	374	221	8,135
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-	-	-	-	-	-	-
Total 31/12/2022	293,795	367	4,477	52,417	48,517	5,472	20,292	17,993	172,635	374	221	8,135
Total 31/12/2021	178,081	753	4,767	32,482	43,005	4,325	19,239	20,018	197,084	778	369	15,328

The table above provides the breakdown, for each risk stage, of the book value of the past due financial assets measured at amortised cost and of the past due financial assets measured at fair value through other comprehensive income.

A.1.2 Prudential consolidation - Financial assets, commitments to disburse funds and financial guarantees given: changes in overall value adjustments and in total provisions

Type/risk stages	Overall value adjustments																				Total provisions for commitments to disburse funds and financial guarantees given				Total			
	Assets included in stage 1						Assets included in stage 2						Assets included in stage 3						Purchased or originated credit impaired assets									
	Loans to banks and central banks on demand	Financial assets measured at amortised cost	Financial assets designated at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs	Loans to banks and central banks on demand	Financial assets measured at amortised cost	Financial assets designated at fair value through other	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs	Loans to banks and central banks on demand	Financial assets measured at amortised cost	Financial assets designated at fair value through other	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs	Financial assets measured at amortised cost	Financial assets designated at fair value through other	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs	Stage 1	Stage 2	Stage 3	Commitments to disburse funds and guarantees issued, purchases and guarantees issued, purchases or originated credit impaired	
Opening balance of overall adjustments	2	46,833	1,746	-	-	48,600	11	40,739	-	-	-	40,749	-	438,850	-	-	438,850	-	1,35	-	-	1,345	13	3,735	1,074	3,030	205	537,601
Increases from financial assets purchased or originated	-	13,174	-	-	-	13,174	5	5,425	-	-	-	5,430	-	-	-	-	-	-	)	X	X	X	X	1,444	666	-	-	20,714
Derecognitions other than write- offs	(4)	(8,760)	-	-	-	(8,764)	(3)	(3,998)	-	-	-	(4,001)	-	(65,253)	-	-	(65,253)	-	(19)	-	-	(19)	-	(2,827)	(674)	-	-	(81,538)
Net adjustments/recoveries for credit risk (+/-)		(1,239)	(170)	-	-	(1,408)	5	(822)	-	-	-	(818)	-	60,080	-	-	60,080	-	1,47	-	-	1,464	7	(562)	73	884	18	59,739
Contractual changes without derecognitions	-	-	-	-	-	-	-	17	-	-	-	17	-	382	-	-	382	-	-	-	-	-	-	-	-	-	-	399
Changes in estimation method	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs not directly recorded in the income statement	-	-	-	-	-	-	-	-	-	-	-	-	-	(25,432)	-	-	(25,432)	-	(3)	-	-	(3)	-	-	-	-	-	(25,435)
Other changes	-	(1,769)	-	-	-	(1,769)	-	1,769	-	-	-	1,769	-	207	-	-	207	-	-	-	-	-	-	(7)	-	-	-	200
Closing balance of overall adjustments	18	48,239	-1,576	-	-	49,833	18	43,130	-	-	-	43,146	-	408,834	-	-	408,834	-	2,806	-	-	2,787	20	1,783	1,139	3,914	223	511,680
Recoveries from collections of financial assets subject to write-off	-	-	-	-	-	-	-	-	-	-	-	-	-	510	-	-	510	-	127	-	-	127	-	-	-	-	-	637
Write-offs directly recorded in the income statement	-	(46)	-	-	-	(46)	-	(5)	-	-	-	(5)	-	(2,572)	-	-	(2,572)	-	(77)	-	-	(77)	-	-	-	-	-	(2,700)

A.1.3 Prudential consolidation – Financial assets, commitments to disburse funds and financial guarantees given: transfers between the different credit risk stages (gross and nominal values)

Portfolios/risk stages	Gross exposure/nominal value					
	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
1. Financial assets measured at amortised cost	1,320,995	456,508	54,404	17,366	84,221	8,888
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-
4. Commitments to disburse funds and financial guarantees given	195,896	7,743	98	846	16,252	1,210
Total 31/12/2022	1,516,891	464,251	54,502	18,212	100,473	10,098
Total 31/12/2021	996,480	368,689	49,944	21,661	72,772	8,719

A.1.3 Loans subject to COVID-19 support measures: transfers between different stages of credit risk (gross values)

Portfolios/risk stages	Gross values					
	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
A. Loans measured at amortised cost	158,904	80,639	13,788	70	22,694	679
A.1 subject to forbearance compliant with the GLs		546	-	-	-	-
A.2 subject to existing moratorium measures no longer compliant with GL and not assessed as subject to forbearance	193	-	232			
A.3 subject to other forbearance measures	6,309	-	777	-	324	-
A.4 new loans	152,402	80,093	12,779	70	22,370	679
B. Loans measured at fair value through other comprehensive income	-	-	-	-	-	-
B.1 subject to forbearance compliant with the GLs	-	-	-	-	-	-
B.2 subject to existing moratorium measures no longer compliant with GL and not assessed as subject to forbearance	-	-	-	-	-	-
B.3 subject to other forbearance measures	-	-	-	-	-	-
B.4 new loans	-	-	-	-	-	-
Totale 31/12/2022	158,904	80,639	13,788	70	22,694	679
Totale 31/12/2021	345,275	31,696	12,579	259	18,705	366

The table shows the gross value of the loans, subject to moratoriums or other forbearance measures in place at the reporting date, or which constitute new liquidity granted through public guarantee mechanisms, broken down by applicable portfolio, when the risk stage in which the exposures were included at the end of the year is different from the stage in which the exposures were included at the beginning of the year.

A.1.4 Prudential consolidation – Balance sheet and off-balance sheet credit exposures to banks: gross and net amounts

Type of exposure/amounts	Gross exposure					Overall value adjustments and total provisions				Net Exposure	Total partial write-offs*	
	Stage 1	Stage 2	Stage 3	Purchased or originated	Stage 1	Stage 2	Stage 3	Purchased or originated				
A. Balance sheet credit exposures												
A.1 On demand	3,170,148	3,158,943	11,205	-	-	37	19	18	-	-	3,170,111	-
a) Non-performing	-	X	-	-	-	-	X	-	-	-	-	-
b) Performing	3,170,148	3,158,943	11,205	X	-	37	19	18	X	-	3,170,111	-
A.2 Other	2,549,257	2,475,728	71,258	-	-	981	870	112	-	-	2,548,276	-
a) Bad loans	-	X	-	-	-	-	X	-	-	-	-	-
- of which: exposures subject to forbearance	-	X	-	-	-	-	X	-	-	-	-	-
b) Unlikely to pay	-	X	-	-	-	-	X	-	-	-	-	-
- of which: exposures subject to forbearance	-	X	-	-	-	-	X	-	-	-	-	-
c) Exposures												
non-performing past due	-	X	-	-	-	-	X	-	-	-	-	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	-
c) Performing past due exposures	1	-	-	X	-	-	-	-	X	-	1	-
- of which: forborne exposures												
exposures - of which: forborne	2,549,256	2,475,728	71,258	X	-	981	870	112	X	-	2,548,275	-
exposures -	-	-	X	-	-	-	-	X	-	-	-	-
Total (A)	5,719,405	5,634,671	82,463	-	-	1,018	889	130	-	-	5,718,387	-
B. Off-balance sheet credit exposures												
a) Non-performing	-	X	-	-	-	-	X	-	-	-	-	-
b) Performing	1,663,845	511,701	5,507	X	-	1	-	1	X	-	1,663,844	-
Total (B)	1,663,845	511,701	5,507	-	-	1	-	1	-	-	1,663,844	-
Total (A+B)	7,383,250	6,146,372	87,970	-	-	1,019	889	131	-	-	7,382,231	-

As per the indications of Banca d'Italia Circular no. 262 of 22 December 2005, and subsequent amendments, balance sheet credit exposures include all cash financial assets due from banks or customers regardless of the accounting portfolio they are allocated to (designated at fair value through profit or loss, designated at fair value through other comprehensive income, measured at amortised cost, held for sale) with the exception of equity securities and units of UCITS; off-balance sheet credit exposures include all financial assets other than cash-based (financial guarantees given, revocable and irrevocable commitments, derivatives, etc.) which involve the assumption of credit risk, regardless of the purpose of said transactions (trading, hedging, etc.). Non-performing credit exposures (balance sheet and off-balance sheet) do not include financial assets held for trading and hedging derivatives, which are therefore, conventionally, recorded under performing loans credit exposures.

A.1.5 Prudential consolidation – Balance sheet and off-balance sheet credit exposures to customers: gross and net amounts

Type of exposure/amounts	Gross exposure					Overall value adjustments and total provisions					Net Exposure	Total partial write-offs*
	Stage 1	Stage 2	Stage 3	Purchased or originated credit	Stage 1	Stage 2	Stage 3	Purchased or originated credit				
A. Balance sheet credit exposures												
a) Bad loans	320,690	X	-	315,119	5,571	242,757	X	-	241,517	1,240	77,933	13,876
- of which: forborne exposures	91,366	X	-	90,972	394	61,024	X	-	60,949	75	30,342	497
b) Unlikely to pay	372,738	X	-	356,259	16,479	161,040	X	-	159,493	1,547	211,698	3,357
- of which: forborne exposures	155,063	X	-	143,883	11,180	44,851	X	-	43,924	927	110,212	1,795
c) Non-performing past due exposures	42,232	X	-	42,223	9	7,829	X	-	7,827	1	34,403	120
- of which: forborne exposures	1,797	X	-	1,797	-	251	X	-	251	-	1,546	-
d) Performing past due exposures	409,712	299,564	110,091	X	59	4,612	925	3,686	X	-	405,100	-
- of which: forborne exposures	11,639	-	11,580	X	59	368	-	368	X	-	11,271	-
e) Other performing exposures	46,886,309	44,724,215	2,113,689	X	3,131	87,370	48,022	39,329	X	19	46,798,939	-
- of which: forborne exposures	224,734	-	221,993	X	2,742	4,023	-	4,014	X	9	220,711	-
Total (A)	48,031,681	45,023,779	2,223,780	713,601	25,249	503,608	48,947	43,015	408,837	2,807	47,528,073	17,353
B. Off-balance sheet credit exposures												
a) Non-performing	41,210	X	-	39,657	1,552	4,134	X	-	3,913	221	37,076	-
b) Performing	11,429,082	11,192,746	209,919	X	72	2,922	1,783	1,137	X	2	11,426,160	-
Total (B)	11,470,292	11,192,746	209,919	39,657	1,624	7,056	1,783	1,137	3,913	223	11,463,236	-
Total (A+B)	59,501,973	56,216,525	2,433,699	753,258	26,873	510,664	50,730	44,152	412,750	3,030	58,991,309	17,353

The table shows the gross value of the loans, subject to moratoriums or other forbearance measures in place at the reporting date, or which constitute new liquidity granted through public guarantee mechanisms, broken down by applicable portfolio, when the risk stage in which the exposures were included at the end of the year is different from the stage in which the exposures were included at the beginning of the year.

A.1.5a Balance sheet credit exposures to customers subject to COVID-19 support measures: gross and net values

Types of financing/Values	Gross exposure				Overall value adjustments				Net exposure	Total partial write-offs*	
	Stage 1	Stage 2	Stage 3	Impaired purchased or originated	Stage 1	Stage 2	Stage 3	Impaired purchased or originated			
A. Bad loans:	6,934	-	-	6,934	-	2,854	-	- 2,854	-	4,080	-
a) Subject to forbearance in compliance with the GLs	-	-	-	-	-	-	-	-	-	-	-
b) Subject to moratorium measures no longer compliant with GL and not assessed as subject to forbearance	-	-	-	-	-	-	-	-	-	-	-
c) Subject of other measures of forbearance	-	-	-	-	-	-	-	-	-	-	-
d) New Loans	6,934	-	-	6,934	-	2,854	-	- 2,854	-	4,080	-
B. Unlikely-to-pay loans:	42,430	-	-	41,988	442	14,325	-	- 14,289	36	28,105	-
a) Subject to forbearance in compliance with the GLs	-	-	-	-	-	-	-	-	-	-	-
b) Subject to moratorium measures no longer compliant with the GLs and not assessed as subject to forbearance	416	-	-	416	-	60	-	- 60	-	356	-
c) Subject of other forbearance measures	3,043	-	-	2,994	49	1,058	-	- 1,058	-	1,985	-
d) New loans	38,971	-	-	38,578	393	13,207	-	- 13,171	36	25,764	-
C. Impaired overdue loans:	1,772	-	-	1,772	-	419	-	- 419	-	1,353	-
a) Subject to forbearance in compliance with the GLs	-	-	-	-	-	-	-	-	-	-	-
b) Subject to moratorium measures no longer compliant with the GLs and not assessed as subject to forbearance	-	-	-	-	-	-	-	-	-	-	-
c) Subject of other measures of forbearance	-	-	-	-	-	-	-	-	-	-	-
d) New Loans	1,772	-	-	1,772	-	419	-	- 419	-	1,353	-
D. Other loans	14,087	7,153	6,934	-	-	22	8	13	-	14,065	-
a) Subject to forbearance in compliance with the GLs	-	-	-	-	-	-	-	-	-	-	-
b) Subject to moratorium measures no longer compliant with the GLs and not assessed as subject to forbearance	-	-	-	-	-	-	-	-	-	-	-
c) Subject of other forbearance measures	-	-	-	-	-	-	-	-	-	-	-
d) New loans	14,087	7,153	6,934	-	-	22	8	13	-	14,065	-
E. Other non-impaired loans:	3,023,291	2,791,640	231,649	-	-	3,103	2,177	926	-	3,020,188	-
a) Subject to											

forbearance in compliance with the GLs	-	-	-	-	-	-	-	-	-	-	-	-
b) Subject to moratorium measures no longer compliant with the GLs and not assessed as subject to forbearance	1,371	985	385	-	-	19	2	17	-	-	1,352	-
c) Subject of other forbearance measures	7,956	-	7,956	-	-	292	-	292	-	-	7,664	-
d) New Loans	3,013,964	2,790,655	223,308	-	-	2,792	2,175	617	-	-	3,011,172	-
Total (A+B+C+D+E)	3,088,514	2,798,798	238,583	50,694	442	20,723	2,185	939	17,562	36	3,067,791	-

The table shows, with reference to loans, which were subject to a moratoria or other lending measures in place at the balance sheet date, or which constitute new liquidity provided through government guarantee mechanisms, details of the gross exposure and total value adjustments, as well as information on the net exposure and total partial write-offs, for the different categories of impaired/non-impaired assets.

A.1.7 Prudential consolidation - Balance sheet credit exposures to customers: changes in gross non-performing exposures

Source/Categories	Bad loans	Unlikely to pay	Non-performing past due exposures
A. Gross exposure, opening balance	397,954	378,117	42,968
- of which: transferred but not derecognised	-	-	-
B. Increases	63,243	177,253	58,955
B.1 transfers from performing loans	10,118	100,058	30,649
B.2 transfers from impaired, acquired financial assets or originated	-	-	-
B.3 transfers from other categories of non-performing ex.	50,108	17,699	552
B.4 contractual changes without derecognitions	-	307	1
B.5 other increases	3,017	59,189	27,753
C. Decreases	140,507	182,632	59,691
C.1 transfers to performing loans	-	21,776	7,711
C.2 write-offs	24,442	4,086	1
C.3 collections	39,081	104,457	32,352
C.4 amount realised upon disposal of positions	13,417	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other categories of non-performing exposures	261	48,583	19,514
C.7 Contractual changes without derecognitions	-	272	1
C.8 other decreases	63,306	3,458	112
D. Gross exposure, closing balance	320,690	372,738	42,232
- of which: transferred but not derecognised	-	-	-

A.1.7bis Prudential consolidation – Balance sheet credit exposures to customers: changes in gross forborne exposures by credit quality

Type/Quality	Forborne: non-performing	Forborne: performing
A. Gross exposure, opening balance	283,560	347,821
- of which: transferred but not derecognised	-	210
B. Increases	55,544	67,062
B.1 transfers from performing loans not forborne	9,183	44,600
B.2 transfers from performing loans forborne	21,597	X
B.3 transfers from non-performing loans forborne	X	17,377
B.4 transfers from non-performing loans not forborne	-	6
B.5 other increases	24,764	5,079
C. Decreases	90,878	178,511
C.1 transfers to performing loans not forborne	X	22,944
C.2 transfers to performing loans forborne	17,377	X
C.3 transfers to non-performing loans forborne	X	21,597
C.4 write-offs	1,733	-
C.5 collections	62,577	133,970
C.6 amount realised upon disposal of positions	-	-
C.7 losses on disposal	-	-
C.8 other decreases	9,191	-
D. Gross exposure, closing balance	248,226	236,372
- of which: transferred but not derecognised	-	-

A.1.9 Prudential consolidation – Balance sheet non-performing credit exposures to customers: changes in overall adjustments

Source/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. Opening balance of overall adjustments	296,063	69,426	136,051	42,012	8,082	182
- of which: transferred but not derecognised	-	-	-	-	-	-
B. Increases	61,744	15,438	78,675	23,880	6,485	673
B.1 value adjustments from purchased or originated credit impaired assets	-	X	-	X	-	X
B.2 other value adjustments	28,758	9,651	74,666	23,071	6,360	564
B.3 losses on disposal	1,637	-	-	-	-	-
B.4 transfers from other non-performing exposures categories	25,566	5,787	3,428	410	125	109
B.5 contractual amendments without derecognitions	-	-	453	399	-	-
B.6 other increases	5,783	-	128	-	-	-
C. Decreases	115,050	23,840	53,685	21,041	6,738	604
C.1 write-backs of valuation	7,025	3,223	10,305	4,803	1,282	94
C.2 write-backs from collection	13,147	12,690	13,920	8,406	1,676	152
C.3 profit from disposal	5,864	5,367	10	-	-	-
C.4 write-offs	24,443	2,102	4,086	1,926	1	-
C.5 transfers to others non-performing exposure categories	52	52	25,288	5,906	3,779	358
C.6 contractual amendments without derecognitions	-	-	71	-	-	-
C.7 other changes decrease	64,519	406	5	-	-	-
D. Closing balance of overall adjustments	242,757	61,024	161,041	44,851	7,829	251
- of which: transferred but not derecognised	-	-	-	-	-	-

B.1 Classification of exposures based on external and internal ratings

B.1.1 Prudential consolidation - Breakdown of financial assets, commitments to disburse funds and financial guarantees given by external rating class (gross values)

Performing	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	1,041,648	998,012	6,117,306	-	-	-	36,177,252	44,334,218
- Stage 1	1,041,648	998,012	6,117,306	-	-	-	33,143,366	41,300,332
- Stage 2	-	-	-	-	-	-	2,295,037	2,295,037
- Stage 3	-	-	-	-	-	-	713,601	713,601
- Purchased or originated credit impaired	-	-	-	-	-	-	25,248	25,248
B. Financial assets measured at fair value through other comprehensive income	3,612,880	1,878,366	548,292	-	-	-	121,511	6,161,049
- Stage 1	3,612,880	1,878,366	548,292	-	-	-	121,511	6,161,049
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
- Purchased or originated credit impaired	-	-	-	-	-	-	-	-
C. Financial assets held for sale	-	-	-	-	-	-	-	-
- Stage 1	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
- Purchased or originated credit impaired	-	-	-	-	-	-	-	-
Total (A+B+C)	4,654,528	2,876,378	6,665,598	-	-	-	36,298,763	50,495,267
D. Commitments to disburse funds and financial guarantees given	-	-	-	-	-	-	13,105,071	13,105,071
- Stage 1	-	-	-	-	-	-	12,848,364	12,848,364
- Stage 2	-	-	-	-	-	-	215,426	215,426
- Stage 3	-	-	-	-	-	-	39,657	39,657
- Purchased or originated credit impaired	-	-	-	-	-	-	1,624	1,624
Total (D)	-	-	-	-	-	-	13,105,071	13,105,071
Total (A+B+C+D)	4,654,528	2,876,378	6,665,598	-	-	-	49,403,834	63,600,338

The external rating classes indicated refer to classes of creditworthiness of debtors/guarantors set forth in prudential legislation.

The rating agencies used are shown below, and a reconciliation table of the risk classes and agency ratings is also provided.

Portfolios	ECA/ECAI
Exposure to Central administrations and central banks	DBRS Rating Limited
Exposure to international organisations	Fitch Ratings Standard & Poor's Rating Services*
Exposure to multilateral development banks	Fitch Ratings Standard & Poor's Rating Services*
Exposure to enterprises and other entities	Fitch Ratings Standard & Poor's Rating Services*
Exposure to undertakings for collective investment in Transferable Securities (UCITS)	Fitch Ratings Standard & Poor's Rating Services*
Positions in securitisations with a short term rating	Fitch Ratings Standard & Poor's Rating Services Moody's
Positions in securitisations other than those with a short term rating	Fitch Ratings Standard & Poor's Rating Services Moody's

*ECAI used only in the mitigation of the risk (CRM) on financial instruments borrowed by way of guarantee

Credit rating class	DBRS Rating Limited	Fitch Ratings	Standard & Poor's Rating Services	Moody's
1	from AAA to AAL	from AAA to AA-	from AAA to AA-	from Aaa to Aa3
2	from AH to AL	from A+ to A-	from A+ to A-	from A1 to A3
3	from BBBH to BBBL	from BBB+ to BBB-	from BBB+ to BBB-	from Baa1 to Baa3
4	from BBH to BBL	from BB+ to BB-	from BB+ to BB-	from Ba1 to Ba3
5	from BH to BL	from B+ to B-	from B+ to B-	from B1 to B3
6	CCC	CCC+ and lower	CCC+ and lower	Caa1 and lower

B.1.2 Financial assets, commitments to disburse funds and financial guarantees given: breakdown by internal rating class (gross values)

Performing	Internal rating classes									Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	Class 7	Class 8	No rating	
A. Financial assets measured at amortised cost	4,444,910	13,516,001	5,571,266	5,395,826	2,761,463	1,277,112	352,846	393,428	10,646,694	44,359,546
- Stage 1	4,442,343	13,473,301	5,538,141	4,646,321	2,244,430	745,135	148,736	305,386	9,781,867	41,325,660
- Stage 2	2,567	42,665	31,431	748,579	516,898	531,782	203,907	88,042	129,166	2,295,037
- Stage 3	-	-	-	-	-	-	-	-	713,601	713,601
- Purchased or originated credit impaired	-	35	1,694	926	135	195	203	-	22,060	25,248
B. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	6,161,049	6,161,049
- Stage 1	-	-	-	-	-	-	-	-	6,161,049	6,161,049
- Stage 2	-	-	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-	-	-
- Purchased or originated credit impaired	-	-	-	-	-	-	-	-	-	-
C. Financial assets held for sale	-	-	-	-	-	-	-	-	-	-
- Stage 1	-	-	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-	-	-
- Purchased or originated credit impaired	-	-	-	-	-	-	-	-	-	-
Total (A+B+C)	4,444,910	13,516,001	5,571,266	5,395,826	2,761,463	1,277,112	352,846	393,428	16,807,743	50,520,595
D. Commitments to disburse funds and financial guarantees given	4,333,699	3,609,688	2,058,374	1,026,722	507,098	267,770	37,768	26,177	1,266,840	13,134,136
- Stage 1	4,333,697	3,607,615	2,057,451	965,102	479,726	193,310	32,120	12,663	1,195,745	12,877,429
- Stage 2	2	2,073	923	61,620	27,372	74,400	5,483	13,514	30,039	215,426
- Stage 3	-	-	-	-	-	-	165	-	39,492	39,657
- Purchased or originated credit impaired	-	-	-	-	-	60	-	-	1,564	1,624
Total (D)	4,333,699	3,609,688	2,058,374	1,026,722	507,098	267,770	37,768	26,177	1,266,840	13,134,136
Total (A+B+C)	8,778,609	17,125,689	7,629,640	6,422,548	3,268,561	1,544,882	390,614	419,605	18,074,583	63,654,731

On 2 October 2015, Banca d'Italia authorised the Credem Group to use the IRB Advanced method (PD, LGD and EAD parameters) from 30 September 2015 to quantify the capital requirement against customer credit risk classified under the Corporate and Retail supervisory function of Credito Emiliano and Credemleasing.

The internal rating classes are shown insofar as they are used in credit risk management; to calculate prudential capital requirements, only those relating to the Corporate and Retail supervisory function are used. Details of the various rating classes used are shown below.

- C1 no risk issues at the moment nor, most likely, over the medium/long term
- C2 no risk issues both currently and, predictably, in the medium term
- C3 no risk issues both currently and, predictably, in the short term
- C4 risk compatible with possibility for reduction/slight worsening over the short term
- C5 risk situation with already evident worsening symptoms
- C6 situation that highlights clearly problematic aspects
- C7 highly problematic situation, potential default risk
- C8 highly problematic situation with short-term default risk

B.2 Breakdown of secured credit exposures by type of guarantee

B.2.1 Prudential consolidation – Secured balance sheet and off-balance sheet credit exposures to banks

	Gross exposure	Net exposure	Collateral				Guarantees								Total (1)+(2)	
							(2)									
			Property - mortgages	Property - Loans for leases	Structu red	Other collateral	CLN	Credit derivatives				Signature loans				
								Central Counterparties	Banks	Other financial companies	Other entities	Public administration	Banks	Other financial companies		Other entities
1. Secured balance sheet credit exposures:	33,027	33,018	-	206	-	-	-								-	
1.1. totally secured	207	206	-	206	-	-	-	-	-	-	-	-	-	-	-	206
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2. partially secured	32,820	32,812	-	-	-	-	-	-	-	-	-	-	11,000	-	-	11,000
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Secured off-balance sheet credit exposures:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.1. totally secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2. partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

B.2.2 Prudential consolidation – Secured balance sheet and off-balance sheet credit exposures to customers

	Gross exposure	Net exposure	Collateral (1)				Guarantees (2)									Total (1)+(2)
							Credit derivatives					Signature loans				
			Property - mortgages	Property - financial leases	Structured	Other collateral	CLN	Other derivatives	Other derivatives		Public administration	Banks	Other financial companies	Other entities		
Central Counterparties	Banks	Other financial companies						Other entities								
1. Secured balance sheet credit exposures:	23,250,643	22,978,565	11,521,296	1,721,713	1,276,154	2,164,521	-	-	-	-	-	2,493,544	92,444	42,041	2,027,638	21,339,351
1.1. totally secured	19,045,813	18,802,271	11,519,930	1,721,713	1,202,468	2,139,485	-	-	-	-	-	655,660	28,444	30,189	1,581,570	18,879,459
- of which non-performing	431,587	242,282	169,442	28,155	4,102	17,032	-	-	-	-	-	14,156	-	268	8,772	241,927
1.2. partially secured	4,204,830	4,176,294	1,366	-	73,686	25,036	-	-	-	-	-	1,837,884	64,000	11,852	446,068	2,459,892
- of which non-performing	50,450	27,386	153	-	307	62	-	-	-	-	-	20,977	-	21	3,063	24,583
2. Secured off-balance sheet credit exposures:	857,465	854,606	43,289	-	193,133	89,416	-	-	-	-	-	915	20,188	3,126	336,648	686,715
2.1. totally secured	627,159	624,570	43,289	-	167,598	68,152	-	-	-	-	-	453	20,170	3,126	314,751	617,539
- of which non-performing	4,383	1,885	526	-	508	85	-	-	-	-	-	-	-	-	764	1,883
2.2. partially secured	230,306	230,036	-	-	25,535	21,264	-	-	-	-	-	462	18	-	21,897	69,176
- of which non-performing	3,011	2,752	-	-	226	6	-	-	-	-	-	-	-	-	2,503	2,735

During the year, mortgage guarantees of € 10.3 million were called in, expected to be collected over the next few years, while € 5.2 million was collected with respect to enforcements of pledges, insurance policies and sureties. During the year, € 25.7 million were also collected from calling in mortgage guarantees initiated in previous years. During 2022, legal activities were initiated for calling in guarantees via property foreclosures in the cases where it had not been possible to reach satisfactory settlements. The positions entrusted to outsourcing companies, consisting of exposures > 75 € k and < 300 originating from mortgage loans, were assessed and activated according to the same approach; in fact, the activities of the external companies in the first few months of handling of the cases concentrate on attempting to contact the customers, so as to gauge the possibility of reaching settlements (full and final settlement or by means of contained repayment plans over time). Even during the course of the enforcement action, the outsourcing company continues with the contact activity to explore the possibility of settlement of the positions.

B. Distribution and concentration of credit exposures

B.1 Prudential consolidation – Breakdown of balance sheet and off-balance sheet credit exposures to customers by business segment

Exposures/Counterparts		Public administration		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Households	
		Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments
A. Balance sheet credit exposures											
A.1 Bad loans		306	982	32	156	-	-	36,945	156,314	40,647	85,306
- of which: forborne exposures		-	-	-	-	-	-	15,109	40,609	15,234	20,415
A.2 Unlikely to pay		2,049	1,990	1,770	83	-	-	80,395	59,431	127,486	99,536
- of which: forborne exposures		-	-	3	36	-	-	41,663	18,767	68,547	26,048
A.3 Non-performing past due exposures		715	15	27	8	-	-	5,740	977	27,923	6,830
- of which: forborne exposures		-	-	-	-	-	-	444	112	1,101	139
A.4 Performing exposures		11,872,519	4,863	1,401,162	846	44,646	2	18,040,542	30,051	15,889,816	56,222
- of which: forborne exposures		7	-	3,808	18	-	-	128,944	1,806	99,224	2,568
Total (A)		11,875,589	7,850	1,402,991	1,093	44,646	2	18,163,622	246,773	16,085,872	247,894
B. Off-balance sheet credit exposures											
B.1 Non-performing exposures		3	-	12	-	-	-	21,408	4,049	15,653	85
B.2 Performing exposures		10,333	1	170,768	18	29,057	-	9,496,267	1,659	1,748,792	1,244
Total (B)		10,336	1	170,780	18	29,057	-	9,517,675	5,708	1,764,445	1,329
Total (A + B)	31/12/2022	11,885,925	7,851	1,573,771	1,111	73,703	2	27,681,297	252,481	17,850,317	249,223
Total (A + B)	31/12/2021	11,416,343	7,077	2,165,293	1,108	78,376	3	26,647,217	265,375	16,820,358	263,173

B.2 Prudential consolidation – Breakdown of balance sheet and off-balance sheet credit exposures to customers by geographic area

Exposures / Geographic areas	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments
A. Balance sheet credit exposures										
A.1 Bad loans	77,931	242,750	-	7	-	-	-	-	-	1
A.2 Unlikely to pay	211,481	160,886	105	27	-	3	-	-	114	124
A.3 Non-performing past due exposures	34,322	7,813	75	15	4	1	2	-	2	1
A.4 Performing exposures	40,222,699	90,224	3,717,836	1,248	2,368,989	346	20,103	43	874,412	121
Total (A)	40,546,433	501,673	3,718,016	1,297	2,368,993	350	20,105	43	874,527	247
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	37,017	4,134	52	-	2	-	3	-	2	-
B.2 Performing exposures	11,408,729	2,919	13,071	2	2,909	1	926	-	525	-
Total (B)	11,445,746	7,053	13,123	2	2,911	1	929	-	527	-
Total (A+B) 31/12/2022	51,992,179	508,726	3,731,139	1,299	2,371,904	351	21,034	43	875,054	247
Total (A+B) 31/12/2021	50,090,320	534,594	4,173,106	1,492	2,409,147	408	8,960	70	367,678	169

The geographic breakdown NORTH-WEST, NORTH-EAST, CENTRE, SOUTH AND ISLANDS is also enclosed for ITALIAN exposures.

B.2 Prudential consolidation – Breakdown of balance sheet and off-balance sheet credit exposures to customers by geographic area

Exposures / Geographic areas	North West Italy		North East Italy		Central Italy		South Italy and Islands		
	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	
A. Balance sheet credit exposures									
A.1 Bad loans	10,415	41,892	19,563	49,690	15,906	46,898	32,047	104,270	
A.2 Unlikely to pay	31,947	24,713	57,313	37,783	31,534	23,197	90,687	75,193	
A.3 Non-performing past due exposures	4,717	1,052	7,974	1,932	4,255	784	17,376	4,045	
A.4 Performing exposures	9,445,973	20,074	10,607,531	25,247	11,771,670	17,174	8,397,525	27,729	
Total (A)	9,493,052	87,731	10,692,381	114,652	11,823,365	88,053	8,537,635	211,237	
B. Off-balance sheet credit exposures									
B.1 Non-performing exposures	7,135	113	11,595	2,972	2,951	52	15,336	997	
B.2 Performing exposures	3,847,219	658	4,464,648	1,046	1,474,540	384	1,622,322	831	
Total (B)	3,854,354	771	4,476,243	4,018	1,477,491	436	1,637,658	1,828	
Total (A+B)	31/12/2022	13,347,406	88,502	15,168,624	118,670	13,300,856	88,489	10,175,293	213,065
Total (A+B)	31/12/2021	12,640,614	95,389	14,725,460	132,891	12,956,336	91,800	9,767,910	214,514

B.3 Prudential consolidation – Breakdown of balance sheet and off-balance sheet credit exposures to banks by geographic area

Exposures / Geographic areas	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments
A. Balance sheet credit exposures										
A.1 Bad loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	3,891,264	423	1,682,431	573	65,033	15	12	-	77,594	9
Total (A)	3,891,264	423	1,682,431	573	65,033	15	12	-	77,594	9
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	94,015	-	1,560,220	-	6,783	-	2,080	-	746	1
Total (B)	94,015	-	1,560,220	-	6,783	-	2,080	-	746	1
Total (A+B) 31/12/2022	3,985,279	423	3,242,651	573	71,816	15	2,092	-	78,340	10
Total (A+B) 31/12/2021	8,327,357	372	2,344,516	488	6,500	-	2,515	-	88,003	12

B.4 Large exposures

	31/12/2022
Number of positions	17
Exposure	24,111,862
Risk position	1,359,579

In the calculation of “large exposures”, all of the balance sheet and off-balance sheet risk assets of an individual customer (or group of related customers) are considered, without applying weighting factors, while the threshold that qualifies an exposure as a “large risk” is when the exposure, as calculated above, is equal to or over 10% of own funds.

To gain a more accurate picture of the degree of credit concentration, the regulations also recognise exposures with a weighting factor of zero percent in terms of counterparty risk, such as for example exposures towards the Italian State, etc.

Note that the scope also includes repurchase agreements. The regulations envisage that these transactions are included in nominal exposure to the counterparty for the amount of the “securities to be received”, while weighted exposure, in specific cases, may envisage zero-weighting.

At the end of the period there were 17 positions classified as “large exposures”, amounting to a total of € 24,111.9 million corresponding to a weighted value of € 1,359.6 million (at the end of 2021 there were 19 positions amounting to a total of € 31,368.8 million, corresponding to a weighted value of € 1,838.0 million).

The positions recognised include the Italian Ministry of the Treasury, several EU and non-EU member States and leading national and international banks.

C. Securitisations

Qualitative information

The Group holds a 10% interest in Emilia SPV S.r.l., a “special purpose vehicle” specifically established for the exclusive purpose of performing one or more securitisation operations pursuant to Italian Law no. 130 of 30 April 1999.

Emilia SPV S.r.l. has one revolving securitisation operation in place regarding performing residential mortgage loans not eligible for the “Covered Bond Programme” guaranteed by Credem CB S.r.l. The revolving structure allows the Bank, during a period known as replenishment, which may last up to 5 years, to sell new portfolios of suitable loans to the special purpose vehicle which pays for them by using the income from the existing portfolio and/or income from the payment the note-holders of further shares of the price of the notes issued. Once the replenishment period is over, the notes are redeemed during an amortisation period defined at the time of issue. The replenishment period ended in May 2020 and was renewed for a further 5 years on 23 March 2021.

The loans of the operation in question, originated by Credem, were sold without recourse, meaning without the guarantee of solvency of the debtors or their guarantors, to Emilia SPV S.r.l.

At the time of the issue, Credem subscribed the total liabilities issued by the vehicle and holds them in its portfolio. Therefore, based on the regulations of IFRS 9 as regards derecognition, the loans subject to securitisation remain recorded under assets in Credem’s financial statements.

At 31 December 2022, the “Financial assets measured at amortised cost” category also includes € 608 million in ABS issued by third party special purpose entities linked to loans originated in Europe, with preponderance of the component of French origination (€ 195.2 million). The portfolio consists of different types of ABS with a prevalence of residential mortgage securitisations, which account for 43,4%.

Current exposure broken down by country risk is as follows:

Country	Amount (€/thousands)	Exposure %
FRANCE	195,173	32.1
GERMANY	167,188	27.5
NETHERLAND S	104,813	17.2
SPAIN	74,729	12.3
ITALY	42,159	7.0
IRELAND	22,650	3.7
UNITED KINGDOM	797	0.1
PORTUGAL	634	0.1
TOTAL	608,143	100.0

The securitisation portfolio is diversified over 28 issuers and 38 issues, with maximum concentration of € 45.9 million per single issue, and € 72.1 million per single issuer.

C.3 Exposures arising from major “third-party” securitisation transactions broken down by type of securitised asset and type of exposure

Type of underlying assets/Exposures		Balance sheet exposures						Guarantees given						Credit facilities					
		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
		Book value	Net value adjustments/ recoveries	Book value	Net value adjustments/ recoveries	Book value	Net value adjustments/ recoveries	Book value	Net value adjustments/ recoveries	Book value	Net value adjustments/ recoveries	Book value	Net value adjustments/ recoveries	Book value	Net value adjustments/ recoveries	Book value	Net value adjustments/ recoveries	Book value	Net value adjustments/ recoveries
A.1	AUTO ABS FRGN33FRN CONSUMER LOANS	27,252	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.2	AUTOF 2 AT 21-43 EUR AUTONOMOUS	30,190	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.3	CONSUMER LOANS ST35 FRN CONSUMER LOANS	5,393	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.4	BP MORTGAGES 07/44TV RESIDENTIAL MORTGAGES	36	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.5	BPCE HOME190T24FRN RESIDENTIAL MORTGAGES BPCE	10,181	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.6	HOME210T55FRN RESIDENTIAL MORTGAGES BSKY	30,771	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.7	FRE4A FRN-29 EU CONSUMER LOANS	15,210	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.8	BSKY GE11 FRN-30 EU CONSUMER CREDIT	35,300	-3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.9	BUMPER 22SA 22-32 CONSUMER LOANS BUOS	28,024	-3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.10	3 A SR SEQ FLT LOANS TO SMEs	2,897	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.11	BUOS 3 B HALF SEQ FL LOANS TO SME CR.AGR.HABITAT	-	-	9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.12	MTGE RESIDENTIAL MORTGAGES	22,610	-2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.13	DRIV ESP A SR 6 FLT CONSUMER LOANS	2,575	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.14	DUTCH MBS BV18-50EUR RESIDENTIAL MORTGAGES E-	8,407	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.15	MAC NL FRN -A-GE37 RESIDENTIAL MORTGAGES	1,383	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.16	FINANCE (IR) ST60FRN RESIDENTIAL MORTGAGES	7,753	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.17	FINANCE(IR)4AMTGE 6I RESIDENTIAL MORTGAGES	14,971	-1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.18	GLOBALDRIVE27FRN EUR CONSUMER CREDIT	8,261	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.19	GLOBALDRIVE29FRN EUR CONSUMER CREDIT	12,495	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.20	GREAT H.FRN-A2B-MZ39 RESIDENTIAL MORTGAGES	797	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Type of underlying assets/Exposures		Balance sheet exposures						Guarantees given						Credit facilities					
		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
		Book value	Net value adjustments/ recoveries	Book value	Net value adjustments/ recoveries	Book value	Net value adjustments/ recoveries	Book value	Net value adjustments/ recoveries	Book value	Net value adjustments/ recoveries	Book value	Net value adjustments/ recoveries	Book value	Net value adjustments/ recoveries	Book value	Net value adjustments/ recoveries	Book value	Net value adjustments/ recoveries
A.21	GREEN APPLE-19-GE58 RESIDENTIAL MORTGAGES	8,587	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.22	HFHL 2020-1 FB61 RESIDENTIAL MORTGAGES	11,404	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.23	HFHL 2021-1A MTGE61E RESIDENTIAL MORTGAGES	26,599	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.24	HIPOTOTTA4-CL/A ST48 RESIDENTIAL MORTGAGES	634	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.25	MAGOI 19 LG39 FLT CONSUMER CREDIT	6,850	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.26	NORIA 2021-1EUR CONSUMER CREDIT	17,729	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.27	PRADO 8 A SR SEQ FLT RESIDENTIAL MORTGAGES	26,176	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.28	PRADO 9 A SR SEQ FLT RESIDENTIAL MORTGAGES	27,035	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.29	PRADO XA SR SEQ FLT RESIDENTIAL MORTGAGES	18,943	-	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.30	PROGQ 1 A EUR CONSUMER CREDIT	11,933	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.31	R&B AUTO L2GER11/28 CONSUMER CREDIT	7,719	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.32	R&B AUTO L9GER22/31 CONSUMER CREDIT	20,349	-	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.33	SC GERMAN CONS 21-1A CONSUMER CREDIT	45,956	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.34	SILVER A AP31 FRN CONSUMER CREDIT	31,572	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.35	SILVER A GN29 FRN CONSUMER CREDIT	17,805	-	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.36	SILVER A ST27 FRN CONSUMER CREDIT	7,386	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

CONSOLIDATED FINANCIAL STATEMENTS –
EXPLANATORY NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS

A.37	STORM 2018GRN TO MTGE RESIDENTIAL MORTGAGES	27,422	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.38	STORM 2022-A BVRESIDENTIAL MORTGAGES	20,593	-	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.39	VCL31-A-FRN ST26EUR CONSUMER CREDIT	5,702		1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.40	VCL32-A1-FRN GE27EUR CONSUMER CREDIT	6,214		1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

C.3 Prudential consolidation - Investments in Special Purpose Vehicles for securitisation

As already illustrated under qualitative information, the Group has one special purpose vehicle for securitisation, Emilia Spv, in which Credito Emiliano has a stake of 10%, and therefore this company is not consolidated.

D. Disposals

A. Financial assets sold and not fully derecognised

Qualitative information

Disposals

In 2015, Credem finalised a revolving securitisation operation, regarding performing residential mortgage loans, not eligible for purposes of the use in the “Covered Bonds Programme” by the special purpose vehicle Credem CB S.r.l., disbursed to its customers and selected on the basis of predefined criteria in order to form a “block” pursuant to and in accordance with the law applicable to credit securitisation.

Following the first disposal of assets, finalised in the fourth quarter of 2014 at a price of € 1,002,811,119.07, between 2015 and the end of 2022, in the periods indicated below, eight disposals of portfolios of eligible loans were made to the special purpose vehicle for a price of:

- Fourth quarter 2015: € 285,392,481.54
- Fourth quarter 2016: € 293,707,640.58
- Fourth quarter 2017: € 245,710,926.70
- Fourth quarter 2018: € 52,416,789.64
- Second quarter 2021: € 1,304,130,865.63
- Fourth quarter 2021: € 353,874,864.16
- Second quarter 2022: € 274,726,751.12
- Fourth quarter 2022: € 190,056,443.89

The loans were acquired without recourse, meaning without the guarantee of solvency of the debtors or their guarantors, by EMILIA SPV S.r.l., a special purpose vehicle specifically established in which Credem has a 10% interest, for the exclusive purpose of performing one or more securitisation operations pursuant to Italian Law no. 130 of 30 April 1999.

The special purpose vehicle financed the operation through the issue, during April 2015, of different classes of “RMBS” notes (senior and junior). The senior bonds have an official rating assigned by accredited agencies DBRS and Moody’s Investor Services (“A” rating assigned by DBRS and “A1” by Moody’s at end of December 2022). However, the junior notes are unrated.

The senior notes pay quarterly variable interest corresponding to the 3 month Euribor rate plus 75 bps, while the junior notes pay 3 month Euribor rate plus 200 bps. Junior noteholders have also the right to receive, at each payment date and, in the order of priority of payments and available funds, a residual bonus after payment of all other amounts of greater priority.

The notes are structured as partly paid notes (PPN) and are fully issued for their nominal value on the issue date (€ 3,000,000,000 for the senior notes and € 900,000,000 for the junior notes). The price of the notes was paid by subscribers only partially on the issue date, while the remaining balance can be paid in a number of instalments over time, in accordance with the revolving logic of the operation.

The revolving structure allows the Bank, during a period known as replenishment, which may last up to 5 years, to sell new portfolios of suitable loans to the special purpose vehicle which pays for them by using the income from the existing portfolio and/or income from the payment the note-holders of further shares of the price of the notes issued. Once the replenishment period is over, the notes are redeemed during an amortisation period defined at the time of issue. The replenishment period ended in May 2020 and was renewed for a further 5 years on 23 March 2021.

At 31 December 2022, the current tranche of senior notes stood at € 1,973,512,000.89 and that of the tranche of junior notes at € 599,025,731.69.

The senior notes are listed on the Irish Stock Exchange. Both of the tranches were purchased by Credem. The senior notes may be used for refinancing operations with the Eurosystem.

The aim of this operation is to create liquidity reserves and falls within the scope of the liquidity management activities implemented by Credem.

The special purpose vehicle has also given Credem the following options to repurchase individual loans, within certain parameters, to repurchase loans en bloc that may become eligible for use in the Covered Bond Programmes by Credem CB S.r.l. and to repurchase the whole loans portfolio en bloc and without recourse (in accordance with the contractual limitations envisaged).

During 2022, two new sales of assets relating to performing residential mortgages not eligible for use in the covered bonds programmes were finalised, while there were no transactions involving partial block repurchases of loans from the special purpose vehicle.

Quantitative information

D.1 Prudential consolidation – Financial assets sold fully recognised and associated financial liabilities: book values

	Financial assets sold fully recognised				Associated financial liabilities		
	Book value	of which: subject of securitisation operations	of which: subject of contracts of sale with repurchase repurchase	of which non-performing	Book value	of which: subject of securitisation operations	of which: subject of contracts of sale with repurchase obligation
A. Financial assets held for trading	-	-	-	X	-	-	-
1. Debt securities	-	-	-	X	—		
2. Equity securities	-	-	-	X	—		
3. Loans	-	-	-	X	—		
4. Derivatives	-	-	-	X	-	-	-
B. Other financial assets measured at fair value, as per mandatory requirements	-	-	-	-	-	-	-
1. Debt securities	-	-	-	-	-	-	-
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
C. Financial assets measured at fair value	-	-	-	-	-	-	-
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	2,464,639	-	2,464,639	-	2,451,373	-	2,451,373
1. Debt securities	2,464,639	-	2,464,639	-	2,451,373	-	2,451,373
2. Equity securities	-	—		X	-	—	
3. Loans	-	—		—		—	
E. Financial assets measured at amortised cost	2,356,099	-	2,356,099	-	2,324,737	-	2,324,737
1. Debt securities	2,356,099	-	2,356,099	-	2,324,737	-	2,324,737
2. Loans	-	—		—		—	
Total 31/12/2022	4,820,738	-	4,820,738	-	4,776,110	-	4,776,110
Total 31/12/2021	7,185,635	-	7,185,635	-	7,251,882	-	7,251,882

Key:

A= financial assets sold fully recognised (book value)

B = financial assets sold partially recognised (book value) C = financial assets sold partially recognised (full value)

The operations refer to the use of securities in the portfolio for short-term repurchase agreements.

D.3 Prudential consolidation - Disposals of liabilities with recourse exclusively on assets sold and not fully derecognised: fair value

	Fully recognised	Partially recognised	Total	
			31/12/2022	31/12/2021
A. Financial assets held for trading	-	-	-	-
1. Debt securities	-	-	-	-
2. Equity securities	-	-	-	-
3. Loans	-	-	-	-
4. Derivatives	-	-	-	-
B. Other financial assets measured at fair value, as per mandatory requirements	-	-	-	-
1. Debt securities	-	-	-	-
2. Equity securities	-	-	-	-
3. Loans	-	-	-	-
C. Financial assets measured at fair value	-	-	-	-
1. Debt securities	-	-	-	-
2. Loans	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	2,464,639	-	2,464,639	3,739,229
1. Debt securities	2,464,639	-	2,464,639	3,739,229
2. Equity securities	-	-	-	-
3. Loans	-	-	-	-
E. Financial assets measured at amortised cost (fair value)	2,356,099	-	2,356,099	3,446,406
1. Debt securities	2,356,099	-	2,356,099	3,446,406
2. Loans	-	-	-	-
Total financial assets	4,820,738	-	4,820,738	7,185,635
Total associated financial liabilities	4,776,110	-	X	X
Net value 31/12/2022	44,628	-	4,820,738	X
Net value 31/12/2021	(66,247)	-	X	7,185,635

The financial liabilities entered against financial assets sold and not derecognised (shown in the Deposits from customers and Deposits from banks columns) relate to repurchase agreements against securities recorded under assets.

The non-derecognition of the securitisation operations, already extensively illustrated in paragraph “C.1 Securitisation operations”, is the direct result of the subscription by the Group of the tranches of the Junior notes or of similar exposures, which entail the risk of first losses and, similarly, the benefit related to the yield of the portfolio of assets transferred. These assets are disposed of without recourse through a servicer agreement; the Group undertakes to provide the management, administration, collection and credit recovery services for the vehicle.

Following the transfer, the fee collected is recorded as a balancing entry to the recognition of a debt towards the special purpose vehicle, net of the tranches of the securities subscribed. The debt recognised towards the special purpose vehicle will be reduced by virtue of the sums collected by the originator, acting as servicer, and repaid to the same vehicle.

D.4 Prudential consolidation - covered bond transactions

Credem CB Programme

At meetings held on 26 May 2010 and 25 June 2010, the Board of Directors of Credito Emiliano resolved to launch the structuring of a programme to issue covered bonds for a maximum amount of € 5 billion.

On 22 October 2010, the Board of Directors approved the first disposal by Credem of a loans portfolio worth a maximum of € 2.4 billion to Credem CB S.r.l., a Special Purpose Vehicle (SPV) selected to participate in the Programme and in which Credem holds 70% shareholders' equity.

In Italy, the legislative framework for the issue of Covered Bonds (hereinafter also the "Legislation") is represented, in particular:

- by the CICR resolution of 2 August 1996, regarding administrative and accounting organisation and internal controls, as amended and supplemented by the resolution on 23 March 2004 made by the same Committee;
- by Art. 7-bis of Italian Law no. 130 of 30 April 1999, and subsequent amendments and supplements ("Italian Law 130");
- by the Decree of the Italian Ministry of the Economy and Finance no. 310 of 14 December 2006 ("MEF Decree");
- by the Decree of the Italian Ministry of the Economy and Finance, CICR Chairman, dated 27 December 2006, no. 933;
- by the Decree of the Italian Ministry of the Economy and Finance, CICR Chairman, dated 12 April 2007, no. 213;
- by the provisions issued by Banca d'Italia on Covered Bonds pursuant to the Third Part, Chapter 3 of Circular 285 dated 17 December 2013 containing the "Supervisory provisions for banks" as amended and updated on each occasion (the "Instructions");
- by the additional regulatory, European community and national sources, expressly referred to in the Instructions, in paragraph 2, Section 1, Chapter 3, Part Three (including therein EU Regulation no. 575/2013).

The issue of Covered Bonds by Credem is part of the Group's strategic plan, the objective of which is, among other things, to obtain several benefits in terms of funding, such as diversifying sources of deposits, reducing the relative cost as well as extending the maturities of liabilities.

Generally speaking, the basic structure of a covered bond issue – according to that outlined in the legislation – envisages the following steps:

- the bank (Banca Credente, Credem) transfers a package of assets with specific characteristics (the "Portfolio") to a Special Purpose Vehicle (Credem CB S.r.l.). The assets transferred to the Special Purpose Vehicle represent a separate equity with respect to the Special Purpose Vehicle's own equity, a benefit to the holders of covered bonds and other parties in whose favour the guarantee is issued. The Transferring Bank gives the Special Purpose Vehicle a subordinated loan, the purpose of which is to fund the purchase of the assets by the same Special Purpose Vehicle;
- Credem issues bonds. The Special Purpose Vehicle issues a guarantee in favour of the holders of the bonds issued by the issuer.

As a result of the above, the repayment of the covered bonds, which will be issued as part of the transaction, is guaranteed, not only by the issuer but also by an unconditional and irrevocable guarantee, issued by the Special Purpose Vehicle to the exclusive benefit of the investors that will subscribe the Covered Bonds and other counterparties, including those providing hedging, involved in the transaction. The latter guarantee is issued by the Special Purpose Vehicle on the Portfolio.

Given the above, it is clear that the covered bond transaction illustrated can be categorised as a "simple transaction" insofar as the originator bank, financing bank and issuing bank are all a single entity, Credem.

Transferred Portfolio

The portfolio which, on each occasion, is assigned to the Special Purpose Vehicle must possess several common features.

The main criteria common to identifying and selecting the mortgages from which the loans that make up the Cover Pool originate have been established following consultation with the rating agencies, who were asked to give a rating to the covered bonds that Credem will issue under the Programme.

At the end of October 2010, September 2011, February 2012, April 2014, October 2014, October 2015, April 2016, October 2016, April 2017, November 2017, May 2018, October 2018, May 2019, November 2020, November 2021 and November 2022 mortgage loans originating from mortgage agreements were selected, which, on the relative cut-off dates, met, by way of example and not limited to, the following main cumulative criteria:

- loans not deriving from mortgage agreements that benefit from forms of financial support;
- loans not classified as “bad loans”, pursuant to the applicable “Supervisory instructions for banks” issued by Banca d'Italia;
- loans not disbursed (even jointly) to employees or directors of Credito Emiliano or of its subsidiaries that are part of the Credem Banking Group.

On the accounting date of 31 December 2022, the Cover Pool comprised receivables originating from 58,726 mortgage loans, with a total residual debt of approximately € 4,562.82 million, as specified below in more detail.

Region where the borrower is located	Residual Debt (€/thousand)	% Residual Debt	No. of mortgages	% no. of mortgages
Abruzzo	36,491.92	0.01	533	0.01
Basilicata	9,190.68	0.00	126	0.00
Calabria	125,876.52	0.03	2,223	0.04
Campania	468,193.34	0.10	5,711	0.10
Emilia Romagna	732,344.44	0.16	10,444	0.18
Friuli Venezia Giulia	44,144.70	0.01	652	0.01
Lazio	526,927.78	0.12	5,342	0.09
Liguria	105,407.56	0.02	1,375	0.02
Lombardy	769,387.79	0.17	8,456	0.14
Marche	85,450.37	0.02	1,090	0.02
Molise	8,587.03	0.00	135	0.00
Piedmont	147,315.57	0.03	1,911	0.03
Apulia	255,907.49	0.06	4,380	0.07
Sardinia	172,787.22	0.04	1,916	0.03
Sicily	411,467.64	0.09	6,528	0.11
Tuscany	344,877.20	0.08	4,207	0.07
Trentino Alto Adige	21,695.01	0.00	234	0.00
Umbria	19,488.54	0.00	304	0.01
Val D'Aosta	1,655.80	0.00	12	0.00
Veneto	275,622.72	0.06	3,147	0.05
Total Portfolio	4,562,819.30	100%	58,726	100%

Subordinated Loan

When the Initial Portfolio was assigned, on 29 October 2010, Credem and Credem CB signed a subordinated loan agreement, through which Credem granted Credem CB a subordinated loan to pay the purchase price of the Initial Portfolio and undertook to grant Credem CB further subordinated loans, each for an amount equal to the price to be paid by Credem CB for the purchase of subsequent loans portfolios, assigned by Credem in accordance with the terms of the framework agreement governing the transfer of assets.

A further subordinated loan was therefore then granted at the time of the assignment of each subsequent portfolio, for an amount corresponding to the relative assignment price.

Asset Swap

Swap contracts were stipulated between the Special Purpose Vehicle and Credem, for an amount sufficient to hedge the Cover Pool, in order to guarantee the Special Purpose Vehicle protection against interest rate risk and/or base rate risk due to the presence of assets with different indexation. In June 2013, at the time of the programme's annual renewal, the structure of the hedging mechanisms for the operation was reviewed and, with the approval of the rating agencies, all swap contracts stipulated at the time between the Special Purpose Vehicle and Credem were closed in advance.

At 31 December 2022, there are no asset swap contracts between the Special Purpose Vehicle and Credem.

Covered Bond Swap (or Liability Swap)

When the Covered Bond is issued on the market, a swap contract may be stipulated between the Special Purpose Vehicle and Credem in order to mitigate interest rate risk between the cash flows received by the Special Purpose Vehicle and that due from the same to investors in the event of the default of the issuer.

There is currently a swap contract entered into at the time of issuance of the Covered Bonds with a term of 30/08/2013-2028.

Bank accounts

The Programme envisages a complex structure of current accounts to sustain the cash flows of the transaction. Said structure means that a series of accounts in the name of the Special Purpose Vehicle have been opened and in particular, but not limited to: Collection Accounts, Reserve Account, Payments Account, Eligible Investment Account and Expenses Account. Following the rating upgrade by Fitch in December 2021, Credem returned to the role of Account Bank and these current accounts in the name of Credem CB were transferred by the company BNP Paribas Securities Services - Milan Branch to Credem on renewal of the CB Programme in April 2022.

Parties involved in the Programme

This section illustrates the main roles and counterparties involved in the transaction:

- Servicer: the role played by Credem, which, as such, has been engaged by Credem CB to collect and recover the loans included in the Initial Portfolio and in the portfolios that Credem itself assigns to Credem CB under the Assignment Framework Agreement;
- Back-Up Servicer: entity which, upon the occurrence of certain events, governed by the Programme, may take over from Credem in the role of Servicer described above. Currently this role is not covered by any party;
- Investment Manager: the role played by Credem, which, as such, has been engaged to invest the available liquidity in the current accounts opened by Credem CB and to draw up and send the so-called Investment Manager report, which contains the results of the investment activities carried out;
- Account Bank: the role currently played by Credem, which, as such, has been engaged to invest the available liquidity in the current accounts opened by Credem CB and to draw up and send the so-called Investment Manager report, which contains the results of the investment activities carried out;
- Principal Paying Agent: the role played by BNP Paribas Securities Services, which has the main task of determining and making (both on behalf of Credem and on behalf of Credem CB) the payments due, in terms of both principal and interest, to the Covered Bondholders;
- Calculation Agent: role played by BNP Paribas Securities Services which, as such, has the main task of drawing up and sending the so-called Payments Report to the parties to the contract. This Report contains an indication of the Credem CB funds available and of the payments to be made, according to the order of priority of the payments determined under the Intercreditor Agreement;
- Asset Monitor: role played by BDO Italia S.p.A. which, in that capacity, makes the calculations and checks the Compulsory Tests and the Amortisation Test conducted according to the Cover Pool Management Agreement, verifying the accuracy of the calculations made by the Calculation

Agent. Separately, it is currently envisaged that the Asset Monitor *also checks whether the assets making up the Portfolio comply with the requirements envisaged by the legislation and the integrity of the guarantee in favour of investors*;

- Representative of the Bondholders: the role played by BNP Paribas Securities Services which, as such, exercises the rights of the counterparties involved in the transaction in relation to Credem and Credem CB;
- Listing Agent: the role played by BNP Paribas Securities Services which, as such, has the main task of managing, on behalf of Credem and Credem CB, relations and compliance with the stock exchange on which the Covered Bonds are listed.

Lastly, it should be noted that some of the Programme's contracts envisage that the parties engaged to perform some of the activities and some of the roles indicated above, for the purpose of the same, are in possession of specific ratings. Therefore, although some roles are currently played by Credem (or by third parties to the Group), it is possible that in the future the same may be assigned to parties external to the Group (or to Credem).

Risks associated with the transaction

The Covered Bond issue programme entails the following financial risks, with respect to which various mitigating measures have been taken: issuer risk, interest rate risk, credit risk, liquidity risk, refinancing risk, counterparty risk, legal risks related to the transaction.

At least once every 12 months, Credem's Internal Audit department (Auditing service) conducts a full audit of the controls set in place, also on the basis of information received and the evaluations made by the Asset Monitor. The results of these audits are reported to the competent management bodies.

Main characteristics of the Programme

The financial structure of the Programme envisages that Credem proceeds with the issue, in several consecutive series, of Covered Bonds with the ratings of Aa3 and AA- in December 2022, assigned respectively by the following rating agencies: Moody's Investors Services Inc. and Fitch Rating Limited.

Said bonds have been placed with institutional investors with the support of Dealers selected on each occasion. At the initial stage, the Programme Arrangers were Barclays Bank PLC and Société Générale; at present there is just one Arranger, Barclays.

Under the Programme, Credem may issue Covered Bonds for a total amount, on each occasion, of no more than € 5 billion. Said maximum amount may be increased in accordance with the provisions of the Programme's contractual documentation. As part of the Programme, Credem may issue a wide range of different types of securities; however, at present, the type most widespread on the market are soft bullet securities, that envisage the periodic payment of interest, a one-time repayment on maturity and the option, for the Special Purpose Vehicle, if Credem should default, to extend the maturity date by a further period (usually one year).

Issues were made in 2010, 2011, 2012, 2013, 2014, 2019 and 2021, while no new Covered Bonds were issued from 2015 to 2018 and in 2020. During 2022, for the value date of 31 May, the twelfth Covered Bond issue was carried out for a value of € 500 million, therefore the total nominal value of the outstanding Covered Bonds at 31 December 2022, issued under the programme guaranteed by Credem CB S.r.l., is €2.1 billion.

E. Prudential consolidation - credit risk measurement models

On 23 February 2022, the Supervisory Authority confirmed, with a specific communication, the authorisation for the Group to use the AIRB models (PD, LGD, EAD parameters) for Credit Risk following the applications for authorisation of model changes AIRB of March 2020 (amendments in relation to the Targeted Review of Internal Models) and March 2021 (adjustment according to the New Definition of Default and Art. 500 CRR), subsequently subject to inspection in the same year.

Periodically, the various parameters are validated in terms of control and monitoring activities to assess the overall adequacy of the credit risk measurement process. The models and methods were found to be adequate and the performance of the rating systems was confirmed as high, therefore indicating that the rating models have a good discriminatory ability.

1.2. Market risk

1.2.1 Interest rate risk and price risk – Regulatory trading book Qualitative information

The aim of the risk management model is to facilitate the achievement of a series of objectives:

- the governance and guidance role of the Parent Company in the management of the risks for each individual company and their impact on the Group's risks, in compliance with supervisory provisions in force and the Group's Risk Appetite Framework;
- management control to optimise the risk-return profile at Group level;
- uniformity of the method of analysis and of the "language" used by all Group companies.

In this regard, Market Risk, intended as the risk of losses caused by negative changes in risk factors (interest rate, price, exchange and other market factors), is measured and monitored both with reference to the banking book (on demand and maturity items) and the trading book (financial instruments traded for the purposes of positioning, trading and dealing).

Organisational structure

The main tasks of the organisational units involved in the process of market risk control and management are described below.

The Board of Directors of the Parent Company, BoD, is responsible for defining the general risk management guidelines for each business area; it also decides the powers to be assigned in relation to operational strategies, assumption of risks and corrective action; it identifies the set of Risk Appetite indicators and the relative calculation metrics, the latter proposed by the Executive Committee, EC; it establishes and approves risk objectives and tolerance thresholds, periodically assessing the adequacy of the Risk Appetite Framework (RAF) and the compatibility between objectives and effective risk; it approves the general structure of the operating limits and powers and the lines of responsibility and authority for the risk management process.

The Boards of Directors of the individual companies adopt the risk appetite and the tolerance threshold established in the RAF by the Parent Company; they approve the strategic plans and the guidelines for risk management formulated by the Parent Company as well as the structure of the internal operating limits and powers within the scope set by the Board of Directors of the Parent Company.

The Management of the individual companies conduct their business operations in compliance with the powers and operating limits for risk assigned by the respective Boards of Directors.

The Parent Company EC, as a management body, handles the implementation of the strategic plans and the risk management policies defined by the BoD, and in particular defines and oversees the implementation of the risk management process. The EC is also tasked with proposing risk measurement, control and analysis methods to the BoD and for establishing operating limits consistent with risk appetite.

The Parent Company's Committees involved in the RAF have the following responsibilities.

The Group Advisory Risk and Sustainability Committee carries out the evaluation and puts forward proposals in order for the BoD to approve the risk objectives and tolerance thresholds and periodically assess the adequacy of the RAF and the compatibility between objectives and effective risk.

It also expresses an opinion to the BoD on the proposals of the EC regarding risk measurement, control and analysis methods also for calculating the internal capital; lastly, it assists the Parent Company BoD by proposing general strategies for risk management.

The Risk Management Committee, set up to inform the EC on the monitoring of the overall risk assumed and its monitoring within the strategies and methods defined by the Parent Company in the RAF, performs the following functions:

- it manages the overall risk taken by each company and its monitoring within the strategies and methods defined by the Parent Company in the Risk Appetite Framework;
- it periodically assesses the overall level of risk taken by monitoring RAF indicators by type of risk;
- it also analyses any internal or external event that can considerably change the risk profile and so request the competent bodies, through the Risk Officer, to carry out additional revisions of the RAF.

The Risk Management department assists the Group Advisory Risk and Sustainability Committee and performs the following activities. As regards the RAF:

- it assesses, at least once a year, the adequacy of the metrics used by backtesting the risk estimation models, introducing the results, any shortcomings and the need to develop new methods to the RAF;
- it reports to Group Risk Committee at least once a quarter on the performance of the risk profile assumed as a whole in relation to the Risk Appetite objectives in respect of all the indicators, including those related to market risk.

It also handles:

- the measurement and reporting of financial risks by individual company and at Group level, mainly using risk measures in terms of sensitivity, aimed at verifying compliance with the limits assigned and consistency with the risk-return objectives established;
- the development and management of the risk measurement system through the acquisition of the market data required for the calculation;
- the definition of the risk profile for new products.

The results of Risk Management department operations are reported on a regular basis to the Group Advisory Risk and Sustainability Committee.

A. General aspects

Interest rate risk

Credembanca

The management of financial risks takes place through the definition of a structure of limits, which represents a direct expression of the acceptable level of risk with reference to the individual business areas/lines, in line with the Group's Risk Appetite Framework. Specifically, market risks stem from the following operations:

- traditional funding and lending;
- trading and investment in financial markets;
- trading in financial instruments where customers are the counterparty.

Interest rate risk in the regulatory trading book is generated by operations carried out in the markets for bonds and derivatives on interest rates. The interest rate risk generated by these activities is managed and controlled by means of overall limits in terms of delta (i.e. sensitivity with respect to parallel shifts in the curve), curve spread (i.e. sensitivity with respect to non-parallel shifts of the curve) and vega.

The specific or issuer risk is monitored by means of concentration limits per sector and rating class in terms of both countervalue and sensitivity. Furthermore, the VaR model adopted exclusively for management purposes includes issuer risk, through the use of specific time series on market spreads.

The Risk Management department produces risk reports on a daily, weekly or quarterly basis depending on the department they are to be sent to, indicating any overruns of the limits assigned by the Regulations in terms of the assumption of financial risk and the measurement of management risk in terms of VaR.

Any amendments to the Regulations and to the limits set forth therein can be submitted to the Board of Directors or the Executive Committee, as appropriate, for resolution, on the proposal of the Finance Business Unit, after having obtained the opinion of the Risk Management department.

Credem Euromobiliare Private Banking

Market risks related to interest rate risk are managed by defining an operational ceiling in terms of overall sensitivity to a rate movement of 1 bp.

The Parent Company's Risk Management department checks compliance with this limit and monitors the capital requirement trend, calculated according to the standard approach.

Price risk

The main source of price risk in the “regulatory trading book” consists of shares, funds and the relative derivative instruments.

Credembanca

Equity risks stem from trading activities. Stock market trading activities involve assuming directional positions managed and controlled through position limits, both gross and net, limits in terms of Greek frets and concentration limits by underlying.

Credem Euromobiliare Private Banking

The Regulations on the assumption of financial risk, monitored by the Risk Management department, do not contemplate ordinary limits for operations on equity risk.

Credem Holding also includes positions in ETFs and UCITS monitored through the regulatory requirement on market risk, calculated according to the standard approach.

Climate and environmental risks

Climate and environmental risks (physical and transitional) have been integrated into the relevance analysis through which the Credem Group periodically assesses the materiality of all the risks to which it is exposed. In particular, the Group has developed a quantitative methodology to measure the level of concentration of the investment portfolio towards those companies whose economic activity is considered particularly sensitive to transition risks. Specifically, to assess the impact of climate-environmental risk on the Group’s proprietary investment portfolio (trading and banking book), a sector matrix was adopted that provides a summary assessment of the riskiness (high, medium, low) of each separate economic sector on the Environmental Pillar.

Impacts resulting from the COVID-19 pandemic

As regards exposure to market risks in 2022, there are no significant impacts deriving from COVID-19. The persistence of the Russia-Ukraine conflict contributed to the acceleration of inflation and to the increase in rates, with consequent volatility on the markets and effects on risks. However, no changes in the risk objectives were necessary. In this context, the higher frequency of monitoring the Risk Appetite Framework, from quarterly to monthly, introduced starting from the Covid-19 pandemic, was maintained.

B. Interest rate risk and price risk: management processes and measurement methods

Interest rate risk – measurement methods and metrics

Interest rate risk for Credembanca is calculated daily using the VaR method; the measurement is for management purposes, and is not used to calculate capital requirement on market risk for which the Credem Group adopts the standard approach. The VaR measures the maximum potential loss that the portfolio may incur based on the trend in market factors, given a certain level of confidence, over a given time horizon. The methodology applied within the Credem Group includes the following parameters:

- 99% confidence level;
- 1-day time horizon;
- volatility calculated on the basis of 2 years of daily observations, giving more weight to the most recent data (decay factor $\lambda=0.94$).

To calculate absorption in terms of internal capital, the figure is converted into a 10-day VaR, prudently applying a multiplication ratio of 3.

The risk figure also undergoes stress testing as part of the process to verify capital adequacy, which aims to verify the change in capital (estimated in terms of VaR) in the event of future turbulence of the financial markets. The analysis is based on determining a variance and covariance matrix of risk factors on the assumption of a condition of stress in the markets, which increases the volatility of the financial variables and changes the structure of relationships between the same.

The matrix was determined using the same methodology as that used for VaR estimates. In particular, the option of setting the historic period used as an analysis sample for the calculation of volatility and correlations was taken, selecting critical time intervals (of high volatility) in the markets, consistent with the overall stress scenario identified.

With regard to Credem Euromobiliare Private Banking, interest rate risk is monitored through the capital requirement for market risk, which follows the standard approach.

Impacts resulting from the COVID-19 pandemic

In 2022, there were no significant impacts on the market risks of the trading book and interest rate risks of the banking book due directly to the Covid-19 pandemic. The Russia-Ukraine crisis fuelled the upward trend in inflation, countered by the increase in rates by the Central Banks. The volatility recorded on the markets had an impact, albeit limited, on market risks. The RAF indicators are still monitored on a monthly basis.

Quantitative information

1. Regulatory trading book: breakdown of balance sheet financial assets/liabilities and financial derivatives by residual life (repricing date)

The table in question has not been included because a sensitivity analysis for interest rate risk based on internal models and other methods is provided below.

2. Regulatory trading book: breakdown by equity exposures and stock indices by main listing countries

Type of transaction/Stock exchange market	Listed						Unlisted
	ITALY	U.S.A.	UNITED KINGDOM	FRANCE	GERMANY	OTHER COUNTRIES	
A. Equity securities							
- long positions	-	-	-	1,695	-	-	-
- short positions	-	-	-	-	-	-	-
B. Unsettled equity securities trades							
- long positions	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-
C. Other equity securities derivatives							
- long positions	-	-	-	-	25	--	-
- short positions	-	-	-	-	-	--	-
D. Stock index derivatives							
- long positions	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-

This section briefly summarises the results of the interest rate risk analyses relative to the trading book. In particular, the average, maximum and minimum VaR values generated by the interest rate risk factor for Credembanca are reported for 2020, 2021 and 2022.

Table 1. Interest rate risk data

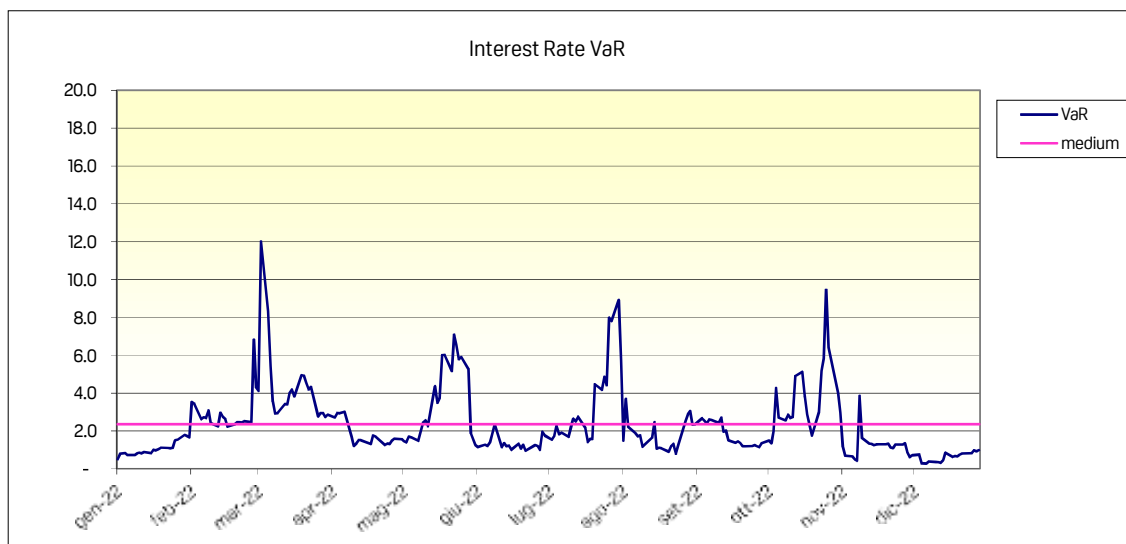
	2022	2021	2020
Credem			
<i>Interest Rate VaR - average</i>	2.3	3.5	1.9
<i>min</i>	0.3	0.1	0.3
<i>max</i>	12.0	13.5	5.6

*data in € million, VaR 99% 10 days * Multiplicative coefficient*

The comparison with the previous year shows a slightly decreasing interest rate risk factor for Credem, still at modest levels.

The following figures show the performance of the afore-mentioned VaR for Credem in 2022.

Figure 1. Performance of Interest Rate VaR Credem (99%, 10-day* multiplication coefficient). Figures in €/million



As regards the shift sensitivity analysis and restricted to the regulatory trading book, the table below illustrates the data regarding the impact on the net interest income over a time horizon of 12 months, in the hypothesis of a parallel shift in interest rates of +/-100 bps (figures refer to the Group).

The analysis was conducted in line with the methodology used to measure the interest rate risk of the banking book for the Risk Appetite Framework and for Short Term Exercise reports - STE interest rate risk, in line with the reference European guidelines.

"Parallel shift" assumption (figures in €/million)		
	Shock -100 b.p.	Shock +100 b.p.
Figures as at 12/2022	-1.2	1.2

Price risk – measurement methods and metrics

Equity market risk is calculated with the same frequencies and methods indicated for interest rate risk.

Quantitative information

This section briefly summarises the results of the price risk analyses relative to the trading book. In particular, the average, maximum and minimum VaR values generated by the interest rate risk factor for Credem are reported for 2020, 2021 and the first half of 2022.

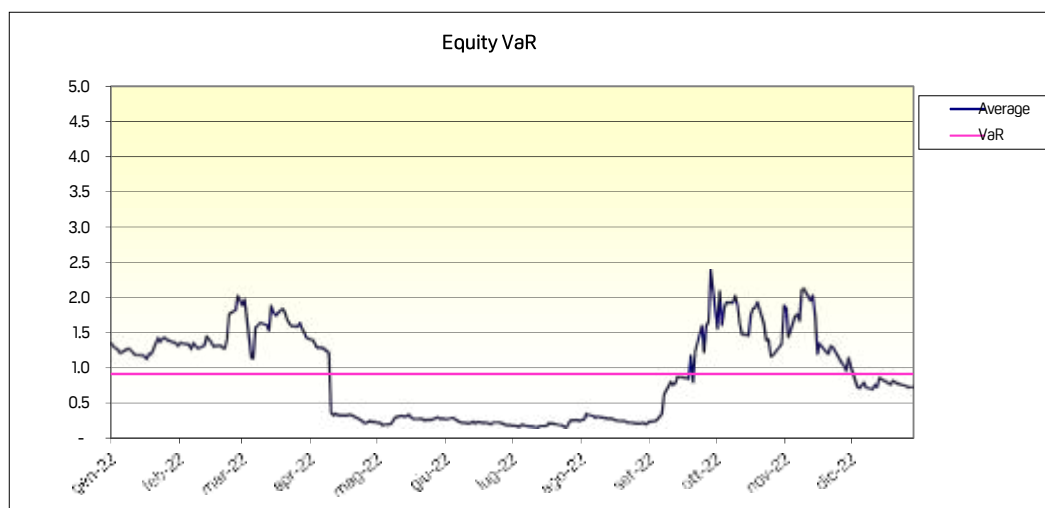
Table 2. Price risk data

	2022	2021	2020
Credem			
<i>Equity VaR - average</i>	0.9	0.9	1.2
<i>min</i>	0.2	0.4	0.4
<i>max</i>	2.4	1.7	3.2

*data in € million, VaR 99% 10 days * Multiplicative coefficient*

The Credem figure, stable with respect to the previous report and always on very limited levels, is substantially determined by the position in hedge funds (closed during the year) and positions in shares. The figures below illustrate the performance of VaR for Credem in 2022.

Figure 2. Performance of Equity VaR Credem (99%, 10 day* multiplicative coefficient). Figures in €/million



The results of backtesting are shown in paragraph 1.2.3 “Foreign exchange risk”.

SPECIFIC RISK – QUANTITATIVE INFORMATION

Specific risk is the risk of losses caused by an unfavourable change in the price of the financial instruments traded, due to factors related to the situation of the issuer.

The average, maximum and minimum values (in €/million) of specific risk, calculated on the basis of supervisory weightings, for 2020, 2021 and 2022, are provided below.

Table 3. Specific risk data

	2022	2021	2020
Credem			
<i>Specific risk - average</i>	0.6	0.4	0.1
<i>min</i>	0.5	0.1	0.0
<i>max</i>	0.8	0.9	0.1

data in € million

With regard to Credem Euromobiliare Private Banking, the capital requirement for generic and specific market risks is substantially insignificant.

1.2.2 Interest rate risk and price risk – Banking book

Qualitative information

A. Interest rate risk and price risk: general aspects, management processes and measurement methods

Interest rate risk

Credem adopts the regulatory definition of interest rate risk in the banking book, according to which, the risk in question is: “interest rate risk deriving from activities other than trading: risk deriving from potential changes in interest rates.”

The exposure to interest rate risk may be broken down into:

- income risk, resulting from the possibility that an unexpected change in interest rates leads to a fall in the net interest income and depends on the timing difference between maturities and periods to redefine the interest rate conditions of loans and deposits;
- investment risk, namely suffering negative changes in the values of all off-balance sheet assets, liabilities and instruments, following a change in interest rates, with a consequent destabilising impact on capital equilibrium.

The Group policy to manage interest rate risk in the banking book seeks to manage risk at Group level in a healthy and prudent manner, in order to ensure that risk/return objectives are optimised consistent with the Risk Appetite Framework defined at Group level. These objectives are pursued by maintaining a slight imbalance within set limits, depending on the significance of the risk of individual companies, in Regulations on the assumption of financial risks.

The Group has drawn up a specific internal regulation, Group Policy for the management of interest rate risk in the banking book, with a view to establishing the guidelines and the principles of governance and management for interest rate risk on the banking book (IRRBB), outlining a set of rules and control processes in order to stabilise the net interest income in the banking book for the Group and for individual companies.

The guidelines contained in the Policy refer to provisions issued by national and European authorities relating to instructions for the governance and management of the interest rate risk of the banking book.

The Policy, in accordance with European legislation, provides for two reference metrics to measure interest rate risk, economic value sensitivity and net interest income sensitivity within the Risk Appetite Framework, as well as in Capital Adequacy processes (ICAAP).

These metrics, calculated by the Risk Management department and reported periodically to the relevant committees³, are supported by operating indicators included in the regulations of existing companies for the assumption of Financial Risk.

The main bodies to which the Parent Company BoD refers by virtue of its role of strategic supervision and to which the EC refers as the body responsible for the management of interest rate risk in the banking book, are the Group Advisory Risk and Sustainability Committee, the Risk Management Committee (with the responsibilities set forth in paragraph 2.1 Interest rate risk and price risk - regulatory trading book) and the Asset & Liability Management (ALM) Committee, which makes proposals to the BoD, after examining the Group risk profile by monitoring the risk limits with respect to the objectives set under RAF and identifies the guidelines and strategies to management interest rate risk.

The operational management of interest rate risk on the banking book is assigned to the Finance Business Unit, which has the following responsibilities:

- proposing guidelines for the management of interest rate risk in the banking book to the ALM Committee, and formulating proposals to Risk Management for the subsequent approval of the Group Advisory Risk and Sustainability Committee, on the strategic direction of the interest rate risk profile of the banking book;

³ Risk Management Committee and Asset Liability Management (ALM) Committee

- managing the interest rate risk of the Parent Company and of Group companies, consistent with the overall risk profile defined and with the guidelines received from the ALM Committee, as well as within the limits assigned;
- establishing, together with Risk Management, the structure of operating limits to submit to the EC, consistent with the RAF and the common models to measure interest rate risk in the banking book defined by Risk Management.

In performing its operational management activities, the Finance Business Unit relies on overall and bucketised interest rate sensitivity analyses, in order to highlight the degree of asset- or liability-sensitive exposure on individual curve sections.

The Finance Business Unit is also responsible for making proposals to the ALM Committee on the actions considered necessary to improve the overall profile in terms of interest rate risk (and structural liquidity) and to implement these actions operationally.

Within the process of risk management and assessment of current and future capital adequacy, the Risk Management department:

- assists the BoD in evaluation exercises, with a view to setting risk objectives and tolerance thresholds within the RAF, as well as continuously checking its implementation;
- proposes to the Group Risk Committee, in collaboration with the Finance department, within the RAF process, the strategic direction as regards the interest rate profile of the banking book and adoptable tolerance thresholds;
- defines the methods for measuring interest rate risk in the banking book with the support of the Finance Business Unit, to be submitted to the EC;
- validates the models used to quantify interest rate risk and the assessment of the adequacy of the underlying stress assumptions;
- defines, together with the Finance department, the structure of the limits of the operating proxies and of the stress tests to submit to the EC, consistent with the tolerance threshold established by the BoD;
- prepares interest rate risk management and monitoring reports for the relevant committees;
- on a daily basis, monitors compliance with the operating limits established in the Regulations for the assumption of financial risks, including therein verifying that any overruns of said limits are corrected.

The Daily Report summarises compliance with the operating limits, and includes the following information:

- interest rate risk ceiling in terms of overall interest rate sensitivity;
- ceilings in terms of interest rate sensitivity per bucket;
- interest rate sensitivity limit on positions in currencies other than the Euro.

As regards demand items, the Group adopts a valuation model that quantifies the effects of persistence over time and the imperfect elasticity to changes in market interest rates (viscosity effect). Modelling is based on internal time series of customer behaviour, and it entails two components: an estimate, based on an econometric model, of the relationship between the interest rates of demand items and market interest rates and further regressors that enable interest rate risk to be separated, in the proper sense, from other phenomena (e.g. credit); an estimate of the persistence of volumes related to the mean-life concept, which enables the holding period of the aggregates to be linked more closely to the historic volatility of assets, through which the amount of demand items is transformed into a portfolio of fixed rate maturity items (replicating portfolio).

The Group also used the prepayment behavioural model on mortgage loans. The modelling adopted is behavioural, based on historical series analysis of the early termination and renegotiation of the rate. Unlike market models, in behavioural models the predominant factors that contribute to determining the value of the early redemption option are not exclusively financial, but include explanatory variables that depend on the characteristics of the loan (e.g. loan to value) and of the borrower (e.g. age).

Changes in the European regulatory framework on interest rate risk in the banking book (IRRBB) are continuously monitored, and suitable adjustments made, taking the indications of the JST in relation to SREP into account.

During 2022, the Group continued to report its exposure to interest rate risk on a quarterly basis to the ECB, through Short Term Exercise reports (STE-IRRBB).

Quantitative information

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

The table in question has not been included because a sensitivity analysis for interest rate risk based on internal models and other methods is provided below.

2. Banking book: internal models and other sensitivity analysis methods

This section briefly summarises the results of the interest rate risk analyses relative to the banking book. In particular, the table below shows the data regarding the impact on the net interest income (shift sensitivity analysis), over a period of 12 months, on the assumption of a parallel shift in interest rates of +/- 100 basis points. The measurement is based on end-of-year positions, and therefore does not include assumptions on future changes of the composition of assets and liabilities. For the purpose of the analysis, the floor on the customer interest rates of items with customers was set as zero.

The analysis was conducted in line with the methodology used to measure the interest rate risk of the banking book for the Risk Appetite Framework and for Short Term Exercise reports - STE interest rate risk, in line with the reference European guidelines.

"Parallel shift" assumption (figures in €/million)		
	Shock -100 b.p.	Shock +100 b.p.
Figures at 12/2022	-62.3	+91.0

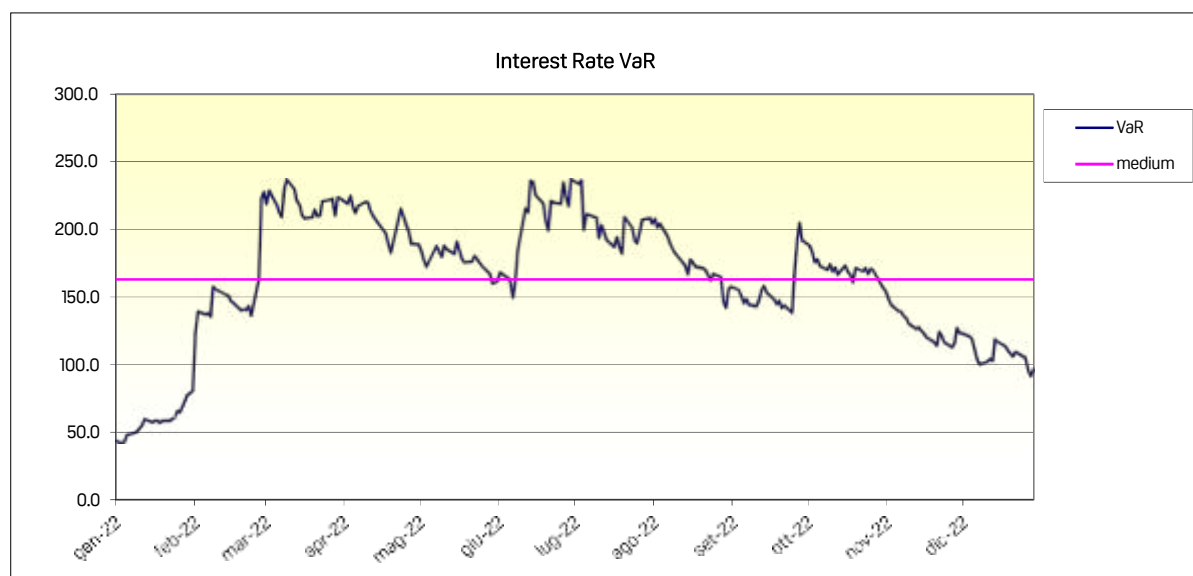
The exposure to interest rate risk from an equity perspective is measured at a consolidated level by a sensitivity analysis of the economic value (change in fair value of asset and liability items), based on a full evaluation approach, following a parallel shock on the spot interest rate curve of +/- 200 basis points. In 2022, the average change in economic value with relation to own funds was equal to 4.5%.

In addition to the impact of the parallel shocks of interest rates, stress tests are periodically conducted internally, assuming non-parallel shocks based on the historical trend of the interest rate curve. The methods used to analyse sensitivity to interest rate risk also include the modelling of demand items and prepayments on mortgages according to the behavioural models described above.

For the interest rate risk of the banking book, the same VaR analyses are provided as described in the paragraph on the trading book are envisaged, to which readers should refer for a description of the method. The figures below show the performance of the VaR of the Credem banking book over 2022.

The results of backtesting are shown in paragraph 1.2.3 "Foreign exchange risk".

Figure 5. Performance of Interest Rate VaR Credem – banking book (99%, 10 day* multiplication coefficient). Figures in €/million



The increase in VaR in 2022 is mainly due to the volatility of rates in the markets.

Price risk

The Group does not have positions in listed shares or equity investments in the banking book. There are € 3.5 million in a private equity fund managed by a group company and insignificant shares in funds resulting from the merger with Cassa di Risparmio di Cento, of which € 1.2 million in real estate funds.

Price risk hedging

The Group does not have any hedging transaction in place.

1.2.3 Foreign exchange risk

Qualitative information

A. Foreign exchange risk: general aspects, management processes and measurement methods

Foreign exchange transactions involve the assumption of positions managed and controlled through position limits, both gross and net, and concentration limits by currency.

The currency market risk is calculated with the same frequency and method indicated for interest rate and equity risk.

B. Hedging of foreign exchange risk

The Group does not have any hedging transaction in place.

Quantitative information

1. Breakdown by currency of assets, liabilities and derivatives

Item	Currencies					
	USD	GBP	JPY	CAD	CHF	OTHER CURRENCIES
A. Financial assets	2,216,255	13,783	11,598	2,632	8,493	24,021
A.1 Debt securities	2,104,218	629	2	-	-	250
A.2 Equity securities	7,630	-	-	-	-	-
A.3 Loans to banks	38,674	11,413	9,196	2,631	3,579	23,437
A.4 Loans to customers	65,733	1,741	2,400	1	4,914	334
A.5 Other financial assets	-	-	-	-	-	-
B. Other financial	6,849	589	182	448	1,009	708
C. Financial liabilities	2,313,579	37,650	5,431	6,942	10,763	17,355
C.1 Deposits from banks	2,033,030	4,575	215	10	2,057	794
C.2 Deposits from customers	280,549	33,075	5,216	6,932	8,706	16,561
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	3,528	2,977	7	71	212	100
E. Financial derivatives	-	-	-	-	-	-
- Options	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-
+ Long positions	434,036	171,448	100,378	24,153	19,190	38,288
+ Short positions	507,644	145,209	106,679	20,070	17,660	45,258
Total assets	2,657,140	185,820	112,158	27,233	28,692	63,017
Total liabilities	2,824,751	185,836	112,117	27,083	28,635	62,713
Difference (+/-)	(167,611)	(16)	41	150	57	304

Internal models and other sensitivity analysis methods

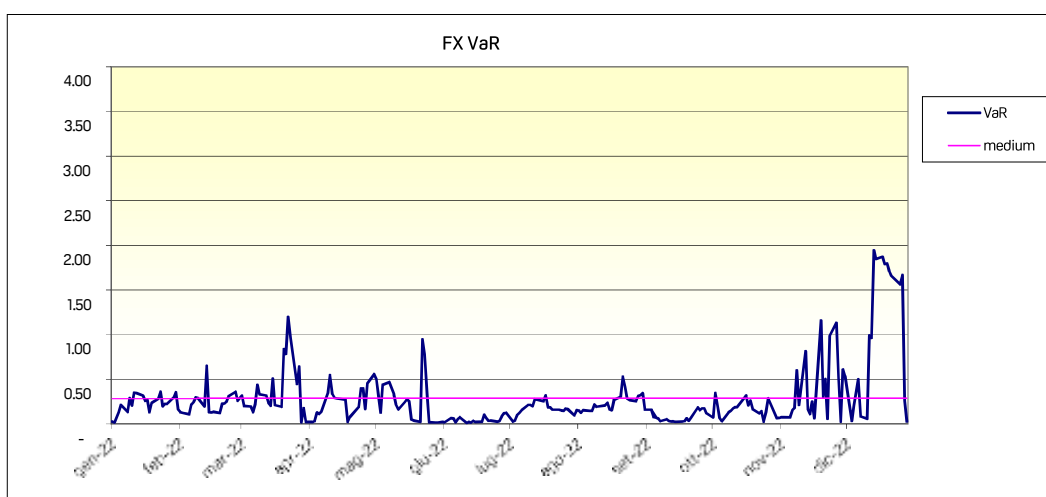
This section briefly summarises the results of the foreign exchange risk analyses relative to the trading book. In particular, the average, maximum and minimum VaR values (in €/million) generated by the currency risk factor are reported for the years 2020, 2021 and 2022.

Table 4. Currency VaR data

	2022	2021	2020
Credem			
<i>VaR - average</i>	0.3	0.0	0.0
<i>min</i>	0.0	0.0	0.0
<i>max</i>	1.9	0.4	0.2

*data in € million, VaR 99% 10 days * Multiplicative coefficient*

The following figures show the performance of the afore-mentioned VaR for Credem in 2022.



The table below shows the average contributions of equity risk, foreign exchange risk and interest rate risk in 2022 to the total non-diversified VaR.

Table 5. Average % contribution of risk factors to total non-diversified VaR

	Equity Risk	FX Risk	Interest Rate Risk
Credem 2022	1.7%	0.2%	98.1%

As part of the more comprehensive annual backtesting analysis of models, the VaR data is compared with the effective P&L recorded. The backtesting guidelines are described in the document Market Risk, Backtesting Methodology, Owned Portfolio VaR, which sets out the objectives and methodology.

Backtesting is carried out by comparing the VaR figures with the daily management P&L figures (or weekly, for the portfolios for which the calculation of profitability is on a weekly basis), based on the analysis of “exceptions”, or cases in which the loss recorded is higher than the estimated VaR for the same reference period, both in terms of numbers and in terms of time breakdown.

The scope of the backtest analysis consists of the portfolios of Finance Regulations, the VaR time horizon is in line with the calculation of the P&L. The financial year is based on 12 months of figures.

The cases were checked through a series of tests:

- Frequency Test: Basel and Kupiec (or POF, Proportion of Failure);
- Independent Test: Christoffersen and Mixed Kupiec;
- Joint Test: POF + Christoffersen, POF + Mixed Kupiec.

With regard to annual backtesting, the tests conducted confirm the solidity of the VaR model.

1.3 Derivatives and hedging policies

Transactions in derivative instruments are managed by the Group by means of a specific application that makes daily valuations on a Mark to Model basis. The reference document "Technical Annex to the Group Fair Value Policy: Pricing Models Manual" governs the main pricing models most often used by the Group for its derivatives measured on a Mark to Model basis. In particular, a specific section provides a detailed illustration of these models. The series of models illustrated identifies the methods used to date and validated for valuations of own instruments.

Classification of derivative instruments and market parameters

The Credem Group has drawn up a Fair Value Policy and relative technical attachments, which also contain the accounting rules for the valuation of instruments on a Mark to Model basis, the relative parameters and the processes used for the valuation of said instruments.

In particular, the manual is divided into the following sections:

- classification of the derivative instruments, historicised within the application;
- mapping and detail of the market parameters used by the application for the valuation of all instruments;
- description of automated procedures to historicise prices.

Market parameters

The market parameters used for the valuations and managed within the application may be:

- data acquired automatically, information downloaded periodically from Info Providers (e.g. daily market parameters);
- market data estimated by the application, mainly through data acquired automatically.

In general, the parameters entered manually are those that don't need to be updated continuously and on a daily basis.

Process to validate models and parameters

As already mentioned, the reference documents illustrate all of the pricing models and market parameters validated and used by the Group for the valuation of derivative instruments.

In the event that new parameters and/or models need to be introduced, the process envisages the involvement of the validation office, which issues a specific opinion on the new element and organises the validation of the models, as provided for in the specific Group regulations for new products.

The validation function is responsible for periodically updating the reference documents with new models and/or parameters used and for analysing the validity of the models in use.

Automatic procedures and specific controls enable the valuations of the derivatives and of the parameters used to be monitored on a daily basis.

The type of valuation is shown for each type of derivative (through market quotation - Mark to Market or through valuation according to the Mark to Model technique). If the derivative has been measured using the Mark to Model technique, the pricing model and the market parameters used for the valuation are indicated.

Family	Group	Transaction Type	Description	Mark to Market	Pricing model
CURR	FXD	FXD	Spot Forward	Mark to Market, Mark to Model	Model: Cost of Carry
CURR	FXD	XSW	Forex-Swap	Mark to Model	Model: Cost of Carry
CURR	OPT		FX Option	Mark to Model	Model: Black Exotic (back to back only)
				Mark to Market Mark to Model	Model: CN Credit All (<i>Solo Sensitivity</i>)
EQD	EQUIT		Equities	Mark to Market	Model:
IRD	ASWP		Asset Swap	Mark to Model	Model: Discounted cash flow
IRD	BONDS		Vanilla Bonds	Mark to Market Mark to Model	Model: Discounted cash flow
IRD	C/F		Cap/Floor	Mark to Model	Model: Black Normal Yield, Fischer Black
					Model: Discounted cash flow
			Forward Rate Agreement		Models: Discounted cash flow
IRD	IRS		Interest Rate Swaps	Mark to Model	Model: Discounted cash flow
					Models: Discounted cash flow
IRD	LFUT, SFUT		Long /Short Future	Mark to Market	Model:
URD	LN_LR		Loans/Deposit	Mark to Model	Mode Discounted cash flow
IRD	OPT	OTC	Bond Option	Mark to Model	Model: Black Normal Yield, Fischer Black
IRD	REPO	REPO	Bond Repo	Mark to Model	Model: Discounted cash flow
SCF	SCF	SCF	Simple Cash Flow		Model:

1.3.1 Derivative trading instruments

A. Financial derivatives

A.1 Derivative trading instruments: end of period notional amounts

Underlying assets/Type 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	-	955,838	572,888	-	-	1,322,441	499,453	-
a) Options	-	23,522	377,487	-	-	38,688	236,201	-
b) Swap	-	932,316	192,901	-	-	1,283,753	261,252	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	2,500	-	-	-	2,000	-
e) Others	-	-	-	-	-	-	-	-
2. Equity securities and stock indices	-	-	5,728	-	-	-	6,748	-
a) Options	-	-	5,728	-	-	-	6,748	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
3. Gold and currencies	-	82,252	538,832	-	-	622,764	401,460	-
a) Options	-	-	-	-	-	1,942	1,942	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	82,252	538,832	-	-	620,822	399,518	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	-	-	-
Total	-	1,038,090	1,117,448	-	-	1,945,205	907,661	-

A.2 Financial trading derivatives: gross positive and negative fair value – breakdown by product

Types of derivatives	Total 31/12/2022				Organised markets	Total 31/12/2021			
	Over the counter			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	-	1,084	107	-	-	104	908	-	
b) Interest rate swaps	-	26,029	221	-	-	25,568	3,797	-	
c) Cross currency swaps	-	-	-	-	-	-	-	-	
d) Equity swaps	-	-	-	-	-	-	-	-	
e) Forwards	-	955	7,487	-	-	5,252	3,311	-	
f) Futures	-	-	-	-	-	-	-	-	
g) Other	-	-	-	-	-	-	-	-	
Total	-	28,068	7,815	-	-	30,924	8,016	-	
2. Negative fair value									
a) Options	-	48	16,621	-	-	136	458	-	
b) Interest rate swaps	-	55,444	10,285	-	-	26,230	63	-	
c) Cross currency swaps	-	-	-	-	-	-	-	-	
d) Equity swaps	-	-	-	-	-	-	-	-	
e) Forwards	-	1,882	5,557	-	-	3,629	2,633	-	
f) Futures	-	-	-	-	-	-	-	-	
g) Other	-	-	-	-	-	-	-	-	
Total	-	57,374	32,463	-	-	29,995	3,154	-	

A.3 OTC financial derivatives: notional amounts, gross positive and negative fair value by counterparty

Underlying assets	Central Counterparties	Banks	Other financial companies	Other entities
Contracts not subject to netting agreements				
1) Debt securities and interest rates				
- notional amount	X	2,500	59,873	510,515
- positive fair value	X	-	-	327
- negative fair value	X	-	3,878	23,029
2) Equity securities and stock indices				
- notional amount	X	-	10	5,718
- positive fair value	X	-	1	-
- negative fair value	X	-	-	-
3) Gold and currencies				
- notional amount	X	-	2,255	536,577
- positive fair value	X	-	-	7,487
- negative fair value	X	-	72	5,485
4) Commodities				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts included in netting agreements				
1) Debt securities and interest rates				
- notional amount	-	955,838	-	-
- positive fair value	-	80,694	-	-
- negative fair value	-	55,492	-	-
2) Equity securities and stock indices				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Gold and currencies				
- notional amount	-	53,745	28,507	-
- positive fair value	-	955	-	-
- negative fair value	-	999	883	-
4) Commodities				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 OTC financial derivatives – residual life: notional amounts

Underlying/residual	Up to 1 year	Over 1 year up to 5 years	Over 5 years	Total
A.1 Financial derivative contracts on debt securities and interest rates	418,132	1,009,671	100,923	1,528,726
A.2 Financial derivative contracts on equity securities and stock indices	5,718	-	10	5,728
A.3 Financial derivative contracts on currencies and gold	593,127	27,957	-	621,084
A.4 Financial derivative contracts on goods	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2022	1,016,977	1,037,628	100,933	2,155,538
Total 31/12/2021	1,243,983	1,304,311	304,575	2,852,869

1.3.2 Accounting hedges

Qualitative information

With regard to hedge accounting, as envisaged by IFRS 9, the Group will continue to apply the provisions of accounting standard IAS 39 (adopting the carved-out version approved by the European Commission) for all hedges in place.

A. Fair value hedging

The Macro Fair Value Hedge accounting method was adopted to hedge the interest rate risk associated with:

- Fixed-rate mortgages/loans, therefore alongside the Cash Flow Hedge,
- floating-rate mortgages/loans with a cap option, to hedge the interest rate risk generated by the option;
- the core inelastic component of demand deposits.

In addition, the Micro Fair Value Hedge accounting method was adopted to hedge the interest rate risk associated with:

- debt securities held as fixed rate HTCS and HTC (including inflationary BTP, where inflation risk also covered),
- fixed-rate bonds issued by Credito Emiliano;

By applying hedge accounting, it is possible to symmetrically represent, in accounting terms, both the hedged items and the derivative products used for the hedge. In particular, to hedge interest rate risk, unlisted derivative instruments (IRS, OIS, IRO, IRS inflation) are used, which allow the differences between the financial features of loans and deposits to be realigned.

The Fair Value Hedge method requires that the hedging relationship be formally documented by a hedging card and that the effectiveness of the hedge is verified by prospective and retrospective tests of effectiveness. If the tests of effectiveness give a positive result, an adjustment of the fair value of the hedge instrument is recorded in the accounts, to align its valuation method with that of the hedging instrument.

These effectiveness tests are performed periodically during the life of the operation. The hedge is considered effective if the ratio between the change in fair value of the hedged item with respect to the hedging instrument is within the range of 80% - 125%. The test of prospective and retrospective effectiveness of the hedge is carried out on a quarterly basis.

Hedge accounting cannot be maintained when the hedge becomes ineffective (outside of the range of 80%-125%). Possible sources of inefficiency may include different payment dates or arrangements between the hedged and hedging instrument, and the credit spread for the FVH security.

B. Cash flow hedging

The basic objective of cash flow hedging is to avoid that unexpected changes in market rates have a negative impact on the net interest income.

There are cash flow hedges on various forms of floating-rate deposits already issued and to be issued (forecast transaction).

In particular, for interest rate risk hedging, unlisted derivative instruments (interest rate swaps) are used, which allow realignment of the financial differences between loans and deposits. The objective of hedging is to partially eliminate the risk of fluctuations in future cash flows caused by changes in the floating rate over the period hedged, and the consequent achievement of indexing at a "target" fixed rate, equal to that calculated from the "fixed-leg" cash flows of the group of hedging instruments.

In previous years, the Cash Flow Hedge was also introduced for floating-rate mortgages. The definition of mortgage packages with Cash Flow Hedges was made on the basis of the following criteria:

- same payment frequency
- same type of indexing
- frequency of interest rate review and payment of interest (split into the following 3 buckets: from the 1st to the 10th day of the month, from the 11th to the 20th day of the month and from the 21st day to the end of the month).

The similarity of these characteristics in the loans portfolio and the relative derivatives guarantees the effectiveness of the hedge and therefore means that the test in point 2 of the paragraph below

does not need to be conducted (this test is compulsory for the Cash Flow Hedge on various forms of funding).

Method for evaluation of effectiveness:

For floating-rate deposits with Cash Flow Hedges, the following tests are conducted:

- Verification of the minimum nominal capacity for each future period, starting from the current bucket;
- performance of prospective and retrospective tests using the hypothetical derivative approach, namely a comparison between the fair value of the hedge derivative and the fair value of the hypothetical derivative, with the fixed leg as the same flows of the hedging derivatives and the floating leg as the variable flows of the hedged instrument weighted by hedge percentages.

For loans covered by the Cash Flow Hedge, the hedging swap is checked to ensure that it has been concluded at market conditions, by verifying the Mark To Market value with the real-time curve when the transaction is closed.

Comments on the method presented

As regards the Cash Flow Hedges of the various forms of funding (the same applies to the mortgage Cash Flow Hedge, changing the signs of the cash flows and liabilities into assets) the derivatives for which the method in question is applied are considered as part of a single group of transactions whose overall exposure can be classified as “floating-rate collection/fixed-rate payment”. These transactions are considered, throughout their duration, as partial hedging of the cash flows generated on a group of floating-rate liabilities (floating-rate payment); these liabilities are represented by outstanding debit positions, as well as by future transactions with the same characteristics (if these respect the requirements for designation as hedged items⁴). Within each bucket, which hedges the homogeneous set of cash flows generated by the hedged liabilities, the identification of hedged cash flows is independent from their correlation with respect to the nominals that generated them (individual floating-rate liabilities), however the hedged cash flows are identified as “the first” of all that generated within the same bucket.

The objective of hedging is to eliminate a portion of the risk of variability in cash flows resulting from redefinition of the “coupons” of hedged items. The designation of the hedge relationship refers to specific periods of future time (quarterly buckets for the securities Cash Flow Hedge, monthly buckets for the mortgage Cash Flow Hedge) and, in terms of amount hedged, may differ from bucket to bucket, depending on the overall position of the group of hedging derivatives and the outstanding transactions hedged at the end of each specific bucket.

The reduction of the risk of cash flow variability is achieved by creating a group of hedged items and hedging items with indexing features at the same floating rate and with rate definition dates that are “reasonably” close (a quarter in the case of Cash Flow Hedges on different forms of funding, 10 days in the case of mortgage Cash Flow Hedges).

In essence, the cash flows collected during each of the periods defined by the variable coupons of the group of hedging instruments will offset a portion (equal to the portion generated on the hedged principal) of the total cash flows paid on the group of hedged items (the flows generated by the first nominals in repricing each bucket until reaching the nominal value of hedging transactions for each period), transforming the total exposure in the bucket from floating to fixed. For this situation to occur with a high level of probability, it is necessary that the cash flows (floating) generated by the two groups be aligned in terms of indexing parameter and frequency and that the floating-rate definition dates for the individual items within the two groups be sufficiently close to one another.

⁴ If transactions that are solely “prospective” satisfy the requirements set forth by IAS 39 to be qualified as “forecast transactions”, even the future cash flows generated by these may in turn be included under the same definition and, consequently, measured as hedged items. For the mortgage Cash Flow Hedge, it was decided not to use “forecast transactions”.

The concept of high probability of forecast transactions

In order to designate the hedge ratio of different forms of funding at variable interest rates, a forecast transaction must be⁵:

- highly probable;
- able to have a final impact on the income statement as the cash flows referring to it are variable.

“Highly probable” refers to a situation where it is more likely that the transaction will occur rather than not occur⁶. To this end, it is not possible to label future transactions as “highly probable” solely on the basis of management’s intentions: the analysis must be supported by objectively verifiable facts and circumstances.

The standard provides a list of points to be taken into consideration when defining the requirement of high probability⁷. These are:

- the frequency of similar, past transactions;
- the financial and operational ability of the entity to carry out the transaction;
- the strategic business plans (the forecast transactions must be in line with the size of the company and its growth prospects);
- the relevance of the transaction with the entity’s core business;
- the likelihood that transactions with substantially different characteristics might be used to achieve the same business purpose;
- the presence of a substantial commitment of resources for a specific activity.

Three factors affect the extent and relevance of the “evidence” necessary to demonstrate the “high probability” of a future transaction:

- the length of time until the future transaction is expected to occur. Other things being equal, the more distant a forecast transaction is, the less certain its occurrence is and, therefore, the less likely it is that it would be considered as being “highly probable”. In these cases, much more substantial evidence of “high probability” is required (such as, for example, contracts supporting the future transaction; the accounting standard⁸ highlights how interest payments in twenty years arising from a debt instrument with said maturity would be “highly probable” if supported by a contractual obligation for the payment of said amounts);
- the quantity/value of forecast transactions with respect to the actual transactions of the same nature. Other factors being equal, the higher the value of forecast transactions compared to current transactions, the lower the probability that these will actually occur. Therefore, stronger evidence will be required to support the claim of “high probability”;
- the history of past designations. If the company has a history of designating hedges of forecast transactions that do not actually occur because the transaction does not take place, this is an indication of the company’s limited ability to reliably evaluate forecast transactions as “highly probable”.

As highlighted in *Implementation Guidance*⁹ of IAS 39, the company does not need to be able to accurately predict the date on which the future transaction will occur. However, it must clearly identify and document the period in which the transaction is expected to occur.

As regards the above, the ALM Committee has set a limit to the maximum value of forecast transactions.

The amount of the forecast transactions may not exceed the total estimated value of future floating-rate bond issues (defined as the difference between the expected outstanding volumes each year and the total amount of bonds already issued).

For correct determination of the maturing cash flows, in addition to the inertial amount of transactions already carried out, the amounts for transactions carried out in the forecasted/projected years are also determined; conventionally, the duration of these issues is assumed to be two and three years. A decreasing percentage over time has also been established for the ratio of total assumed forecast transactions to envisaged issues, in order to express the lower probability of forecasts the more distant they are.

⁵ IAS 39 § 88

⁶ IAS 39 IG F.3.7

⁷ IAS 39 IG F.3.7

⁸ IAS 39 IG F.3.7

Quantitative information

A. Hedging derivatives

A.1 Hedging derivatives: end of period notional amounts

Underlying assets/Type 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	-	24,765,365	54,461	-	-	20,745,453	73,934	-
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	24,765,365	54,461	-	-	20,745,453	73,934	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
2. Securities and stock indices	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
3. Gold and currencies	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	-	-	-
Total	-	24,765,365	54,461	-	-	20,745,453	73,934	-

A.2 Hedging derivatives: gross positive and negative fair value – breakdown by product

Types of derivatives	Positive and negative fair value								Change in the value used to calculate the effectiveness 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	-	1,086,613	3,626	-	-	211,101	-	-	-	
c) Cross currency swaps	-	-	-	-	-	-	-	-	-	
d) Equity swaps	-	-	-	-	-	-	-	-	-	
e) Forwards	-	-	-	-	-	-	-	-	-	
f) Futures	-	-	-	-	-	-	-	-	-	
g) Other	-	-	-	-	-	-	-	-	-	
Total	-	1,086,613	3,626	-	-	211,101	-	-	-	
Negative fair value										
a) Options	-	-	-	-	-	-	-	-	-	
b) Interest rate swaps	-	874,058	-	-	-	406,366	1,718	-	-	
c) Cross currency swaps	-	-	-	-	-	-	-	-	-	
d) Equity swaps	-	-	-	-	-	-	-	-	-	
e) Forwards	-	-	-	-	-	-	-	-	-	
f) Futures	-	-	-	-	-	-	-	-	-	
g) Other	-	-	-	-	-	-	-	-	-	
Total	-	874,058	-	-	-	406,366	1,718	-	-	

A.3 OTC financial hedging derivatives: notional amounts, gross positive and negative fair value by counterparty

Underlying assets	Central Counterparties	Banks	Other financial companies	Other entities
Contracts not subject to netting agreements				
1) Debt securities and interest rates				
- notional amount	X	54,461	-	-
- positive fair value	X	3,626	-	-
- negative fair value	X	-	-	-
2) Equity securities and stock indices				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Gold and currencies				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
4) Commodities				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts included in netting agreements				
1) Debt securities and interest rates				
- notional amount	-	24,720,365	45,000	-
- positive fair value	-	1,083,177	3,437	-
- negative fair value	-	874,058	-	-
2) Equity securities and stock indices				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Gold and currencies				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Commodities				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 OTC financial hedging derivatives – residual life: notional amounts

Underlying/residual	Up to 1 year	Over 1 year up to 5 years	Over 5 years	Total
A.1 Financial derivative contracts on debt securities and interest rates	3,641,430	9,922,022	11,256,374	24,819,826
A.2 Financial derivative contracts on equity securities and stock indices	-	-	-	-
A.3 Financial derivative contracts on currencies and gold	-	-	-	-
A.4 Financial derivative contracts on goods	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2022	3,641,430	9,922,022	11,256,374	24,819,826
Total 31/12/2021	1,639,315	9,358,689	9,821,384	20,819,388

D. Hedged instruments

With regard to hedge accounting, as envisaged by IFRS 9, the Group will continue to apply the provisions of accounting standard IAS 39 (adopting the carved-out version approved by the European Commission) for all hedges in place.

D.1 Fair value hedges

	Micro-hedges: book value	Micro-hedges - net positions: book value of assets or liabilities (before of the netting)	Micro-hedges			Macro-hedges: Book value
			Cumulative changes in fair value of the hedged instrument	Termination of hedging: residual cumulative change in fair value	Changes in value used to recognise the ineffectiveness of the hedge	
A. Assets						
1. Financial assets measured at fair value through other comprehensive income - coverage of:	5,873,253	-	603,209	-	-	-
1.1 Debt securities and interest rates	5,873,253	-	603,209	-	-	X
1.2 Equity securities and stock indices	-	-	-	-	-	X
1.3 Currencies and gold	-	-	-	-	-	X
1.4 Loans	-	-	-	-	-	X
1.5 Others	-	-	-	-	-	X
2. Financial assets measured at cost cost - coverage of:	5,862,229	-	156,686	-	-	8,662,151
1.1 Debt securities and interest rates	5,862,229	-	156,686	-	-	X
1.2 Equity securities and stock indices	-	-	-	-	-	X
1.3 Currencies and gold	-	-	-	-	-	X
1.4 Loans	-	-	-	-	-	X
1.5 Others	-	-	-	-	-	X
Total 31/12/2022	11,735,482	-	759,895	-	-	8,662,151
Total 31/12/2021	12,200,230	-	70,590	-	-	(4,053)
B. Liabilities						
1. Financial liabilities measured at amortised cost - coverage of:	1,905,291	-	254,923	-	-	3,428,589
1.1 Debt securities and interest rates	1,905,291	-	254,923	-	-	X
1.2 Currencies and gold	-	-	-	-	-	X
1.3 Other	-	-	-	-	-	X
Total 31/12/2022	1,905,291	-	254,923	-	-	3,428,589
Total 31/12/2021	958,435	-	8,180	-	-	72,610

D.2 Cash flow hedges and foreign investments

	Change in value used to recognise the ineffectiveness of the hedge	Hedging reserves	Termination of hedging: residual value of hedging reserves
A. Cash flow hedges			
1. Assets	-	-	-
1.1 Debt securities and interest rates	-	-	-
1.2 Equity securities and stock indices	-	-	-
1.3 Currencies and gold	-	-	-
1.4 Loans	-	-	-
1.5 Others	-	-	-
2. Liabilities	-	(72,379)	-
1.1 Debt securities and interest rates	-	(72,379)	-
1.2 Currencies and gold	-	-	-
1.3 Other	-	-	-
Total (A) 31/12/2022	-	(72,379)	-
Total (A) 31/12/2021	-	22,997	-
B. Hedging of foreign investments	X	-	-
Total (A+B) 31/12/2022	-	(72,379)	-
Total (A+B) 31/12/2021	-	22,997	-

E. Impact of hedging transactions recognised in shareholders' equity

E.1. Reconciliation of components of shareholders' equity

	Cash flow hedging reserve						Foreign investment hedging reserve						Hedging instruments (items not designated)			
													Temporal value of option		Forward element value and currency spread	
	Debt securities and interest rates	Equity securities	Currencies and gold	Loans	Other		Debt securities	Equity securities	Currencies and gold	Loans	Other		Hedges relating to transactions	Hedges relating to a period	Hedges relating to transactions	Hedges relating to a period
Opening balances	22,996	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in fair value (effective portion)	(95,376)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reversals to income statement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
of which: future transactions no longer envisaged	-	-	-	-	-	X	X	X	X	X	X	X	X	X	X	X
Other changes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
of which: transfer to initial book value of hedged instruments	-	-	-	-	-	X	X	X	X	X	X	X	X	X	X	X
Closing balances	(72,379)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

1.3.3. Other information on trading and hedging derivatives

A.1 Financial and credit derivatives

A.1 Financial and credit derivatives: net fair value by counterparty

	Central Counterparties	Banks	Other financial companies	Other entities
A. Financial derivatives				
1) Debt securities and interest rates				
- notional amount	-	25,733,165	104,873	510,515
- positive net fair value	-	1,167,497	3,437	327
- negative net fair value	-	929,550	3,878	23,029
2) Equity securities and stock indices				
- notional amount	-	-	10	5,718
- positive net fair value	-	-	1	-
- negative net fair value	-	-	-	-
3) Gold and currencies				
- notional amount	-	53,745	30,762	536,577
- positive net fair value	-	955	-	7,487
- negative net fair value	-	999	955	5,485
4) Commodities				
- notional amount	-	-	-	-
- positive net fair value	-	-	-	-
- negative net fair value	-	-	-	-
5) Other				
- notional amount	-	-	-	-
- positive net fair value	-	-	-	-
- negative net fair value	-	-	-	-
B. Credit derivatives				
1) Purchase of protection				
- notional amount	-	-	-	-
- positive net fair value	-	-	-	-
- negative net fair value	-	-	-	-
2) Sale of protection				
- notional amount	-	-	-	-
- positive net fair value	-	-	-	-
- negative net fair value	-	-	-	-

1.4 Banking group – liquidity risk

Qualitative information

A. Liquidity risk: general aspects, management processes and measurement methods

Liquidity risk is defined as the possibility that the Group finds itself in a situation in which it is unable to meet its ordinary or extraordinary payment commitments when they become due without incurring losses that may undermine daily operations or the overall financial situation of the Group. Liquidity risk management can be divided into:

- management of short-term liquidity, including intra-day liquidity, the objective of which is to ensure the capacity to meet expected or unexpected cash payment commitments by maintaining a sustainable balance between the incoming and outgoing cash flows; this management constitutes the essential condition for normal operational continuity of banking activities;
- structural liquidity management, the objective of which is to maintain an adequate ratio between total liabilities and assets, in order to avoid pressures on short-term, current and future sources.

The Credito Emiliano Group adopted a liquidity risk management policy some time ago. The approved Policy regulates:

- the principles of liquidity risk governance and management adopted by the Group, and
- the set of regulations and control processes that aim to prevent the emergence of liquidity crisis situations for the Group and for individual Group companies, with the objective of encouraging proper and careful management of liquidity risk at consolidated level, with a view to assuring the stability and safety of company transactions, financial solidity and consequently Group solvency.

The basic principles behind the liquidity management policy are:

- definition of the Risk Appetite and Risk Tolerance (or tolerance threshold) in the context of the normal business activities and stress scenarios;
- definition and formalisation of roles and functions, in line with the principle of separating operational functions from control functions (known as “segregation of duties”);
- centralisation of the liquidity risk governance function on the Parent Company;
- implementation of a policy of transformation of the deadlines managed within the limits assigned;
- adoption of a diversified funding policy in terms of sources, duration and type of funding instruments;
- definition and formalisation of the principles relating to the definition of the pricing system for the internal transfer of funds;
- definition and formalisation of an emergency plan to be activated in the event of stresses and/or market crises or in the event of specific Group situations (Contingency Funding Plan);
- adoption of an internal control system.

The changes in cash flows over time are examined, on a daily basis, through a liquidity gap model, enabling the implementation of transactions aimed at establishing equilibrium between cash inflows and outflows.

The Group Asset Liability & Management Committee is awarded with decision-making powers to draw up strategies on Group funding policies. The financial equilibrium status is also regularly analysed, within the committee, to guide funding strategy decisions. This includes the Committee’s analysis of extraordinary measures that may become necessary due to contingent market situations.

Under the RAF process, the Risk Appetite and Risk Tolerance thresholds, the metric and control procedures are also defined for the following liquidity indicators:

- *Liquidity Coverage Ratio (LCR)*;
- *Asset Encumbrance*;
- *Net Stable Funding Ratio (NSFR)*.

The Liquidity Management rules adopted establish liquidity limits for short-term maturities and other indicators to monitor the overall position on a daily basis.

As regards structural liquidity, limits are envisaged to control and manage risks resulting from mismatches of medium/long-term maturities of assets and liabilities. Gap ratios at 1, 2 and 5 years are envisaged.

These limits enable the bank to avoid medium-long term transactions triggering excessive imbalances that require short-term financing.

The stress test scenarios envisaged by the Regulation are broken down into:

- systemic stress - low severity: systemic liquidity crises entailing an unexpected instability of the money and capital markets and/or political tension, accompanied by high levels of intensity and global impacts;
- idiosyncratic stress - medium severity: liquidity crises caused by particularly negative events for the Group;
- combined stress - high severity: this is the combination of the two previous scenarios. The purpose of the Contingency Funding Plan procedures, recently revised, is to safeguard the Group's stability during the initial stages of a state of liquidity tension and to guarantee the continuity of the Group in the event of a serious liquidity crisis.

The management of short-term liquidity and structural funding is carried out by the Parent Company's Finance Business Unit, which, overall:

- manages the intragroup cash flows arising from the net liquidity needs/surplus of the Group companies;
- measures and monitors the liquidity position of the Group and the individual Group companies;
- coordinates and raises funds in the interbank market to maintain adequate liquidity conditions for the Group;
- periodically establishes the financial interventions required to achieve medium and long-term equilibrium, sustainable growth and greater efficiency in funding;
- manages relations with the ECB (overseeing the management account and any lending or funding activity) and participates in the ECB's refinancing operations.

This set-up enables the Group's financial requirements to be adequately supported and is aimed at:

- reducing the total requirements for funding from counterparties external to the Group;
- optimising access to markets and, thus, minimising total costs of external funding.

During 2022, no changes were recorded as regards supervisory reporting. Reports relating to the Liquidity Coverage Ratio (LCR) and Additional Liquidity Monitoring Metrics (ALMM) have not been updated and are produced on a monthly basis, based on formats compliant with EU Implementing Regulations, respectively.

no. 322/2016 and no. 2114/2017.

The Group continues to participate in the half-yearly Basel III monitoring, and on a quarterly basis sends the Net Stable Funding Ratio liquidity reports (so-called "NSFR CRR2") as required by Regulation (EU) no. 2019/876 (so-called «CRR2»). This indicator replaced the liquidity reporting required by EU Regulation no. 575/2013 (CRR) in the form of a requirement for stable financing (SF) from June 2021.

In September 2022, the Group participated in the ECB's SSM Liquidity Exercise.

The total amount of funding with the ECB at the end of December 2022 relates to TLTRO III operations for a total amount of € 8.29 billion. No new transactions were carried out during the year. In December, the Bank made a voluntary early repayment of € 1.2 billion of the TLTRO III.3 tranche maturing in March 2023. In December 2022, the € 1.4 billion TLTRO III.2 tranche, which had reached its natural maturity, was also repaid.

At 31 December 2022, total unrestricted liquidity reserves, meaning the high-quality liquid assets used to calculate the LCR indicator, amounted to € 10.73 billion. 95% of these reserves belong to the Parent Company and the remaining 5% to the domestic subsidiaries.

Covered Bond Programmes

In May 2022, a new € 500 million issue was placed as part of Credem CB's Covered Bank Bonds programme. On 6 April 2022 the Base Prospectus of the CB Programme was renewed. At 31 December 2022, the nominal value of the issues in circulation was € 2.1 billion.

Unsecured Stand-Alone Issues

Based on the exchange rate at 19 January 2022, as part of the Group Green, Social and Sustainability Bond Framework, an inaugural issue of a Green Senior Preferred bond loan was placed, aimed at the wholesale market, for a nominal € 600 million.

On 5 July 2022, Credemholding S.p.A. placed the stand-alone issue of a subordinated Social Tier 2 bond loan for a nominal amount of € 200 million, intended for institutional and professional investors. At the same time, Credem issued a Tier 2 subordinated bond loan with the same characteristics, fully subscribed by Credemholding S.p.A.

During the same month, Credem exercised the early repayment option provided for the € 100 million subordinated Tier 2 bond issued in 2017.

Securitisations

With reference to the securitisation transaction with Emilia SPV S.r.l. as the vehicle, in 2022, two new sales of assets were carried out regarding performing residential mortgage loans not eligible for "Covered Bond Programmes". At 31 December 2022, the current tranche of senior notes corresponded to around € 1.97 billion and that of the junior notes to around € 0.60 billion.

Impacts resulting from the COVID-19 pandemic

In 2022, there are no significant impacts on liquidity deriving from the COVID-19 pandemic.

1. Time breakdown by contractual residual maturity of financial assets and liabilities EURO

Items/time	On demand	For over 1 day to 7 days	For over 7 days to 15 days	For over 15 days to 1 month	from 1 to 3 months	From 3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Unspecified maturity
Balance sheet assets	3,430,370	1,019,169	564,980	1,048,521	3,264,367	2,719,830	3,517,924	17,941,121	14,462,215	280,669
A.1 Government securities	1,943	-	85	1	11,074	205,342	294,918	5,202,373	2,782,263	-
A.2 Other debt securities	-	25	36,464	2,551	42,972	66,247	95,345	1,759,213	2,369,420	-
A.3 Units of UCITS	9,135	-	-	-	-	-	-	513	1,216	-
A.4 Loans	3,419,292	1,019,144	528,431	1,045,969	3,210,321	2,448,241	3,127,661	10,979,022	9,309,316	280,669
- Banks	431,130	244,479	-	13	34,166	858	21	167	-	280,669
- Customers	2,988,162	774,665	528,431	1,045,956	3,176,155	2,447,383	3,127,640	10,978,855	9,309,316	-
Balance sheet liabilities	35,350,327	2,374,932	233,200	485,586	692,386	4,835,298	583,187	2,135,882	2,434,516	2,622
B.1 Deposits and current accounts	35,043,651	24,215	23,649	78,010	457,494	254,961	355,937	66,773	83	-
- Banks	579,225	-	-	-	5,699	-	-	-	-	-
- Customers	34,464,426	24,215	23,649	78,010	451,795	254,961	355,937	66,773	83	-
B.2 Debt securities	139	-	-	15,188	-	8,750	11,725	1,250,000	2,350,000	-
B.3 Other liabilities	306,537	2,350,717	209,551	392,388	234,892	4,571,587	215,525	819,109	84,433	2,622
Off-balance sheet transactions										
C.1 Physically settled fin. derivatives										
- Long positions	-	394,284	105,513	23,867	275,373	136,526	115,237	15,602	-	-
- Short positions	4	508,540	76,040	81,183	78,328	35,792	42,374	359,089	5,707	-
C.2 Financial derivatives without exchange of capital										
- Long positions	27,436	62	8	-	167	231	442	-	-	-
- Short positions	82,379	35	2	-	74	102	193	-	-	-
C.3 Deposits and loans to be settled										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- Long positions	77	-	-	745	236	200	561	179,259	195,950	-
- Short positions	377,027	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	55,574	4,595	6,828	27,760	52,260	68,433	187,155	191,235	116,099	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Physically settled cred. derivatives										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Cash settled cred. derivatives										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

1. Time breakdown by contractual residual maturity of financial assets and liabilities

OTHER CURRENCIES

Items/time	On demand	For over 1 day to 7 days	For over 7 days to 15 days	For over 15 days to 1 month	from 1 to 3 months	From 3 to 6 months	For over 6 months up to 1 year	From over 1 year to 5 years	Over 5 years	Unspecified maturity
Balance sheet assets	61,916	6,108	3,392	12,045	50,895	19,510	15,924	141,460	2,310,489	-
A.1 Government securities	-	-	1	3,340	4,658	4,937	12,864	45,087	2,100,306	-
A.2 Other debt securities	-	-	149	31	1,797	10,316	3,060	96,327	210,183	-
A.3 Units of UCITS	23	-	-	-	-	-	-	-	-	-
A.4 Loans	61,893	6,108	3,242	8,674	44,440	4,257	-	46	-	-
- Banks	59,019	-	-	-	-	-	-	-	-	-
- Customers	2,874	6,108	3,242	8,674	44,440	4,257	-	46	-	-
Balance sheet liabilities	463,897	272,953	285,191	509,152	786,838	28,805	-	-	-	-
B.1 Deposits and current accounts	463,618	3,188	1,500	2,389	6,773	28,771	-	-	-	-
- Banks	156,305	-	-	-	-	-	-	-	-	-
- Customers	307,313	3,188	1,500	2,389	6,773	28,771	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	279	269,765	283,691	506,763	780,065	34	-	-	-	-
Off-balance sheet transactions										
C.1 Physically settled fin. derivatives										
- Long positions	4	477,369	75,272	78,682	72,162	32,341	37,604	13,575	-	-
- Short positions	-	546,938	104,839	22,450	44,117	39,629	69,569	14,382	-	-
C.2 Cash settled fin. derivatives										
- Long positions	14	-	-	-	-	-	-	-	-	-
- Short positions	26	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be settled										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees	-	-	-	-	-	-	-	-	-	-
C.7 Physically settled cred. derivatives										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Cash settled cred. derivatives										
- Long positions	-	-	-	-	-	-	-	-	-	-

1.5 Operational risk

Qualitative information

A. Operation risk: general aspects, management processes and measurement methods

The Group has developed an integrated management system for the operational risks it is exposed to, which while following strategic guidelines, improves the ability of the Organisational Units to consciously manage risk, by introducing identification, measurement and control tools able to guarantee the conscious assumption of risk in line with Governance strategies and with financial and equity circumstances, in compliance with the instructions of the Supervisory Authorities.

The Parent Company's Board of Directors has approved the "Operational Risk Management" regulation (ORM Regulation), which establishes policies for the management of operational risk at Group and bank level, and sets out a common and co-ordinated system with shared rules for the division of tasks and responsibilities.

According to the regulation, operational risk is defined as "the risk of incurring losses resulting from inadequacy or inefficiency of procedures, human resources and internal systems, or external events, including legal risk; it does not include strategic or reputational risk".

Furthermore, the Parent Company's Board of Directors has also approved the use of the TSA method for all companies belonging to the Banking Group to determine capital requirements.

No significant changes were recorded with respect to the previous year as regards the operational risk management model, which is outlined below: the Body entrusted with Group strategic supervision is the Board of Directors of Credito Emiliano S.p.A., the Parent Company of the Credito Emiliano - CREDEM Banking Group. The body acts with the support of the Group Risks Committee, (Governance Committee, without powers, created to play a preliminary investigative role). A number of bodies entrusted with management functions have been identified at Group level. These coincide with the Boards of Directors of each of the individual subsidiaries that adopted the ORM Regulation, implementing the related "form" in their specific situation and establishing the "local" functions needed for the positive outcome of the process.

From an operational perspective, the bodies entrusted with strategic supervision and those with management functions are assisted by the Operational and Credit Risks Office (OCR). Within the process that is centrally coordinated by OCR (the "Central ORM"), their work is carried out with the support of several "Peripheral ORMs" belonging to the bank's various services.

The Board of Statutory Auditors is the body with a controlling role, in compliance with regulations in force regarding entities that adopt a "traditional" model of corporate governance. More specifically, the Board of Statutory Auditors of the Parent Company is responsible for supervising compliance with provisions in force, both legal and statutory, fair administration, the adequacy of accounting and organisational structures of the Group, also through coordination with similar entities operating in the subsidiaries.

In carrying out its activities, this body is supported by the Group Audit Service. Moreover, the ORM Regulation sets out specific information flows towards the supervisory entity of the companies included in the TSA model (at individual and consolidated level, according to respective competences).

The Operational Risk Management System is periodically reviewed independently by the Parent Company's Audit Service.

The operational risk management system is defined as the structured set of processes, functions and resources to identify, measure and audit operational risks, and is divided into the following sub-processes:

- Identification;
- Measurement;
- Monitoring and Control;
- Mitigation.

The companies included in the measurement, monitoring and mitigation processes are those which, for the purposes of operational and IT risk, are relevant on an annual basis based on the analysis

carried out as part of the approval of the Risk Appetite Framework (RAF) and of the capital adequacy assessment process (ICAAP) carried out by the Parent Company.

The “Identification” process consists of the following procedures:

- Loss Data Collection: this entails collecting data regarding internal operating losses, with the direct involvement of all business units. Within this context, operating loss events (including IT-related) are classified by Business Line (corporate finance, trading and sales, retail banking, commercial banking, payment and settlement, agency services, asset management, retail brokerage) and Event Type (internal fraud, external fraud, employment ratio and occupational safety, customers - products and professional practices, external damages and events, interruption of operations and malfunctioning of systems, execution, process delivery and management);
- Risk Self-Assessment: this entails collecting, through a questionnaire, subjective estimates expressed by the risk owners regarding operating events (including IT-related) potentially relevant for their business units and taking into account the development guidelines emerging from the preliminary group planning process;
- Data Pooling/Communication with external entities: this entails taking part in external common initiatives and in managing the relative relationships (e.g. DIPO consortium), as well as in communicating the operating loss data collected by the Supervisory Authorities (Banca d’Italia and European Central Bank).

The “Measurement” process involves quantifying Capital at Risk (CaR) through subjective estimates. The aim of the methods used to measure expected and unexpected losses is to monitor and identify potentially critical situations. These methods are based on questionnaires (RSA), carried out at least once a year, which, for each single type of event, ask the heads of the organisational unit (OU) that could generate/manage operational risks for a subjective estimate of some risk-generating factors:

- “standard occurrence”, the expected average number of events over the reference period of time;
- “standard impact”, the expected average loss by type of event;
- “worst impact”, the impact of an individual event when the same occurs in the worst (reasonably) conceivable way.

The analysis is performed on various levels: department, business units, company and consolidated group and an expected loss amount and an unexpected loss amount are calculated for each level. The results of the assessment are used for operational purposes to prevent and mitigate the operational risks and in the operational planning process, on a consistent basis with the matters defined by the “Group planning, scheduling and control regulations”.

The “Monitoring and control” process seeks to promptly identify any dysfunctions in business processes or in risk management procedures so that the necessary mitigation measures are assessed.

Operational risks are also monitored within the wider Group Risk Appetite Framework (RAF) process (quarterly monitoring).

In order to ensure continuous monitoring, the Executive Committee/Board of Directors are responsible for reporting operating losses on a case-by-case basis, and for deciding independently (within the regulations already in force or, if this is not possible, beyond the threshold of € 100,000) whether or not the controls have been successful and whether any organisational and/or process/product deficiencies have been remedied. If available, the peripheral ORM that is competent at any given time includes the information to be reported within the proposals and sends them to the relevant departments, depending on the particular case (e.g., the Audit and Compliance Service). In any event, the resolutions adopted by the EC/BoD are sent, for informational purposes, to the Risk Officer of the Parent Company and the OCR. OCR checks every six months that the relevant departments have been set up by the Peripheral ORMs and if this has not happened, it directly sets up the relevant departments, if necessary, in coordination with the Peripheral ORMs.

In addition, the OCR checks, every six months, for BU/Credembanca Service and for relevant companies, that the respective losses recorded in the reference half-year or year do not exceed the related expected loss value estimated in the risk self-assessment and, if this occurs, reports at the Credembanca Executive Committee on the reasons for the deviation provided by the BU managers/Credembanca Service Managers. For the individual relevant companies, in the event that losses are greater than Expected Loss, the company's peripheral ORMs report to their BoD on the reasons for the deviation and notify the Parent Company's Risk Officer.

The reporting system provides the management bodies and the relevant functional heads with

information on the level of exposure to operational risk and is a tool used to support their active management, representing a combination of measurement, monitoring and control processes.

The "Mitigation" process defines actions to be taken to prevent and mitigate operational risks and consists of the following procedures:

- Management analysis: this entails analysing critical events that have occurred and the various possible solutions available within traditional alternative risk management methods (retention, transfer, mitigation), from a cost-benefit perspective;
- Management of mitigation: this entails selecting, planning, starting-up activities, implementing and completing mitigation actions set in place and then checking the progress and efficacy of risk mitigation interventions performed;
- Management of forms of transfer: this entails identifying, evaluating, selecting and managing the various forms of risk transfer.

The mitigation action defined in the reporting is also included in the operational planning process.

The classification of activities into regulatory business lines is divided into the following stages:

- mapping of data;
- calculation of individual capital requirement.

Mapping of data is defined at individual level through the location of each management centre in the pertaining regulatory business line, according to the principles set forth in EU Regulation no. 575/2013; the data resources that report the income figures of such centres and any division criteria are then defined.

When applying the defined mapping, each company establishes values for each centre, their allocation to the envisaged business line and defines the individual requirement.

The defined activities to determine the consolidated capital requirement envisage the identification of the individual "Relevant Indicator" and the component relating to each Group company by regulatory business line (must be identified in compliance with criteria set out in the mapping used for individual purposes).

The capital requirement with respect to operational risks, calculated on the Relevant Indicator for the three-year period 2020-2022, is € 161.7 million.

LEGAL RISKS

As part of its normal business operations, the Group is involved in various judicial proceedings, which may result in compensation and/or restitution obligations, and the consequent outlay of economic resources (legal risk). All outstanding disputes have been duly analysed by the Bank and, in the light of these analyses, as well as of the recommendations of its external attorneys, the appropriate allocations have been made, where necessary, on the basis of the circumstances in question. More specifically, a provision for risks and charges has been established to cover the contingent liabilities that may arise from pending lawsuits.

The majority of these disputes regard the Group's core businesses, particularly, investment services, the compounding of "salary-backed loans" (for the latter, due to the number and recurrence of the phenomenon, a specific provision has been made to manage disputes and tax complaints) and tax issues.

Disputes regarding real estate, administration and over the counter transactions are of minor significance.

The following paragraphs provide a description of the main categories of potential liabilities, for which, if they are deemed to be probable, allocations have been made to other provisions for risks and charges.

Labour disputes

the risks relating to labour disputes are assessed quarterly on the basis of the progress of the disputes and therefore the provisions are adjusted accordingly.

Bankruptcy revocations

These are disputes that the Group may be involved in as part of its ongoing business activities when customers undergoing Bankruptcy arrange payments in favour of the Group companies, issue remittances on a current bank account at a time close to the declaration of Bankruptcy. Revocatory action is a tool that can be used by the bankruptcy receiver in order to reconstitute the equity of the bankrupt party addressed to paying its creditors, by retracting amounts that had been paid out in the period prior to the bankruptcy (the suspect period). The Group makes a valuation of each position on a case-by-case basis, before the fact and before the law, paying special attention to

documentary/factual evidence. Following said analysis, where necessary, the appropriate allocations are therefore made (and changed on each occasion, where necessary) in line with the specific circumstances of the case in question. All relative lawsuits are constantly monitored and the risks resulting from such, where appropriate, are covered by specific allocations to the provision for risks and charges, in application of the provisions of IAS 37.

Misappropriation

This regards disputes the Group may be involved in as part of its ongoing business activities. There are some claims and legal disputes resulting from irregular conduct by employees or financial advisors when carrying out the assignments entrusted to them or in their work, which have led to claims by customers against the Bank, which may be retained liable for said conduct.

The Group makes a valuation of each position on a case-by-case basis, before the fact and before the law, paying special attention to documentary/factual evidence.

Following said analysis, where necessary, the appropriate allocations are therefore made (and changed on each occasion, where necessary) in line with the specific circumstances of the case in question.

Disputes regarding anatocism

The overall number of pending lawsuits has remained stable, in the light, above all, of issues triggered by rulings (as well as by the development of sector-related legislation). All relative lawsuits - at times also including disputes regarding exceeding the Usury Threshold Rate - are constantly monitored and the risks resulting from such, where appropriate, are covered by specific allocations to the provision for risks and charges, in application of the provisions of IAS 37.

Disputes regarding investment services

With regard to legal disputes regarding investment services - bonds in default, derivatives etc. - the policy adopted by the Bank in this regard is that of assessing each position on a case-by-case basis, paying particular attention to documentary evidence and to the adequacy profile of the investments disputed with respect to the position of the individual counterparty. Following said analysis, where considered necessary, allocations are therefore made in line with the specific circumstances.

Claims made by customers

Appropriate provisions are made for customer complaints; specifically, if the damages claimed are higher than a set threshold of significance (equal, to date, to € 25 thousand), the loss provision is made analytically. If, on the other hand, the damages claimed are lower than said threshold, the provision is determined by applying a flat/statistical percentage based on the average of the losses actually incurred over the total number of similar complaints received in previous years.

Tax disputes

The risks resulting from the Group's tax disputes are covered by adequate allocations to provisions for risks and charges.

As regards the Parent Company, there are 23 disputes pending, mostly related to direct and local taxes. With regard to these disputes, no effective risks have emerged or at least the estimated risk appears remote. Therefore, no specific provisions have been made.

For Credemleasing there are 34 disputes, mainly relating to local taxes.

For Credem Euromobiliare Private Banking S.p.A., as a result of the favourable conclusion of the only dispute pending regarding registration tax on the sale of a business unit, there are no pending disputes.

For Credemtel S.p.A., as of 2022, a single dispute is pending regarding VAT penalties.

Lastly, there are disputes of lesser importance related to the work of financial advisors and labour-related matters, as well as the real estate and administration areas.

Total provisions for risks and charges for legal risks amount to € 174,7 million.

Impacts resulting from the COVID-19 pandemic

In 2022, there are no costs classified as losses attributable to the "Impacts arising from the Covid pandemic", since - conventionally - in line with the EBA¹⁰ guidelines, the costs incurred after June 2020 related to the management of the pandemic are to be considered as falling under the so-called "NEW NORMAL" management. Furthermore, there are no further operational losses related to Covid in other areas.

Quantitative information

The breakdown (in %) of the operational losses of the Credem Group by type of event is illustrated below:

- ET 01 - Internal fraud
- ET 02 - External fraud
- ET 03 - Personnel relations and workplace safety
- ET 04 - Customer relations, provision of services and products
- ET 05 - Disasters and other events
- ET 06 - Systems
- ET 07 - Execution, management, delivery of services and products



In 2022, the main source of operational risk, by loss amount, was "External Fraud" (ET 02). The second source of operational risk regards losses due to "Customer relations, provision of services and products" (ET 04) and followed by, based on percentages, are: losses due to "Execution, management, delivery of services and products" (ET 07)", "Internal Fraud" (ET 01), "Personnel relations and workplace safety" (ET 03).

In percentage terms, losses relating to the malfunctioning of technological systems (ET 06) is almost zero. Lastly, as regards the category "Disasters and other events" (ET 05), there was an overall recovery in value.

The amount of losses attributable to IT risk is very limited (only 0.1% of the total and falls under Event Type 06). Almost all losses attributable to "Conduct Risk" refer to Event Types 01 and 04.

¹⁰ EBA REPORT ON THE IMPLEMENTATION OF SELECTED COVID-19 POLICIES - EBA/REP/2020/39 of 21/12/2020
CONSOLIDATED FINANCIAL STATEMENTS – EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Section 3 – Risks of the insurance companies

3.1 Insurance risks

CREDEMVITA S.P.A.

Credemvita's approach to risk management

Risk management strategies

Credemvita S.p.A has adopted a strategy for undertaking and managing risk based on criteria of sound and prudent management, coherent with the company's level of capital. This strategy is based on risk assessment principles that consider aspects relating to their relevance/significance. The approach followed in risk management is based on the criterion of proportionality and is outlined in specific internal policies pursuant to IVASS Regulation no. 38/2018, for each of the areas of risk that the Company is concerned with.

The key elements on which the Company's risk strategy and management policy are based are as follows:

- risk identification and classification - risk map;
- risk assessment;
- risk measurement tools and methods;
- risk management;
- monitoring and reporting.

The general principles adopted for the definition of the risk management system therefore consider:

- consistency checks between the level of risk assumed and the level of expected available capital (Risk Appetite);
- risk measurability/assessment (for risks that can be quantified) to enable management to assess the impact of risk on business performance;
- the determination of processes and operating controls for those that cannot be quantified;
- the presence of a continuous monitoring system for the current and future risk profile and the related risk and/or return indicators identified.

As part of its risk management system, Credemvita has designed and implemented an independent process to assess its current and future capital adequacy, in relation to the significant risks to which the Company is exposed (ORSA - Own Risk and Solvency Assessment process). This process has the following phases:

- Forward-looking assessment of the Solvency II Ratio;
- Stress Test;
- Forward-looking Liquidity Plan;
- Adequacy of the Standard Formula with respect to the risk profile of the Company;
- Back Testing;
- Preparation and forwarding the ORSA Report.

The following processes are also an integral part of the ORSA process:

- Definition of the preliminary plan and of the company budget;
- Definition of the Risk Appetite;
- Risk identification and assessment and Continuous Monitoring.

As part of the Company's strategic policy, the Board of Directors identifies and approves the proper size of the overall capital endowment and the profitability targets adjusted for risk. The formulation of preliminary strategic guidelines by the Board of Directors guides the calibration of the risk targets and the development of the strategic plan.

These activities are significantly connected and are both developed considering the starting situation of the Company, the prospective view of the external context, the risk profiles and the guidelines in terms of risk/return. The strategic policies approved by the Board of Directors affect the production and organisational structure in order to determine the desired impact – in the time horizon of planning – on risk/return.

The Risk Management department continuously supports the corporate bodies in the choices deriving from the implementation of the plan by facilitating the understanding and awareness of the risks assumed / to be assumed and their monitoring.

Risk identification and classification - risk map

The sector regulations, containing provisions on the risk management system, require companies to catalog the risks to which they are exposed regardless of whether they can be quantified, depending on the nature, scope and complexity inherent in the activity carried out, from a current and future perspective, as well as the indirect effects associated with significant risks.

This cataloging constitutes the common language for the performance of all activities connected with the company risk management system.

Company risks are classified into the following main classes:

- Subscription risk (or technical insurance risk);
- Market risk:
 - o Market risks;
 - o ALM risk;
 - o Liquidity risk;
- Credit and counterparty risks;
- Operational risks:
 - o Operational Risks;
 - o IT Risk and Cyber Risk;
- Compliance risk;
- Second-level risks;
 - o Risk associated with belonging to a group;
 - o Reputational risk;
 - o Conduct risks;
 - o ESG Risks
- Strategic risk
- Emerging risks.

The process of identifying the risks to which the Company is exposed constitutes a fundamental element for the correct implementation and assessment of the broader risk management process. Credemvita, in line with regulatory legislation, has provided for a risk census procedure, to be intended as a methodological support tool in carrying out risk identification and assessment activities, which enables it to continuously collect information on existing and prospective internal and external risks to which it is exposed, and which may affect all operational processes and corporate areas. By its nature, this procedure is ongoing, based on the gradual refinement of the risk management system and the evolution of the reference regulatory framework.

Credemvita's risk analysis procedure is divided into four phases:

- analysis of the company's strategic plan and identification of emerging risk factors;
- identification of external risk factors;
- identification of operational (including IT and cyber risk), non-compliance with regulations and second-tier risk factors;
- identification of strategic risk factors.

The methods adopted for identifying risks are essentially based on one or more of the following approaches:

- Specific Risk Assessments (by risk families);
- Evaluations of the differences between each risk assumption and the current outcome;
- Loss or error events that have occurred;
- Review of processes, regulatory risk matrix or regulatory risk assessment;
- Brainstorming with management and risk owners;
- Internal/External Audit evaluations
- Communications and comparisons with regulators;
- Other external events;
- Reporting transmitted by the functional areas of the Company.

Once the risks have been identified, they form the Company's risk map.

Risk Assessment

The risk assessment process is carried out with both current and forward-looking approaches and integrates quantitative and qualitative methods and approaches.

The risk assessment is carried out on an individual basis, at individual risk level, and on an aggregate basis, to take into account the interrelationships between the sources of risk. Indirect effects related to the most significant risks are also considered.

The frequency of the risk assessment depends on the type of risk, the tools and the assessment methodologies used and is established in line with the frequency and requirements of the strategic and decision-making processes of the Company. The frequency of forward-looking risk assessment is consistent with the annual strategic planning process.

In addition to the ordinary management of the risk assessment process, management is envisaged when necessary, based on events that may determine a significant change in the risk profile. In particular, the following main events were identified:

- updating of the strategic plan;
- an acquisition or divestment that significantly changes the business, risk profile or solvency position;
- a significant change in the financial markets that has a significant impact on the company's asset portfolio;
- a significant change in the Company's liabilities;
- a reduction in the solvency position below critical values;
- a significant change in the regulatory framework;
- a significant change in the risk profile and the emergence of new risks;
- a significant change in company processes, systems and procedures.

Measurement Tools and Methods

Pursuant to regulatory provisions, the Company has defined a risk assessment and analysis process based essentially on tools and methodologies linked to:

- Methodologies developed as part of the risk profiling procedure:
risk indicators that can be constructed on the following methodological approaches:
 - o regulatory indicators or indicators based on the principles underlying Solvency II regulatory amounts;
 - o management indicators or indicators based on general concepts such as exposure, concentration, volatility, expected or potential loss, and/or aimed at assessing those risks not included in the standard formula and/or supplementing the assessment of the same regulatory risks;
 - o qualitative.

In addition to the methodologies underlying these risk indicators, the measurement of the Company's risk, both current and forecast, is based on the regulatory methodologies for the calculation of the Capital Requirement (see SCR): the reference methodology is that of the Standard Formula.

All these figures, in addition to constituting the framework for continuous monitoring at the basis of the risk management organisational model, represent the elements at the basis of the Company's risk profiling methodology. This activity aims to identify and assess risk factors and assign a level of significance to each of them.

- Application of Volatility Adjustments: current and forward-looking assessments of regulatory risks of the Company envisage the use of the Volatility Adjustment as a Long Term Guarantee measure. The Volatility Adjustment is applied to the total liabilities held by the Company sold entirely in Italy and in the Euro currency. The Matching Adjustment is not applied by the Company. In order to better understand the effects deriving from the application of the Volatility Adjustment on technical provisions and own funds, the Company also carries out sensitivity analyses whenever the deviation between the risk-free EIOPA curve and the risk-free EIOPA curve with volatility adjustment significant.
- Sensitivity, stress test and scenario test: pursuant to Art. 19, paragraph 4 of IVASS Regulation no. 38, the Risk Management Function, in order to assess the current and future impacts on the economic and financial situation deriving from adverse trends in the main risk factors, carries out, for each of the sources of risk identified as most significant, stress test and sensitivity analyses.

- Risk Self Assessment on Operational risks (including IT risk and cyber risk).

Risk Management

The objective of the risk management system is to maintain the risks to which the Company is exposed at an acceptable level, by indicating the risk appetite and tolerance established in line with the objective of safeguarding the assets of the same to guarantee business continuity. The guidelines on risk management are set out in the individual policies drawn up, reviewed and approved annually by the Board of Directors, after being passed on by the Board Committee for Internal Control and Risks. Elements of risk management are:

Risk Appetite Framework

The Company adopted a Risk Appetite Framework (see RAF) that defines the risk appetite, the tolerance thresholds, the risk limits, the risk governance policies as well as the reference processes needed to define and implement them. As part of the strategic direction of the Company, the Board of Directors identifies and approves its risk appetite. The process of defining/revising the Risk Appetite Framework therefore supports the Strategic/Operational Planning (Budget) process and takes into account the internal risk and solvency assessment. In fact, these elements are not separate, but influence each other with the aim of maximising the risk - return profile of the Company. The RAF is defined taking into account the following aspects:

- the Company's strategy, including the organisational objectives, the strategic plan, financial and regulatory constraints and the expectations of the stakeholders;
- the key aspects of the Company's business;
- the willingness and capability of assuming risks;
- the skills, resources and technology available to the Company to manage and monitor risk exposures.

The Company's risk appetite, together with the assessment of the corporate governance system adopted as well as the mapping and identification of risk factors and a general application of the prudent person principle, represent the main constitutive elements at the basis of the determination of the organisational model for the management of the risks (specific for each risk class).

In defining its business strategies, the Company assesses, on an ongoing basis, compliance, in the various years of development of the plan, with the target risk levels defined in the Risk Appetite Framework (RAF), in order to ensure consistency between the medium to long term objectives and the Company's capability and willingness to assume risks.

The concepts relevant for the purposes of defining the RAF are broken down below:

- the Risk Profile represents the actual risk of the Company assessed at a given time;
- the Risk Appetite represents the real propensity to risk of the Company and consists, therefore, of the risk level that it intends to assume to attain its strategic objectives;
- the Risk Tolerance identifies the maximum risk tolerance threshold, fixed in order to ensure the Company sufficient margins to operate, both in the normal course of business and in particularly stressed market conditions;
- the Risk Capacity represents the maximum risk that can be assumed by the Company; therefore, it consists of the level of risk that it is able to assume without violating regulatory requirements or other constraints imposed by the Supervisory Authority.

Moreover, when defining its business strategies, the Company assesses, on an ongoing basis, compliance, in the various years over which the plan is developed, with the target risk levels defined in the Risk Appetite Framework, in order to ensure consistency between the medium- to long-term objectives and the capability and willingness to assume risks. In particular, the strategic plan, based on the risk profile of the Company at the time of preparing the plan itself, takes into account the risk that can be assumed without violating regulatory requirements or other constraints imposed by the Supervisory Authority, the risk appetite (i.e. the level of risk that it intends to assume in order to achieve its strategic objectives) and the risk tolerance (i.e. the maximum threshold of deviation from the risk appetite, set by the Board of Directors).

Moreover, the Company has defined a Capital Management Policy and a Capital Management Plan, the purpose of which is to adopt adequate procedures to ensure the safeguarding of the regulatory requirements and of Risk Appetite target levels, as well as to guarantee that, both at the time of issue and later, the elements of Own Funds, which the business intends to use in order to achieve the business objectives established at the time of strategic planning, meet the regulatory requirements defined by EIOPA and are correctly classified. This plan was drawn up in line with the results of the future risk assessment according to the Solvency II approach (ORSA), with the objectives and the methods established in the Capital Management Policy and with the solvency requirements established by the Regulator, in order to guarantee the Company's capital solidity for its own operations and potential future development.

Risk Indicators

In line with the provisions of the Risk Appetite Framework Policy, the current and future risk management of the Company is based on the definition of indicators for each risk category.

The Company distinguishes the risks between:

- quantifiable risks which have a capital impact, in relation to which the Company determines the capital requirement;
- quantifiable risks in relation to which the Company does not determine the capital requirement (for example liquidity, cash flow matching) which are measured using specific limitations and metrics;
- risks difficult to quantify, valued on a qualitative basis, which due to their nature and characteristics are difficult to quantify and are not covered by the capital requirements required by legislation, even if the occurrence of the event associated with the same would lead to significant consequences for the activities carried out by the Company.

The indicators are further broken down into:

- first-level indicators: these are indicators mainly aimed at observing the solvency restrictions. They are indicators of possible negative impacts and provide warnings aimed at identifying potential damaging events which threaten the achievement of the objectives and the continuity of the Business. The indicators are supplemented within the RAF Policy and a Risk Appetite, a Risk Tolerance and a Risk Capacity and the related Risk Appetite Statement system are associated with the same;
- early warning indicators: in order to carry out preventive and continuous monitoring of solvency indicators, early warning indicators were also defined that are aimed at intercepting phenomena and/or events of potential high criticality and/or attention;
- second-level indicators: these are operational/management type indicators useful for strengthening the risk monitoring activities and possibly providing preventive signs of a potential deterioration of the first-level metrics. These indicators are integrated into the Risk Management Policy and the Risk Management Policy of the Open Pension Fund.

In the general context of the risk management system, the Company also defines specific operating limits that set the risk objectives (e.g. in terms of exposure, concentration, etc.) consistent with the Company's risk appetite.

The main first-level indicator of the Company is the Solvency II Ratio, that is, the ratio between Eligible Capital and Solvency Capital Requirement. The Company's objective is to have an Economic Capital level adequate and in line with the strategic objectives, greater than a previously established level of Solvency Ratio, as illustrated below:

- Risk Appetite: 139%;
- Risk Tolerance: 122%;
- Risk Capacity: 105%;

As part of the definition of the RAF, it is necessary to fix the level of risk that, if not complied with by the Risk Profile of the Company, requires corrective actions. Therefore, the thresholds identify the tracks within which the Company can carry out its action aimed at achieving the business objectives. The violation of these thresholds requires an escalation process by the Company and the definition of specific intervention plans to deal with the situation.

Monitoring and Reporting

Credemvita's risk management organisational model involves all business departments, from operating units (involved in the management of risks for the relevant processes) to the Committees up to the Board of Directors, including therein the fundamental units.

In this context, the Risk Management department acts as coordinator of the risk monitoring activities. More specifically, it contributes to defining risk measurement methods and operating limits, defining appropriate verification procedures, and has the task of validating the information flows from risk monitoring activities, preparing reports for top management and verifying the consistency of the risk measurement models with the company's operations.

Risks are continuously monitored by the Risk Management department and by the relevant individual departments; to this end, reports on the development of risks have been created and have been fine-tuned over time and are submitted to the Board of Directors, the Board Committee for Internal Controls and Risks, the Investment Committee and ALM, Top Management and the relevant operational structures, with a view to improving the communication of the results and permitting a better understanding of the topics related to risk assessment.

The risk management model adopted by Credemvita is characterised by:

- a phase in which the risk indicators and/or the operating thresholds to manage risk are updated on the basis of organisational requirements and/or following changes of the internal and external scenario, or whenever they are no longer in line with the risk profile requested by the management body;
- a consequent monitoring of operational limits and risk governance indicator. Activities to verify compliance with the risk tolerance levels established by the Board of Directors take the form of specific organisational control procedures established to guarantee compliance with the same and promptly trigger warning processes in the event of any overruns as well as to establish specific recovery plans in response to such overruns.

As part of the risk management system and in line with regulatory requirements, the Board of Directors has drawn up a formal set of policies and attachments which, for each of the areas of risk to which Credemvita is exposed, specify the objectives, the tasks, the responsibilities, the process and define the tools and procedures, including those related to reporting, required to identify and consequently manage all risk areas. These documents also have a more general objective of encouraging a culture of risk control and management within the company.

Compliance with and application of the documents are guaranteed by an Internal Control System represented by a set of rules, procedures and control techniques and organisational structures aimed to ensure the proper running and good performance of the company.

Risk analysis

Pursuant to sector regulations, the Company has defined a risk analysis process that includes both a qualitative assessment and, for those risks that are quantifiable, the adoption of methods to measure exposure to risk, including a system to establish the amount of maximum potential loss, both current and future. These analyses make it possible to carry out a continuous profiling of the risks to which the company is exposed. Note that in order to assess capital solvency requirements according to the regulatory Solvency II system, the Company uses the Standard Formula in compliance with that defined in the Delegated Regulation (EU) no. 2019/981 of the Commission. Therefore, the current and future risk assessments take into account all the risks, included in the framework of the Standard Formula, to which the business is exposed.

In order to continuously assess its solvency situation, the Company also calculates on a quarterly basis its Capital Requirement, determines its own eligible funds and the related quality and composition, checking at the same time the compliance with the operating limits and the risk appetite. Specific stress tests and sensitivity analyses are made with the same frequency on capital. Adequate documents are reported to the Board of Directors and sent to the Supervisory Authority through the Quantitative Reporting Templates (QRT). Compliance with the Level I indicators set out in the Risk Appetite Framework is verified with the same frequency.

If, in the context of the various monitoring activities carried out by the Company, continuous and/or significant deviations of the risk profile with respect to the company's Risk Appetite emerge or significant deviations with respect to the main technical/financial/market/product assumptions defined in the Strategic Plan (and therefore in the ORSA evaluations), a Non-Regular ORSA is carried out in order to assess the impacts of these changes also in forward-looking terms.

In 2022, the Company complied with the following regulatory deadlines:

- Preparation and forwarding to the Supervisory Authority of quarterly reports (QRT) required by Pillar III;
- Preparation of the Regular Supervisory Report - RSR (Periodic Report to the Supervisory Authority) with reference to the financial year closing date 31.12.2021, approved by the Board of Directors in March 2022 and sent by the regulatory deadline to IVASS;
- Preparation of the Solvency Financial Condition Report - SFCR with reference to the financial year closing date 31.12.2021, approved by the Board of Directors in March 2022 and sent, by the regulatory deadline, to IVASS;
- Conducting the ORSAs (Own Risk and Solvency Assessments) required to assess the solvency profile of the 2022-2024 strategic plan and preparation of the ORSA Report approved by the Board of Directors in April 2022 and sent to IVASS within the regulatory deadline;

Lastly, it should be noted that, in continuity with what happened in 2021, in 2022 given the situation resulting from the COVID-19 emergency and the recent tensions linked to the Russia-Ukraine war, the Company continued to participate, at the request of the Supervisory Authority, in the following activities:

- monthly monitoring of the solvency position (starting from March 2020);
- quarterly monitoring of liquidity risk (starting in June beginning with the database of 31 March 2020).

Subscription risk (or technical insurance risk)

Subscription risk is defined as the risk of a loss or an unfavourable change in the value of insurance liabilities due to inadequate assumptions in terms of price setting and establishing technical reserves (see Art. 1, paragraph 1, letter vv-bis 4 of the CAP).

Within the Company's risk framework, this risk can be further divided into the following categories:

- Assumption risk: represents the risk resulting from underwriting insurance contracts, linked to insured events, to the processes followed for the pricing and selection of the risks, to the unfavourable trend of actual claims compared to that expected (these risks consist in particular in the risk resulting from a price default linked to the valuation of the risk and in initial price assumptions unsuited to the evolution of the risk);
- Reserve risk: namely the risk relating to the fact that the amount of insurance reserves is insufficient to cover the commitments made to insured parties.

This class of risk can be broken down into the following risk factors:

- mortality: namely the risk resulting from an unexpected rise in mortality rates; it is associated with policies (such as insurance coverage in the event of death or mixed policies) in which the enterprise guarantees a series of individual or recurring payments in the event of the death of the policyholder or during the duration of the policy;
- survival: the longevity risk, which stems from an unexpected fall in mortality rates; this is associated with policies (for example, annuities) that envisage the enterprise guaranteeing a series of payments until the death of the policyholder or with policies (for example mixed policies) that envisage a guarantee by the enterprise of a single payment in the event of the survival of the policyholder for the entire duration of the policy;
- invalidity - morbidity: the risk that stems from an unexpected change in the level, trend or volatility of disability and morbidity rates, is applicable to policies associated with disability;
- mutuality: the mutuality risk factor means that a fall in the number of policies in the portfolio may have an unexpected negative impact on the benefits of mutuality. A high number of policies enable the company to "spread" the effects of events resulting in claims over the whole population; in the Life business, a fall in the number of contracts leads, for example, to a rise in random fluctuations of mortality. The mutuality risk factor is therefore closely related to the "Policyholder conduct" and "Counterparty" risk factors;

- early termination - policyholder behaviour: the risk of early termination, which stems from an unexpected change in option exercise rates by policyholders; it is applicable to all of the options envisaged for policyholders, both legal and contractual, that may significantly change the value of future cash flows, the options to fully or partially suspend, reduce, limit or terminate insurance cover, as for the options that enable the full or partial amendment, renewal, increase, extension or resumption of insurance cover;
- guarantees/coverage: the riskiness of Life products depends on the “guarantees/coverage” envisaged by said contracts and on the basis of which the company has committed to pay the benefits guaranteed to beneficiaries. If the occurrence of the damaging event covered by the insurance guarantee is not correctly monitored or does not correspond to the estimates made at the time of pricing, this represents a risk element of said product;
- inflation/costs: this risk factor, which stems from an unexpected change in costs, refers to the operating costs of insurance contracts;
- disaster: the disaster risk factor, which stems from extreme or exceptional events, the impact of which is not sufficiently covered by the other subscription risks (e.g., pandemic events or nuclear explosions), refers to policies that are related to mortality;
- Review: the review risk factor is intended to capture the risk of an unfavourable change in the amount of an annuity, following an unexpected review of the claim process.

For protection products (pure risk), the following risk factors can also be identified:

- Risk Volatility: this risk factor in the underwriting process essentially depends on the presence of technical bases that are not correctly updated at the time of pricing; a very low technical margin and/or very narrow technical bases; the presence of new risks not taken into account at the time of pricing; high counterparty risk (on the part of the partner/distributor, especially in the case of upfront commissions/goodwill). As part of the reserving process, this risk factor depends on the risk of overpayment of the profit share if the parameters of the reserves are set improperly;
- Population: in the pricing process this risk factor is substantially related to a single pricing for a large population of age groups (especially for death risk) or duration range/interest rate range; high risk of adverse selection in the product structure. In the case of the reserving process, this risk factor essentially depends on: adequacy of the reserves strongly linked to the structure of the population (especially mathematical reserves/long-term liabilities); reserves that do not include the real cost of population options such as extinction, redemption; reserves that do not include the right level of overheads for the specific population/product.

With regard to the distribution of Credemvita underwriting risks according to Solvency II regulations, the table below shows the best estimate of the representation of the risk as at the valuation date (it should be noted that the total weight of life underwriting risks is equal to 55.2%).

Life risk - risk/sum of risk components - relative and total

	Relative	Total
Mortality risk	8.5%	4.7%
Longevity risk	0.3%	0.2%
Disability-morbidity risk	0.0%	0.0%
Life Lapse risk	84.1%	46.4%
Expense risk	4.9%	2.7%
Revisionary risk	0.0%	0.0%
CAT risk	2.3%	1.3%

The Company has adopted guidelines for these risks which:

- establish the organisational and governance model, as well as the roles and responsibilities of the company departments involved in undertaking and monitoring the risk assumed and in allocating reserves;

- illustrate the reporting procedures applied and the communication flows between the offices involved in the underwriting and reserve processes;
- illustrate the manner in which the company takes reinsurance or other risk mitigation techniques into account in the process to design a new insurance product and to calculate the relative premium.

The Company measures and monitors its exposure to underwriting risk based on the overall portfolio, in addition to verifying compliance with the limits and policies established.

Technical risks are assessed with ALM - Asset-Liability Management - approaches in order to understand the interrelations between the trends of liabilities and of hedging assets, and by following the Solvency principles in order to seize any capital requirement absorbed by each individual risk factor.

This identification of the risks is made with reference to new products and to the existing portfolio:

- New products: in line with the Strategic Plan, the recognition of risks associated with new products is carried out on the basis of their technical characteristics as part of the ORSA process. Furthermore, in accordance with the process to create and launch new products defined within the more general POG (Product Oversight and Governance) process, the Risk Management department is tasked with drawing up a specific risk analysis (known as a risk sheet) for each individual product, the results of which are transmitted to the Management and Product Governance Committee. An integral part of the assessments of the profitability and the risks of new products is also the profit test conducted by the Company.
- Existing portfolio: with regard to the existing portfolio, risks are identified on the basis of the technical data of the portfolio and of the capital absorption measures determined through the instrument used by the Company to calculate SCR (Standard Formula). The information relating to the overall technical performance of the life insurance business concisely reflects the technical results of the individual Segments and therefore of the products contained in the portfolio (which in general can encompass more than one Segment). Again with regard to the existing portfolio, back testing assessments are conducted by the Company.

The main risk measures used are summarised below:

- SCR Life in terms of ratio: provides an indication of capital absorption per unit of Gross Best Estimate Life;
- SCR Lapse in terms of ratio: provides an indication of capital absorption resulting from the Lapse risk per unit of Gross Best Estimate Life;
- PVFP portfolio in force: Present Value Future Profit is an indicator that monitors the contribution made to the creation of company economic value for each Lob Solvency II of the portfolio in force;
- SCR for LoB (Line of Business).

Market risk

Market Risk is defined as the risk of a loss or an unfavourable change in the financial situation resulting directly or indirectly from fluctuations of the level or of the volatility of the market prices of assets, liabilities and financial instruments (see Art. 1, paragraph 1, letter vv-bis 3 of the CAP).

Market risks reflect the performance of the economic cycle, which may amplify or possibly reduce its significance, especially if the securities portfolio of the company is particularly concentrated in specific sectors, currencies or geographic areas. Consequently, businesses are exposed to the risk of receiving different returns, and possibly also lower than the returns expected at the time the commitment was made, or with respect to a minimum return defined contractually.

This risk can be broken down into the following risk factors:

- Interest rate risk: the value of the assets of an insurance company is sensitive to changes in interest rates. Furthermore, if the cash flows generated by the assets and those generated by the liabilities of a company are not perfectly aligned in terms of maturity, frequency of any payments and by nature of investment rates (maturity mismatching, interest rate mismatching, reset date mismatching, basic mismatching), a (positive or negative) shock of interest rates may generate unsynchronised variations in the value of the assets and liabilities. Essentially, exposure to interest rate risk refers to all of the assets and liabilities whose value is "sensitive" to changes in the term structure of interest rates or the volatility of interest rates;

- Share price risk: the market values of the stocks purchased by the company may be sensitive to the trend of the stock markets (for example, in the case of contracts whose performance is linked to the value of a share);
- Foreign exchange risk: the market value of the stocks purchased by the company may be sensitive to variations of exchange rates (for example, in the case of shares or bonds denominated in a foreign currency). Therefore, this risk factor is particularly important for insurance companies in the case of assets that are hedging the technical insurance reserves denominated in a currency other than that of the corresponding technical commitments made contractually. In fact, as the conversion of currencies is made at the end of the year at the current exchange rate, profits/losses may be recorded at said date due to variations in the exchange rates;
- Real estate risk: if the assets of an insurance company are invested in real estate, the values of said asset are sensitive to the market trend of the prices of the same;
- Credit risk: whenever an insurance company underwrites financial instruments, it may be exposed to the insolvency risk of its borrower, who may not be able to meet its obligations, or it may be exposed to the risk of a deterioration of creditworthiness, with a consequent fall in the value of the security. Exposure to credit risk refers to assets, liabilities and financial instruments that are sensitive to changes in credit spreads;
- Concentration risk: exposure to concentration risk, which results from an unexpected change in the prices, in the value of exposures towards issuers with whom the party has cumulative exposures, refers to assets subject to the share price risk, interest rate and spread risk and to real estate risk included in market risk, and excludes assets subject to the risk of counterparty default. At present, at regulatory level, government securities are also excluded;
- Other asset exposures: This risk factor materialises in the market risk related to private equity, alternative instruments, infrastructures, inflation-linked products and hybrids.

In addition to the risk factors associated with the types of positions present in the portfolio or the structure of the assets with respect to the underlying liabilities, there are other risk factors belonging to the market risk category and strictly related to operational risks:

- Market risk limits: Risk factor deriving from the lack of definition and/or renewal of market limits and from the violation of limits;
- Modelling risk: Poor or inadequate quality of models underlying assessments of currency, interest rate, liquidity, transformation, equity and other market risks (that form the basis of capital requirements, duration, sensitivities, correlations between risks, VaR and VEV metrics, stress testing, etc). This risk factor can also be substantially classified in the operational risk category;
- Monitoring of market positions: Inadequate or improper valuation of positions, resulting in poor quality in the assessment of market risk.

Market risk factors are mainly identified in the specific financial statement classes of the Segregated Funds and the Owned Portfolio.

The table below shows the breakdown of instruments in the aforementioned portfolios at the valuation date by type, expressed as a percentage of the total market value.

Type of Security	Coupon type	Total
Government issuers	Fixed	72.89%
	Floating	0.10%
	Total	73.00%
Bond Issuers	Fixed	6.07%
	Floating	2.99%
	Total	9.06%
UCITS		
	Total	17.95%

The breakdown in UCITS is as follows:

UCITS type	%
Equity UCITS	16.13%
Government UCITS	24.11%
Real Estate UCITS	10.98%
Loan UCITS	25.27%
Corporate UCITS	15.16%
Infrastructural UCITS	4.78%
Private Equity UCITS	3.56%

The percentage exposure in foreign currency on the total portfolio assets is 1,68%.
With regard to the distribution of Credemvita market risks according to Solvency II regulations, the table below shows the best estimate of the representation of the risk as at the valuation date (it should be noted that the total weight of market risks is equal to 35.5%).

Market risk - risk/sum of risk components - relative and total

	Relative	Total
Interest rate risk	5.2%	1.9%
Equity risk	37.9%	13.4%
Property risk	7.5%	2.7%
Spread risk	34.8%	12.4%
Currency risk	14.6%	5.2%
Concentration risk	0.0%	0.0%

The Company adopts, in respect of the above risk factors, guidelines that establish the general principles for the activities of the Finance Area, the frequency of controls and the measures for recovery if the limits are exceeded. In the overall composition of the investment portfolio, exposure to risk, constraints related to covering insurance reserves and the impact on the Solvency Ratio are also taken into account. The limits and the indicators relating to investments are verified and controlled on a continuous basis by the relevant business departments and, periodically, the results of the same are brought to the attention of the Board of Directors. The process also envisages a review stage of the above-mentioned limits conducted by means of a sensitivity analysis of asset and liability portfolios.

Market risks are assessed with reference to the already acquired securities investment portfolio and the future investment scenarios. This activity is carried out both with an Asset-Liability Management approach, in order to capture the interrelationship between the dynamics of liabilities and the dynamics of assets covering technical provisions, and following the Solvency II principles in order to capture the capital requirement absorbed by each individual risk module and sub-module.

Market risks for the life insurance business are identified with reference to new investments and asset allocation targets, and to the existing portfolio:

- New investments: with regard to new investments, as part of the ORSA process, analyses relating to future investment scenarios are conducted with a view to identifying the risks related to said investment choices and to assess the quantitative impact on the risk profile. Furthermore, for "occasional" investments (according to the definition given in the Investment Policy), based on the information provided by the Finance Area (by way of example: investment objective, reference portfolio, size of the transaction) the Risk Management department conducts an ex-ante quali/quantitative assessment based on both management and regulatory logics. The Risk Management department also conducts an ex-ante risk assessment for all non-UCIT UCIs based on the Due Diligence prepared by the Finance Area in accordance with the provisions of the Policy on UCI/ETF.
- Existing portfolio: with regard to the existing portfolio, risks are identified based on the technical data of the portfolio, market data and the risk measures determined through the calculation tool of the SCR adopted.

The macro-indicators analysed to assess and monitor market risks are illustrated below:

- SCR Market Risk-Based: indicators based on regulatory amounts relating to the capital requirement pertaining to the market risk class;
- Percentage Exposure in Asset Class: this indicator seeks to quantify and monitor exposures in the main asset classes set forth in the Investment Policy;
- Percentage of Financial and Corporate Issuer Concentration: this indicator seeks to quantify and monitor the concentration of Corporate issuers based on specific credit rating brackets;
- Exposure limit of UCITS and strategic exposure limit of UCITS;
- Italian Government Sensitivities Spread (in order to capture the spread risk factor on government bonds not included in the standard formula);
- Sensitivity on market risk factors (e.g. rate).

Market risk and ALM

ALM risk is a risk closely related to mismatches between assets and liabilities. The ALM process includes dynamics related to risk management and strategic planning. It focuses on the medium to long term rather than offering risk mitigation or hedging solutions. The goal of such risk management is to maximise assets to meet complex liabilities that can increase profitability.

The following risk factors belong to the sub-category of ALM risks:

- Strategic Asset Allocation (AAT - Asset Allocation Tools): consists of the risk resulting from the inadequacy/inconsistency of the asset allocation to meet liabilities.
- Asset & Liability mismatch: consists of the risk of misalignment between assets and liabilities that may lead to an exposure of the company or to the disinvestment risk or to the reinvestment risk.

The Company adopts, in respect of the above risk factors, guidelines that establish the general principles, the frequency of controls and the measures for recovery if the limits are exceeded.

ALM risks are identified with reference to the already acquired securities investment portfolio and the future investment scenarios. This activity is carried out both with an Asset-Liability Management approach, in order to capture the interrelationship between the dynamics of liabilities and the dynamics of assets covering technical provisions.

The macro-indicators analysed to assess and monitor ALM risks are illustrated below:

- SCR Interest Rate – Based: indicators that aim to identify capital absorption, according to Solvency II metrics, of interest rate risk based on a regulatory and management approach;
- Mismatch of returns for separate management products: this indicator measures the mismatch between the returns of separate management products and the minimum returns guaranteed to policyholders;
- Cash Flow Matching: this indicator shows the mismatch, on each occasion, between the cash flows of assets and the cash flows of liabilities;
- Duration Matching: misalignment between the duration of the Active Cashflows and the duration of the Passive Cashflows;
- KPI on Adj Technical Provision: indicator aimed at monitoring the Solvency II loss absorption capacity of Technical Provisions;
- Italian Government Sensitivities Spread;
- Sensitivity on market and technical risk factors (e.g. interest rate and surrenders).

Liquidity risk

The Companies are subject to potential tension in terms of liquidity, resulting from different maturities between assets and the relative liabilities. Liquidity risk is defined as the risk that the Company is not able to liquidate investments and other assets to meet its financial obligations when these fall due (see Art. 1, paragraph 1, letter vv-bis 2 of the CAP).

The possibility of performing a timely disinvestment of the portfolio is highly conditioned by the marketability of the securities in which the same is invested. The poor marketability of the securities in the portfolio may actually expose the Company to the risk of incurring losses associated with difficulties in finding counterparties on the market interested in purchasing the securities the company wishes to disinvest. The Company quantifies its solvency position with Standard Formula metrics, which do not require liquidity risk to be quantified in terms of capital absorption.

Liquidity risk is identified with reference to the investment portfolio underlying products with guaranteed capital and/or yield. The risks are identified on the basis of the technical data of the portfolios and of the metrics defined as a function of the time horizon with which the risk in question is analysed and studied.

The indicators used by the Company to monitor the liquidity risk are set below:

- the Company has decided to monitor the amount held in current accounts in order to set a lower limit that represents the Liquidity Reserve (as prescribed by IVASS Reg. 38) and an upper limit in terms of the maximum amount to be held in the current accounts in order to render the management of the portfolio effective and to limit any effects on the Default SCR. Quantifying the Liquidity Reserve includes not only Current Account exposures, but also Government bonds of the Eurozone with a credit quality exceeding 2 and a maturity of less than three months.
- Liquidity Buffer: the number of consecutive periods, monthly, in which the Liquidity Buffer is negative, over the annual time horizon considered, provides a summary indication of the Company's liquidity situation;
- Liquidity plan: this indicator seeks to demonstrate that the Company has financial resources on a continuative basis to manage liquidity risk. This condition is also the basis for the application of the Volatility Adjustment at Regulatory level;
- Liquidity contingency: securities that can be easily liquidated;
- Current accounts default SCR: for the purpose of limiting any effects on the default SCR deriving from the increase in the volumes of the current accounts, the Company has fixed a higher limit in terms of the default SCR.

Credit (default) risk

Credit risk (default risk) is defined as the risk of a loss or an unfavourable change in the financial situation resulting directly or indirectly from fluctuations of the creditworthiness of the issuers of securities, counterparties and borrowers to which the insurance or reinsurance company is exposed in the form of the risk of default of the counterparty, spread risk or concentration of market risk (see Art. 1, paragraph 1, letter vv-bis 1 of the CAP).

The loss of value of the credit position is mainly linked to the quality of the issuer or of the counterparty (including reinsurers, co-insurers, insured parties and intermediaries), but may also originate from a deterioration of the economic-financial conditions of the borrower, which determine the ability of the latter to meet its financial obligations, as well as from causes not related to the economic or financial situation of the debtor counterparty, such as political-military reasons for example.

From a purely representative point of view, we identify three macro areas of credit risk:

- Reinsurance;
- Intermediaries and other counterparties;
- Investments.

The risk factors underlying the individual credit risk sub-categories are as follows:

- Regarding the sub-class of Reinsurance:
 - o Credit risk towards reinsurers: represents the risk of losses resulting from the insolvency of one or more reinsurers;
 - o baseline risk: resulting from any discrepancies between reinsurance requirements and the actual coverage envisaged by the arrangement, entailing a greater risk for the Company with respect to that envisaged.
- With regard to intermediaries and other counterparties:
 - o Credit risk towards intermediaries and other counterparties: represents the risk of losses following the contractual default of third parties (e.g. receivables from policyholders, insurance intermediaries, current accounts in banks).
- As for the sub-class investment credit risk (related to the asset management process), it represents the risk of losses arising from the default of one or more bonds and therefore the following risk factors are identified:
 - o Bond default: risk related to the issuer's default before the fulfilment of its obligation;
 - o Other investment assets: credit risk towards other assets;
 - o Credit limits: deficiencies in the definition, renewal or monitoring of credit limits, violation of limits, incorrect assignment or non-renewal of credit lines the Company has decided to monitor the amount held in current accounts;
 - o Risk modelling and scoring: poor assessment of default risk for counterparties and/or countries and inadequate, incomplete or misused assessment tools;
 - o Credit position monitoring: incomplete, inadequate or improper assessment of actual commitments resulting in poor credit risk assessment.

With regard to the counterparty default risk distribution of Credemvita according to Solvency II regulations, the table below shows the best estimate of the representation of the risk at the valuation date (it should be noted that the total weight of counterparty default risks is equal to 2.9%).

Credit risk - risk/sum of risk components - relative and total

	Relative	Total
Type 1 counterparties	100.0%	2.9%
Type 2 counterparties	0.0%	0.0%

The policies relating to managing the credit risk of issuers of financial instruments refer to that illustrated above for market risk in terms of the general principles for the control of financial investments. With regard to reinsurers, Credemvita has drawn up policies to manage and control this risk in terms of guidelines and limits for counterparties.

The counterparty default risk is identified with reference to the counterparties for which there are credit positions.

The risk measures used are summarised below:

- Maximum amount in current accounts: this represents the maximum amount in a current account to be held for an individual portfolio;
- current accounts default SCR: for the purpose of limiting any effects on the default SCR deriving from the increase in the volumes of the current accounts, the Company has fixed a higher limit in terms of the default SCR;
- SCR Counterparty Default Risk Reinsurance/Recoverables SII: this indicator is obtained by comparing the SCR Counterparty Default Risk towards Reinsurers (pre-diversification) and Recoverables (balance of reserves transferred and net receivables due from reinsurers);
- Exposure by Reinsurer: this indicator identifies the exposure towards each reinsurer in terms of amounts insured;
- Rating or Solvency Ratio by Reinsurer: this indicator corresponds to the rating of the individual reinsurer or, in the event of non-network counterparties, to the Solvency Ratio of the same;
- Age of net receivables by Reinsurer: this indicator identifies the age of net receivables from each reinsurance counterparty;
- Amount of net receivables by Reinsurer: this indicator identifies the amount of net receivables from each reinsurance counterparty.

Operational, compliance, reputational, conduct risks and risk of belonging to a group Operational risk is defined as the risk of incurring losses resulting from the inadequacy or the malfunctioning (shortcomings or errors) of internal procedures, human resources or systems, or from external events (see Art. 1, paragraph 1, letter vv-bis 5 of the CAP).

For the Company, this definition also includes legal and compliance risk.

Operational risks can in turn be divided into the following sub-categories:

- Operational risk;
- IT Risk & Cyber Risk;
- Regulatory Operational Risk.

The main risk factors that characterise operational risk are:

- People Risk: human resources may be a source of risk for an enterprise, if the organisational structure is not efficient, or if there are shortcomings in the professionalism of employees or, for example, if the pay structure or the career prospects are not adequate and if the company environment is not suitable. There are numerous examples of losses due to incompetent or negligent resources, of particular note are cases of erroneous data entry in systems, errors when transposing data or infringements of regulations.
- Process Risk: business processes are a source of operational risk in the event that there are inefficiencies in the design, formalisation and definition of the structure of the same and therefore in the definition of the individuals that are part of the same and of the relative level of responsibility and authorisation. All business processes, including valuation and calculation models and risk management processes themselves, may be inadequate and therefore a source of operational risk. They are a source of operational risk:
 - o outsourcing of business activities in the event of deficiencies/inadequacies in the processes of managing the relations with outsourcers such as to cause losses to the company;
 - o failure to update or inadequate filing of the procedures and regulations that formalise internal processes;
 - o failure to/inadequate/untimely issue of internal implementation rules in relation to the

applicable external legislation.

- IT Security Risk and IT Risk: information systems may cause losses to the enterprise if adequate IT Security measures are not adopted, or in the management of hardware and software. The growing dependence on information systems and technological resources in general has made this risk factor increasingly important. There are numerous examples of loss relating to this factor, such as the assumption of excessive risks due to errors in computer programmes, the failure to fulfil contractual requirements due to IT system errors and the loss of important data resulting from system failures.
- External Events: events linked to external factors may cause losses to the company because of natural disasters, in the prevention and security against events of an accidental nature, infrastructure obsolescence, prevention and security against acts of a criminal nature, authorisation steps for the execution of operational activities, in the control measures against unauthorised activities and fraud by employees, preventive measures against fraud by external parties, inadequate and/or untimely updating of internal regulations in relation to changes in the external regulations from which they derive.

A bottom-up approach is adopted for the identification of operational risk, based on a Risk Self-Assessment method, with the aim of assessing the level of risk and the quality of the measures set in place to mitigate the risk relating to operating activities and all business processes.

The purpose of this approach, based on an analysis by Functional Area, is to identify loss events that could occur, assess the possible impact and possible frequency of occurrence of these events, assess the effectiveness of the controls monitoring the possible organisational tools that can be activated for risk mitigation.

The Company also conducts an annual assessment of the effective losses incurred from operational risk (known as LDC - Loss Data Collection). This analysis also enables back-testing to be conducted on the assessment ex ante through Risk Self-Assessment.

The Company also continued with work to complete the Business Continuity Plan.

As regards assessment of the solvency capital requirement (SCR), operational risks are assessed through the application of the Standard Formula. With regard to the distribution of Credemvita operational risk according to Solvency II regulations, the table below shows the best estimate of the representation of the risk at the valuation date (it should be noted that the total weight of operational risk is equal to 6.3%).

Operational risk - risk/sum of risk components - relative and total

	Relative	Total
Operational risk	6.3%	6.3%

Legislative compliance risk (namely non compliance with regulations), regards the risk of incurring judicial or administrative sanctions, and suffering reputational loss or damage due to the failure to comply with the law, regulations or provisions of Supervisory Authorities or of self-regulations, such as articles of association, codes of conduct or self-disciplinary codes; the risk resulting from unfavourable changes to the legislative framework or decisions of the courts. Legislative risk of money laundering or of financing terrorism: the risk of the Company failing to prevent actions whose purpose is to launder the profits of criminal activities and fund terrorism; the risk of incurring judicial or administrative sanctions, and suffering reputational loss or damage due to the failure to comply with the law, regulations or provisions of Supervisory Authorities regarding money laundering and anti-terrorism.

The legal risk factors and non-compliance with regulations are attributable to:

- Legal environment: risk related in general to non-compliance with laws, whether of a fiscal nature or personal data processing. Risk of dispute caused by a legal vacuum or by an incomplete or inadequate classification of the obligations and responsibilities assigned to the parties. Absence of contracts, poor conditions of conservation of legal

documentation. Risk linked to non-compliance with the tax laws applied to the Company. Risk linked to anti-money laundering. Risk related to safety at work. Risk linked to non-compliance with the privacy legislation;

- Compliance with regulations: non-compliance with applicable regulations and provisions (insurance, company or labour laws). Lack of follow-up of regulatory issues;
- In particular, the Compliance with Regulations risk factor (hereinafter also the "Regulatory" risk) can expose the company to specific loss events, linked precisely to its evolution. Unfavourable changes in the regulatory framework or jurisprudential guidelines may, in fact, concern:
 - o relations with the Supervisory Authority;
 - o customer relations;
 - o relations with employees;
 - o safety in the workplace;
 - o relations with other bodies.

In particular, this risk factor relates to incurring judicial or administrative sanctions, suffering reputational losses or damage as a result of failure to comply with laws, regulations or provisions of the Supervisory Authorities or self-regulatory rules, with particular attention to rules relating to transparency and correct behaviour towards insured and damaged parties, pre-contractual and contractual information, the correct performance of contracts, especially as regards the management of claims and, more generally, consumer protection.

According to the model adopted by Credemvita, moreover, there are other risks/loss events that are not strictly related to specific risk factors, but that may originate from risk factors relating to the risk categories previously illustrated. In particular this regards the risk category related to belonging to a group and to the reputational and conduct risks and ESG, as identified by the laws and regulations of this industry.

The risk related to belonging to a group (risk of "contagion") means the risk that, following relations between the enterprise and other group entities, difficult situations that arise in one company of the same group may spread and have negative effects on the solvency of the enterprise itself.

In accordance with its strategy and with the investment policies adopted by the Management Body, a policy for intragroup relations has been defined, which sets appropriate operational limits. The risk is therefore identified and analysed consistent with the categories and counterparties of the transactions in question, with particular regard to any guarantees issued within the Group and consistent with the characteristics of the following types of transaction:

- Significant transactions (between 1% and 5% inclusive of the Solvency Capital Requirement for the period);
- Very significant transactions (>5% of the Solvency Capital Requirement for the period).

Reputational risk means the risk of the company's image deteriorating, and of increased conflict with both insured parties (also due to the poor quality of the services offered, to the placement of inadequate policies or behaviour during the sales, after sales or settlement phases) and with the Supervisory Authorities and shareholders.

Reputational risk is generally broken down into:

- direct reputational risk: focused on sensitive businesses, on the basis of ESG (Environment, Social and Governance) criteria;
- indirect reputational risk: based on the management of the reputational impact of other types of risk (e.g. operational risk, cyber risk, legal risk etc.).

It should be noted that the assessment of reputational risk takes place as part of the Risk Self Assessment campaign relating to operational risk management. The risk is identified, on a management level and qualitatively by analysing:

- placement procedures that entail the prior assessment of the adequacy of the contract with a view to initially identifying the insurance requirements and the customer's protection needs, as well as providing adequate information on the product;
- the assistance services provided by the distribution network;
- the claims management service;
- the claims settlement process.

Furthermore, since reputational risk is strictly connected to operational, IT and cyber risks and to conduct risk, the specific operational and organisational controls put in place to manage these risks represent an additional element in support of reputational risk management.

Conduct risk – as a sub-category of operational, compliance and reputational risk – can be defined as the current or prospective risk of losses resulting from inappropriate offerings of products and/or services, including instances of inappropriate conduct (malfeasance/negligence) by the company.

Conduct risk management is closely linked to the activities defined as part of the POG process (governed in the respective POG Policy). As part of its risk management, the Company has the following objectives:

- make business initiatives oriented and focused on the figure of the customer. In this context, the focus is on product design and the definition of services in line with customer needs;
- establish a code/system of conduct fully rooted within the company structure. In this context, the focus is on the sale of products/provision of services, ensuring transparency of information to customers,
- to ensure that the business is continuously focused on achieving the best result for the customer (see KPI and KRI monitoring), protecting the integrity and conduct of the Company in customer relations.

ESG (Environmental, Social and Governance) risk aims to assess an environmental, social or governance event or condition which, if it occurs, could cause an actual or potential negative impact on the value of the investment or on the value of the liability. This type of risk falls under second-level risks or indirect risks as it can manifest itself by causing a negative impact on assets and liabilities by influencing the risk factors already contemplated in the other risk categories (e.g. Market and Underwriting Risk).

Within the category of ESG risks, particular importance is assigned to climate risks as they could generate high losses for Insurance Companies if not correctly identified and managed.

With specific reference to climate risks, in line with the indications of the Commission Delegated Regulation (EU) no. 2021/1256 of 21 April 2021, the Company has structured a series of analyses on its portfolio (both investments and technical/insurance) to verify the materiality of the exposure to climate risks and, subsequently, conducting the scenario analysis to quantify the impact they produce on the main economic and capital figures.

The Framework developed by the Company for climate risk management identifies the following steps:

- Identification of risk factors and the scope of analysis – identification and classification of the main sources of climate risk and the scope of products and assets potentially impacted according to the guidelines indicated by EIOPA.
- Materiality assessment – the assessment, preparatory to the relevance analysis (see next point), is carried out on each individual perimeter (both Asset and Liabilities);
- Relevance Analysis – analysis activated only for the risks identified as potentially material in the previous point, and has as its objective the identification of the climatic risks relevant to the business and for the related stress analysis for ORSA purposes. The analysis is carried out on each individual perimeter (both Asset and Liabilities) and envisages at least the following macro activities:
 - o Identification of the criteria and methodologies to be used on the portfolios exposed to risk (both assets and liabilities) analysed in the following paragraphs;
 - o Qualitative/quantitative assessment of each perimeter identified with respect to the methodologies identified and the specific materiality thresholds.

The ESG risk management system requires the definition of indicators used to monitor exposure, with a specific focus on climate risks related to the environmental risks inherent in the Company's Asset and Liabilities portfolios.

The risk measures used and the volumes analysed are summarised below:

- Weighted Average Carbon Footprint;
- Percentage of Climate Policy Relevant Activities;
- Weighted Average Liabilities Hazard Exposure;
- Percentage of high climate risk liabilities.

Strategic risk

Strategic risk means the current or future risk of a fall in profits or of share capital and of the sustainability of the business model, including the risk of not being able to generate adequate return on capital on the basis of the risk appetite defined by the enterprise, resulting from changes in the operating scenario or from erroneous business decisions, from the inadequate implementation of decisions, improper management of the risk associated with belonging to a group, and from poor reactivity to changes in the competitive scenario.

Strategic risks are analysed by means of specific sensitivity analyses at the time of the ORSA or whenever there are significant changes in the market, of the production mix and of the assumptions underlying the assessments (by way of example, best estimate redemption rates, assumption of minimum guaranteed rate, etc.).

In this context, the presence of potential emerging risks is also assessed on the basis of information deriving from the business plan, product developments, regulatory changes and any other change potentially impacting the company's risk profile.

Following the results of this analysis, any changes to be made in the company risk map are assessed.

The assessments made by the Company as at the valuation date have made it possible to outline the risk map – Solvency II Framework – to which the Company is exposed (shown below).

Risk Module	Risk Sub-module	Exposure
Underwriting risk	Mortality risk	X
	Longevity risk	X
	Disability-morbidity risk	---
	Life Lapse risk	X
	Expense risk	X
	Revisionary risk	---
	CAT risk	X
Market risk	Interest rate risk	X
	Equity risk	X
	Property risk	X
	Spread risk	X
	Currency risk	X
	Concentration risk	---
Counterparty default risk	Type 1 counterparties	X
	Type 2 counterparties	---
Operational Risk	Operational risk	X

Forward-looking risk assessments have not identified any emerging risks from a regulatory (Solvency II) perspective in relation to the actions envisaged by the new investment and business strategies. However, their composition is different also in terms of relevance with respect to the past. In particular, there is an increase in Life Underwriting risks and in particular in Lapse Mass risk as an indirect consequence of market dynamics, which in 2022 led to a significant and sudden increase in interest rates.

In addition, in relation to Regulation (EU) no. 2019/2088 of the European Parliament on disclosure in the financial services sector, the following emerging risks are identified: ESG (Environmental, Social and Governance) risk.

With regard to prospective and monitored data at the valuation date, the assessment enabled the sub-modules of risk that are the most significant and have the greatest impact on the Company to be identified, namely the Equity, Spread, Operational and Lapse Mass risk sub-modules. Even if from the point of view of the generated capital requirement, the Interest Rate risk module, at the valuation date, does not represent a relevant risk module, however due to the indirect effects it can generate, this risk factor is considered among the main risks to be aware of.

In addition, the Company is exposed to Spread risk on ITA government securities (a risk not contemplated in the Standard Formula). In its assessments, the Company takes this risk factor into consideration through specific sensitivity analyses carried out periodically (at least quarterly) and in the ORSA Report YE 31.12.2022. The results of qualitative/quantitative analyses of the adequacy of the Company's risk profile with respect to the requirements underlying the application of the Standard Formula were positive.

The results of risk assessment activities highlighted a volatility in the solvency trend and in the Company's solvency due to fluctuations of the BTP/Bund spread and the sudden rise in interest rates. However, this volatility of the solvency index is governed by the Company through the activation of specific organisational and monitoring safeguards.

In addition to calculating the impacts due to quantifiable risks, the Company also manages and monitors the risks outside the scope of the Standard Formula and the non-quantifiable risks from a regulatory perspective, such as:

- spread risk on Government bonds;
- liquidity risk;
- ALM risk;
- strategic risk;
- compliance risk;
- reputational risk;
- conduct risks
- ESG risk (with a specific focus on climate risks related to environmental risks);
- risk associated with belonging to a group;
- emerging and sustainability risks.

At present, these types of risks have a level of management consistent with the relevance of the risk factors that characterise them, are periodically monitored and do not entail an add-on in terms of regulatory capital.

At present, there are no results that indicate critical situations in terms of solvency resulting from strategic risks. Nevertheless, also in view of the current context, careful monitoring will be maintained in order to intercept possible changes in the macroeconomic scenario that may have a significant impact on the Company's Own Funds and the Lapse Mass risk must continue to be considered.

CREDEMASSICURAZIONI S.P.A.

Credemassicurazioni's approach to risk management

Risk management strategies

Credemassicurazioni S.p.A. has adopted a strategy for undertaking and managing risk based on criteria of sound and prudent management, coherent with the company's level of capital. This strategy is based on risk assessment principles that consider aspects relating to their relevance/significance.

The approach followed in risk management is based on the criterion of proportionality and is outlined in specific internal policies pursuant to IVASS Regulation no. 38/2018, for each of the areas of risk that the Company is concerned with.

The key elements on which the Company's risk strategy and management policy are based are as follows:

- risk identification and classification - risk map;
- risk assessment;
- risk measurement tools and methods;
- risk management;
- monitoring and reporting.

The general principles adopted for the definition of the risk management system therefore consider:

- consistency checks between the level of risk assumed and the level of expected available capital (Risk Appetite);
- risk measurability/assessment (for risks that can be quantified) to enable management to assess the impact of risk on business performance;
- the determination of processes and operating controls for those that cannot be quantified;
- the presence of a continuous monitoring system for the current and future risk profile and the related risk and/or return indicators identified.

As part of its risk management system, Credemassicurazioni has designed and implemented an independent process to assess its current and future capital adequacy, in relation to the significant risks to which the Company is exposed (ORSA - Own Risk and Solvency Assessment process). This process has the following phases:

- Forward-looking assessment of the Solvency II Ratio;
- Stress Test;

- Forward-looking Liquidity Plan;
- Adequacy of the Standard Formula with respect to the risk profile of the Company;
- Back Testing;
- Preparation and forwarding the ORSA Report.

The following processes are also an integral part of the ORSA process:

- Definition of the preliminary plan and of the company budget;
- Definition of the Risk Appetite;
- Risk identification and assessment and Continuous Monitoring.

As part of the Company's strategic policy, the Board of Directors identifies and approves the proper size of the overall capital endowment and the profitability targets adjusted for risk. The formulation of preliminary strategic guidelines by the Board of Directors guides the calibration of the risk targets and the development of the strategic plan.

These activities are significantly connected and are both developed considering the starting situation of the Company, the prospective view of the external context, the risk profiles and the guidelines in terms of product development and innovation (consistently with the POG process) and risk.

The strategic policies approved by the Board of Directors affect the production and organisational structure in order to determine the desired impact – in the time horizon of planning – on risk/return. The Risk Management department continuously supports the corporate bodies in the choices deriving from the implementation of the plan by facilitating the understanding and awareness of the risks assumed / to be assumed and their monitoring.

Risk identification and classification - risk map

The sector regulations, containing provisions on the risk management system, require companies to catalog the risks to which they are exposed regardless of whether they can be quantified, depending on the nature, scope and complexity inherent in the activity carried out, from a current and future perspective, as well as the indirect effects associated with significant risks.

This cataloging constitutes the common language for the performance of all activities connected with the company risk management system.

Company risks are classified into the following main classes:

- Subscription risk (or technical insurance risk);
- Market risk:
 - o Market risks;
 - o ALM risk;
 - o Liquidity risk;
- Credit and counterparty risks;
- Operational risks:
 - o Operational Risks;
 - o IT Risk and Cyber Risk;
- Compliance risk;
- Second-level risks;
 - o Risk associated with belonging to a group;
 - o Reputational risk;
 - o Conduct risks;
 - o ESG Risks;
- Strategic risks;
- Emerging risks.

The process of identifying the risks to which the Company is exposed constitutes a fundamental element for the correct implementation and assessment of the broader risk management process. In line with regulatory legislation, Credemassicurazioni has provided for a risk census procedure, to be intended as a methodological support tool in carrying out risk identification and assessment activities, which enables it to continuously collect information on existing and prospective internal and external risks to which it is exposed, and which may affect all operational processes and corporate areas. By its nature, this procedure is evolving based on the gradual refinement of the risk management system and the evolution of the reference regulatory framework.

Credemassicurazioni's risk analysis procedure is divided into four phases:

- analysis of the company's strategic plan and identification of emerging risk factors;
- identification of external risk factors;
- identification of operational (including IT and cyber risk), non-compliance with regulations and second-tier risk factors;

- identification of strategic risk factors.

The methods adopted for identifying risks are essentially based on one or more of the following approaches:

- Specific Risk Assessments (by risk families);
- Evaluations of the differences between each risk assumption and the current outcome;
- Loss or error events that have occurred;
- Review of processes, regulatory risk matrix or regulatory risk assessment;
- Brainstorming with management and risk owners;
- Internal/External Audit evaluations
- Communications and comparisons with regulators;
- Other external events;
- Reporting transmitted by the functional areas of the Company.

Once the risks have been identified, they form the Company's risk map.

Risk Assessment

The risk assessment process is carried out with both current and forward-looking approaches and integrates quantitative and qualitative methods and approaches.

The risk assessment is carried out on an individual basis, at individual risk level, and on an aggregate basis, to take into account the interrelationships between the sources of risk. Indirect effects related to the most significant risks are also considered.

The frequency of the risk assessment depends on the type of risk, the tools and the assessment methodologies used and is established in line with the frequency and requirements of the strategic and decision-making processes of the Company. The frequency of forward-looking risk assessment is consistent with the annual strategic planning process.

In addition to the ordinary management of the risk assessment process, management is envisaged when necessary, based on events that may determine a significant change in the risk profile. In particular, the following main events were identified:

- updating of the strategic plan;
- an acquisition or divestment that significantly changes the business, risk profile or solvency position;
- a significant change in the financial markets that has a significant impact on the company's asset portfolio;
- a significant change in the Company's liabilities;
- a reduction in the solvency position below critical values;
- a significant change in the regulatory framework;
- a significant change in the risk profile and the emergence of new risks;
- a significant change in company processes, systems and procedures.

Measurement Tools and Methods

Pursuant to regulatory provisions, the Company has defined a risk assessment and analysis process based essentially on tools and methodologies linked to:

- Methodologies developed as part of the risk profiling procedure:
 - risk indicators that can be constructed on the following methodological approaches:
 - o regulatory indicators or indicators based on the principles underlying Solvency II regulatory amounts;
 - o management or based on general concepts such as exposure, concentration, volatility, expected or potential loss, and / or aimed at assessing those risks not included in the standard formula and / or supplementing the assessment of the same regulatory risks;
 - o qualitative.

In addition to the methodologies underlying these risk indicators, the measurement of the Company's risk, both current and forecast, is based on the regulatory methodologies for the calculation of the Capital Requirement (see SCR): the reference methodology is that of the Standard Formula.

All these figures, in addition to constituting the framework for continuous monitoring at the basis of the risk management organisational model, represent the elements at the basis of the Company's risk profiling methodology. This activity aims to identify and assess risk factors and assign a level of significance to each of them.

- Application of Volatility Adjustments: current and forward-looking assessments of regulatory risks of the Company envisage the use of the Volatility Adjustment as a Long Term Guarantee measure. The Volatility Adjustment is applied to the total liabilities held by the Company sold entirely in Italy and in the Euro currency. The Matching Adjustment is not applied by the Company. In order to better understand the effects deriving from the application of the Volatility Adjustment on technical provisions and own funds, the Company also carries out sensitivity analyses whenever the deviation between the risk-free EIOPA curve and the risk-free EIOPA curve with volatility adjustment significant.
- Sensitivity, stress test and scenario test: pursuant to Art. 19, paragraph 4 of IVASS Regulation no. 38, the Risk Management Function, in order to assess the current and future impacts on the economic and financial situation deriving from adverse trends in the main risk factors, carries out, for each of the sources of risk identified as most significant, stress test and sensitivity analyses.
- Risk Self Assessment on Operational risks (including IT risk and cyber risk).

Risk Management

The objective of the risk management system is to maintain the risks to which the Company is exposed at an acceptable level, by indicating the risk appetite and tolerance established in line with the objective of safeguarding the assets of the same to guarantee business continuity. The guidelines on risk management are set out in the individual policies drawn up, reviewed and approved annually by the Board of Directors, after passing with the Director in charge of internal control and risks. Elements of risk management are:

Risk Appetite Framework

The Company adopted a Risk Appetite Framework (see RAF) that defines the risk appetite, the tolerance thresholds, the risk limits, the risk governance policies as well as the reference processes needed to define and implement them. As part of the strategic direction of the Company, the Board of Directors identifies and approves its risk appetite. The process of defining/revising the Risk Appetite Framework therefore supports the Strategic/Operational Planning (Budget) process and takes into account the internal risk and solvency assessment. In fact, these elements are not separate, but influence each other with the aim of maximising the risk - return profile of the Company. The RAF is defined taking into account the following aspects:

- the Company's strategy, including the organisational objectives, the strategic plan, financial and regulatory constraints and the expectations of the stakeholders;
- the key aspects of the Company's business;
- the willingness and capability of assuming risks;
- the skills, resources and technology available to the Company to manage and monitor risk exposures.

The Company's risk appetite, together with the assessment of the corporate governance system adopted as well as the mapping and identification of risk factors and a general application of the prudent person principle, represent the main constitutive elements at the basis of the determination of the organisational model for the management of the risks (specific for each risk class).

In defining its business strategies, the Company assesses, on an ongoing basis, compliance, in the various years of development of the plan, with the target risk levels defined in the Risk Appetite Framework (RAF), in order to ensure consistency between the medium to long term objectives and the Company's capability and willingness to assume risks.

The concepts relevant for the purposes of defining the RAF are broken down below:

- the Risk Profile represents the actual risk of the Company assessed at a given time;
- the Risk Appetite represents the real propensity to risk of the Company and consists, therefore, of the risk level that it intends to assume to attain its strategic objectives;
- the Risk Tolerance identifies the maximum risk tolerance threshold, fixed in order to ensure the Company sufficient margins to operate, both in the normal course of business and in particularly stressed market conditions;
- the Risk Capacity represents the maximum risk that can be assumed by the Company; therefore, it consists of the level of risk that it is able to assume without violating regulatory requirements or other constraints imposed by the Supervisory Authority.

Moreover, when defining its business strategies, the Company assesses, on an ongoing basis, compliance, in the various years over which the plan is developed, with the target risk levels defined in the Risk Appetite Framework, in order to ensure consistency between the medium- to long-term objectives and the capability and willingness to assume risks. In particular, the strategic plan, based on the risk profile of the Company at the time of preparing the plan itself, takes into account the risk that can be assumed without violating regulatory requirements or other constraints imposed by the Supervisory Authority, the risk appetite (i.e. the level of risk that it intends to assume in order to achieve its strategic objectives) and the risk tolerance (i.e. the maximum threshold of deviation from the risk appetite, set by the Board of Directors).

Moreover, the Company has defined a Capital Management Policy and a Capital Management Plan, the purpose of which is to adopt adequate procedures to ensure the safeguarding of the regulatory requirements and of Risk Appetite target levels, as well as to guarantee that, both at the time of issue and later, the elements of Own Funds, which the business intends to use in order to achieve the business objectives established at the time of strategic planning, meet the regulatory requirements defined by EIOPA and are correctly classified. This plan was drawn up in line with the results of the future risk assessment according to the Solvency II approach (ORSA), with the objectives and the methods established in the Capital Management Policy and with the solvency requirements established by the Regulator, in order to guarantee the Company's capital solidity for its own operations and potential future development.

Risk Indicators

In line with the provisions of the Risk Appetite Framework Policy, the current and future risk management of the Company is based on the definition of indicators for each risk category.

The Company distinguishes the risks between:

- quantifiable risks which have a capital impact, in relation to which the Company determines the capital requirement;
- quantifiable risks in relation to which the Company does not determine the capital requirement (for example liquidity, cash flow matching) which are measured using specific limitations and metrics;
- risks difficult to quantify, valued on a qualitative basis, which due to their nature and characteristics are difficult to quantify and are not covered by the capital requirements required by legislation, even if the occurrence of the event associated with the same would lead to significant consequences for the activities carried out by the Company.

The indicators are further broken down into:

- first-level indicators: these are indicators mainly aimed at observing the solvency restrictions. They are indicators of possible negative impacts and provide warnings aimed at identifying potential damaging events which threaten the achievement of the objectives and the continuity of the Business. The indicators are supplemented within the RAF Policy and a Risk Appetite, a Risk Tolerance and a Risk Capacity and the related Risk Appetite Statement system are associated with the same;
- early warning indicators: in order to carry out preventive and continuous monitoring of solvency indicators, early warning indicators were also defined that are aimed at intercepting phenomena and/or events of potential high criticality and/or attention;
- second-level indicators: these are operational/management type indicators useful for strengthening the risk monitoring activities and possibly providing preventive signs of a potential deterioration of the first-level metrics. These indicators are integrated into the Risk Management Policy and the Risk Management Policy of the Open Pension Fund.

In the general context of the risk management system, the Company also defines specific operating limits that set the risk objectives (e.g. in terms of exposure, concentration, etc.) consistent with the Company's risk appetite.

The main first-level indicator of the Company is the Solvency II Ratio, that is, the ratio between Eligible Capital and Solvency Capital Requirement. The Company's objective is to have an Economic Capital level adequate and in line with the strategic objectives, greater than a previously established level of Solvency Ratio, as illustrated below:

- Risk Appetite: 159%;
- Risk Tolerance: 122%;
- Risk Capacity: 105%;

As part of the definition of the RAF, it is necessary to fix the level of risk that, if not complied with by the Risk Profile of the Company, requires corrective actions. Therefore, the thresholds identify the tracks within which the Company can carry out its action aimed at achieving the business objectives. The violation of these thresholds requires an escalation process by the Company and the definition of specific intervention plans to deal with the situation.

Monitoring and Reporting

Credemassicurazioni's risk management organisational model involves all business departments, from operating units (involved in the management of risks for the relevant processes) including therein the Fundamental Units, the Director in charge and the Board of Directors.

In this context, the Risk Management department acts as coordinator of the risk monitoring activities. More specifically, it contributes to defining risk measurement methods and operating limits, defining appropriate verification procedures, and has the task of validating the information flows from risk monitoring activities, preparing reports for top management and verifying the consistency of the risk measurement models with the company's operations.

Risks are continuously monitored by the Risk Management department and by the relevant individual departments; to this end, reports on the development of risks have been created and have been fine-tuned over time and are submitted to the Board of Directors, the Director in charge of Internal Controls and Risks, the CRO and Top Management and the relevant operational structures, with a view to improving the communication of the results and permitting a better understanding of the topics related to risk assessment.

The risk management model adopted by Credemassicurazioni is characterised by:

- a phase in which the risk indicators and/or the operating thresholds to manage risk are updated on the basis of organisational requirements and/or following changes of the internal and external scenario, or whenever they are no longer in line with the risk profile requested by the management body;
- a consequent monitoring of operational limits and risk governance indicator. Activities to verify compliance with the risk tolerance levels established by the Board of Directors take the form of specific organisational control procedures established to guarantee compliance with the same and promptly trigger warning processes in the event of any overruns as well as to establish specific recovery plans in response to such overruns.

As part of the risk management system and in line with regulatory requirements, the Board of Directors has drawn up a formal set of policies and attachments which, for each of the areas of risk to which Credemassicurazioni is exposed, specify the objectives, the tasks, the responsibilities, the process and define the tools and procedures, including those related to reporting, required to identify and consequently manage all risk areas. These documents also have a more general objective of encouraging a culture of risk control and management within the company.

Compliance with and application of the documents are guaranteed by an Internal Control System represented by a set of rules, procedures and control techniques and organisational structures aimed to ensure the proper running and good performance of the company.

Risk analysis

Pursuant to sector regulations, the Company has defined a risk analysis process that includes both a qualitative assessment and, for those risks that are quantifiable, the adoption of methods to measure exposure to risk, including a system to establish the amount of maximum potential loss, both current and future. These analyses make it possible to carry out a continuous profiling of the risks to which the company is exposed. Note that in order to assess capital solvency requirements according to the regulatory Solvency II system, the Company uses the Standard Formula in compliance with that defined in the Delegated Regulation (EU) no. 2019/981 of the Commission. Therefore, the current and future risk assessments take into account all the risks, included in the framework of the Standard Formula, to which the business is exposed.

In order to continuously assess its solvency situation, the Company also calculates on a quarterly basis its capital requirement, determines its own eligible funds and the related quality and composition, checking at the same time the compliance with the operating limits and the risk appetite. Specific stress tests and sensitivity analyses are made with the same frequency on capital. Adequate documents are reported to the Board of Directors and sent to the Supervisory Authority through the Quantitative Reporting Templates (QRT). Compliance with the Level I indicators set out in the Risk Appetite Framework is verified with the same frequency.

If, in the context of the various monitoring activities carried out by the Company, continuous and/or significant deviations of the risk profile with respect to the company's Risk Appetite emerge or significant deviations with respect to the main technical/financial/market/product assumptions defined in the Strategic Plan (and therefore in the ORSA evaluations), a Non-Regular ORSA is carried out in order to assess the impacts of these changes also in forward-looking terms.

In 2022, the Company complied with the following regulatory deadlines:

- Preparation and forwarding to the Supervisory Authority of quarterly reports (QRT) required by Pillar III;
- Preparation of the Regular Supervisory Report - RSR (Periodic Report to the Supervisory Authority) with reference to the financial year closing date 31.12.2021, approved by the Board of Directors in March 2022 and sent by the regulatory deadline to IVASS;
- Preparation of the Solvency Financial Condition Report - SFCR with reference to the financial year closing date 31.12.2021, approved by the Board of Directors in March 2022 and sent, by the regulatory deadline, to IVASS;
- Conducting the ORSAs (Own Risk and Solvency Assessments) required to assess the solvency profile of the 2022-2024 strategic plan and preparation of the ORSA Report approved by the Board of Directors in April 2022 and sent to IVASS within the regulatory deadline;

Lastly, it should be noted that, in continuity with what happened in 2021, in 2022 given the situation resulting from the COVID-19 emergency and the recent tensions linked to the Russia-Ukraine war, the Company continued to participate, at the request of the Supervisory Authority, in the following activities:

- monthly monitoring of the solvency position (starting from March 2020).

Subscription risk (or technical insurance risk)

Subscription risk is defined as the risk of a loss or an unfavourable change in the value of insurance liabilities due to inadequate assumptions in terms of price setting and establishing technical reserves (see Art. 1, paragraph 1, letter vv-bis 4 of the CAP).

Within the Company's risk framework, this risk can be further divided into the following categories:

- Assumption risk: represents the risk resulting from underwriting insurance contracts, linked to insured events, to the processes followed for the pricing and selection of the risks, to the unfavourable trend of actual claims compared to that expected.
- Reserve risk, namely the risk relating to the fact that the amount of insurance reserves is insufficient to cover the commitments made to insured parties and injured parties.
- Disaster risk, namely the risk of incurring losses or of an unfavourable change in the value of the liabilities insured, resulting from the significant uncertainty of the assumptions made to price premiums and to establish reserves relating to extreme and exceptional events linked to natural events or events caused by man.

- Lapse risk: represents the risk relating to the exercise of options by insurers that may be contained in non-life contracts, such as the option to withdraw from the contract before the agreed expiry or the option to renew the contract according to previously established conditions.

With regard to the distribution of Credemassicurazioni underwriting risks according to Solvency II regulations, the table below shows the best estimate of the representation of the risk as at the valuation date (it should be noted that the total weight of life underwriting risks is equal to 82.5%).

Non-Life risk - risk/sum of risk components - relative and total	31/12/2022	
	<i>% Relative</i>	<i>% Total</i>
Non-Life premium and reserve risk	55.5%	29.8%
Non-Life lapse risk	32.0%	17.2%
Non-life CAT risk	12.5%	6.7%

Health risk - risk/sum of risk components - relative and total	31/12/2022	
	<i>% Relative</i>	<i>% Total</i>
Health premium and reserve risk	72.6%	20.9%
Health Lapse risk	24.0%	6.9%
Health CAT	3.4%	1.0%
Health SLT Mortality risk	0.0%	0.0%
Health SLT Longevity risk	0.0%	0.0%
Health SLT Disability morbidity risk	0.0%	0.0%
Health SLT Lapse risk	0.0%	0.0%
Health SLT Expense risk	0.0%	0.0%
Health SLT Revision risk	0.0%	0.0%

The Company has adopted guidelines for these risks which:

- illustrate the types of insurance risks it intends to assume;
- highlight the characteristics of the insurance business (products, distribution channels, excluding risks);
- describe the methods aimed at ensuring that premium income is adequate to cover the expected claims and the related expenses;
- illustrate the manner in which the company takes reinsurance or other risk mitigation techniques into account in the process to design a new insurance product and to calculate the relative premium;
- illustrate the manner in which the company takes investment limitations into account in the process to design a new insurance product and to calculate the relative premium.

The Company measures and monitors its exposure to underwriting risk based on the overall portfolio, in addition to verifying compliance with the limits and policies established.

This identification of the risks is made with reference to new products and to the existing portfolio:

- New products: in line with the Strategic Plan, the recognition of risks associated with new products is carried out on the basis of their technical characteristics as part of the ORSA process. Furthermore, in accordance with the process to create and launch new products defined within the more general POG (Product Oversight and Governance) process, the Risk Management department is tasked with drawing up a specific risk analysis (known as a risk sheet) for each individual product, the results of which are transmitted to the Management and Product Governance Committee.
- Existing portfolio: with regard to the existing portfolio, risks are identified on the basis of the technical data of the portfolio and of the capital absorption measures determined through the instrument used by the Company to calculate SCR (Standard Formula). The information relating to the overall technical performance concisely reflects the technical results of the individual Segments and therefore of the products contained in the portfolio (which in general can encompass more than one Segment).

The main risk measures used are summarised below:

- SCR - Non-life underwriting risk and related risk sub-modules (measured both gross and net of reinsurance);
- SCR - Health underwriting risk and related risk sub-modules (measured both gross and net of reinsurance);
- Distribution of Best Estimates (Non-Life and Health NSLT) measured both gross and net of Reinsurance;
- Risk Margin (Non-Life and Health NSLT);
- Combined Ratio;
- Loss Ratio;
- Expense Ratio.

Market risk

Market Risk is defined as the risk of a loss or an unfavourable change in the financial situation resulting directly or indirectly from fluctuations of the level or of the volatility of the market prices of assets, liabilities and financial instruments (see Art. 1, paragraph 1, letter vv-bis 3 of the CAP). Market risks reflect the performance of the economic cycle, which may amplify or possibly reduce its significance, especially if the securities portfolio of the company is particularly concentrated in specific sectors, currencies or geographic areas.

This risk can be broken down into the following risk factors:

- Interest rate risk: the value of the assets of an insurance company is sensitive to changes in interest rates. Furthermore, if the cash flows generated by the assets and those generated by the liabilities of a company are not perfectly aligned in terms of maturity, frequency of any payments and by nature of investment rates (maturity mismatching, interest rate mismatching, reset date mismatching, basic mismatching), a (positive or negative) shock of interest rates may generate unsynchronised variations in the value of the assets and liabilities. Essentially, exposure to interest rate risk refers to all of the assets and liabilities whose value is "sensitive" to changes in the term structure of interest rates or the volatility of interest rates;
- Share price risk: the market values of the stocks purchased by the company may be sensitive to the trend of the stock markets (for example, in the case of contracts whose performance is linked to the value of a share);
- Foreign exchange risk: the market value of the stocks purchased by the company may be sensitive to variations of exchange rates (for example, in the case of shares or bonds denominated in a foreign currency). Therefore, this risk factor is particularly important for insurance companies in the case of assets that are hedging the technical insurance reserves denominated in a currency other than that of the corresponding technical commitments made contractually. In fact, as the conversion of currencies is made at the end of the year at the current exchange rate, profits/losses may be recorded at said date due to variations in the exchange rates;
- Real estate risk: if the assets of an insurance company are invested in real estate, the values of said asset are sensitive to the market trend of the prices of the same;
- Credit risk: whenever an insurance company underwrites financial instruments, it may be exposed to the insolvency risk of its borrower, who may not be able to meet its obligations, or it may be exposed to the risk of a deterioration of creditworthiness, with a consequent fall in the value of the security. Exposure to credit risk refers to assets, liabilities and financial instruments that are sensitive to changes in credit spreads;
- Concentration risk: exposure to concentration risk, which results from an unexpected change in the prices, in the value of exposures towards issuers with whom the party has cumulative exposures, refers to assets subject to the share price risk, interest rate and spread risk and to real estate risk included in market risk, and excludes assets subject to the risk of counterparty default. At present, at regulatory level, government securities are also excluded;
- Other asset exposures: This risk factor materialises in the market risk related to private equity, alternative instruments, infrastructures, inflation-linked products and hybrids.

Market risk factors are mainly identified in the specific financial statement classes of the Owned Portfolio.

With regard to the distribution of Credemassicurazioni market risks in accordance with Solvency II regulations, the table below shows the best estimate of the representation of the risk at the valuation date (note that the total weight of market risks is 10.1%).

Market risk - risk/sum of risk components - relative and total	31/12/2022	
	% Relative	% Total

Interest rate risk	63.5%	6.4%
Equity risk	12.3%	1.2%
Property risk	0.0%	0.0%
Spread risk	15.9%	1.6%
Currency risk	8.4%	0.8%
Concentration risk	0.0%	0.0%

The Company adopts, in respect of the above risk factors, guidelines that establish the general principles for the activities of the Finance Area, the frequency of controls and the measures for recovery if the limits are exceeded. In the overall composition of the investment portfolio, exposure to risk, constraints related to covering insurance reserves and the impact on the Solvency Ratio are also taken into account. The limits and the indicators relating to investments are verified and controlled on a continuous basis by the relevant business departments and, periodically, the results of the same are brought to the attention of the Board of Directors. The process also envisages a review stage of the above-mentioned limits conducted by means of a sensitivity analysis of asset and liability portfolios.

Market risks are assessed with reference to the already acquired securities investment portfolio and the future investment scenarios. This activity is carried out both with an Asset-Liability Management approach, in order to capture the interrelationship between the dynamics of liabilities and the dynamics of assets covering technical provisions, and following the Solvency II principles in order to capture the capital requirement absorbed by each individual risk module and sub-module.

Market risks for the life insurance business are identified with reference to new investments and asset allocation targets, and to the existing portfolio:

- New investments: with regard to new investments, as part of the ORSA process, analyses relating to future investment scenarios are conducted with a view to identifying the risks related to said investment choices and to assess the quantitative impact on the risk profile. Furthermore, for “occasional” investments (according to the definition given in the Investment Policy), based on the information provided by the Finance Area (by way of example: investment objective, reference portfolio, size of the transaction) the Risk Management department conducts an ex-ante quali/quantitative assessment based on both management and regulatory logics. The Risk Management department also conducts an ex-ante risk assessment for all non-UCIT UCIs based on the Due Diligence prepared by the Finance Area in accordance with the provisions of the Policy on UCI/ETF.
- Existing portfolio: with regard to the existing portfolio, risks are identified based on the technical data of the portfolio, market data and the risk measures determined through the calculation tool of the SCR adopted.

The macro-indicators analysed to assess and monitor market risks are illustrated below:

- SCR Interest Rate – Based: indicators that aim to identify capital absorption, according to Solvency II metrics, of interest rate risk based on a regulatory and management approach;
- Relative concentration on each counterparty;
- Rating on each counterparty;
- Absolute exposure in equity;
- Relative exposure in corporate bonds;
- Absolute exposure in foreign currency;
- Duration;
- Italian Government Sensitivities Spread (in order to capture the spread risk factor on government bonds not included in the standard formula);
- Sensitivity on market risk factors (e.g. rate).

Market risk and ALM

ALM risk is a risk closely related to mismatches between assets and liabilities. The ALM process includes dynamics related to risk management and strategic planning. It focuses on the medium to long term rather than offering risk mitigation or hedging solutions. The goal of such risk management is to maximise assets to meet complex liabilities that can increase profitability.

The following risk factors belong to the sub-category of ALM risks:

- Strategic Asset Allocation (AAT - Asset Allocation Tools): consists of the risk resulting from the inadequacy/inconsistency of the asset allocation to meet liabilities.
- Asset & Liability mismatch: consists of the risk of misalignment between assets and liabilities that may lead to an exposure of the company or to the disinvestment risk or to the reinvestment risk.

The Company adopts, in respect of the above risk factors, guidelines that establish the general principles, the frequency of controls and the measures for recovery if the limits are exceeded.

ALM risks are identified with reference to the already acquired securities investment portfolio and the future investment scenarios. This activity is carried out both with an Asset-Liability Management approach, in order to capture the interrelationship between the dynamics of liabilities and the dynamics of assets covering technical provisions.

The macro-indicators analysed to assess and monitor ALM risks are illustrated below:

- SCR Interest Rate – Based: indicators that aim to identify capital absorption, according to Solvency II metrics, of interest rate risk based on a regulatory and management approach;
- Cash Flow Matching: this indicator shows the mismatch, on each occasion, between the cash flows of assets and the cash flows of liabilities;
- Duration Matching: misalignment between the duration of the Active Cashflows and the duration of the Passive Cashflows.

Liquidity risk

The Companies are subject to potential tension in terms of liquidity, resulting from different maturities between assets and the relative liabilities. Liquidity risk is defined as the risk that the Company is not able to liquidate investments and other assets to meet its financial obligations when these fall due (see Art. 1, paragraph 1, letter vv-bis 2 of the CAP).

The possibility of performing a timely disinvestment of the portfolio is highly conditioned by the marketability of the securities in which the same is invested. The poor marketability of the securities in the portfolio may actually expose the Company to the risk of incurring losses associated with difficulties in finding counterparties on the market interested in purchasing the securities the company wishes to disinvest. The Company quantifies its solvency position with Standard Formula metrics, which do not require liquidity risk to be quantified in terms of capital absorption.

Liquidity risk is identified with reference to the investment portfolio underlying products with guaranteed capital and/or yield. The risks are identified on the basis of the technical data of the portfolios and of the metrics defined as a function of the time horizon with which the risk in question is analysed and studied.

The indicators used by the Company to monitor the liquidity risk are set below:

- the Company has decided to monitor the amount held in current accounts in order to set a lower limit that represents the Liquidity Reserve (as prescribed by IVASS Reg. 38) and an upper limit in terms of the maximum amount to be held in the current accounts in order to render the management of the portfolio effective and to limit any effects on the Default SCR. Quantifying the Liquidity Reserve includes not only Current Account exposures, but also Government bonds of the Eurozone with a credit quality exceeding 2 and a maturity of less than three months.
- Liquidity Buffer: the number of consecutive periods, monthly, in which the Liquidity Buffer is negative, over the annual time horizon considered, provides a summary indication of the Company's liquidity situation;
- Liquidity plan: this indicator seeks to demonstrate that the Company has financial resources on a continuative basis to manage liquidity risk. This condition is also the basis for the application of the Volatility Adjustment at Regulatory level;
- Liquidity contingency: securities that can be easily liquidated;

- Current accounts default SCR: for the purpose of limiting any effects on the default SCR deriving from the increase in the volumes of the current accounts, the Company has fixed a higher limit in terms of the default SCR.

Credit (default) risk

Credit risk (default risk) is defined as the risk of a loss or an unfavourable change in the financial situation resulting directly or indirectly from fluctuations of the creditworthiness of the issuers of securities, counterparties and borrowers to which the insurance or reinsurance company is exposed in the form of the risk of default of the counterparty, spread risk or concentration of market risk (see Art. 1, paragraph 1, letter vv-bis 1 of the CAP).

The loss of value of the credit position is mainly linked to the quality of the issuer or of the counterparty (including reinsurers, co-insurers, insured parties and intermediaries), but may also originate from a deterioration of the economic-financial conditions of the borrower, which determine the ability of the latter to meet its financial obligations, as well as from causes not related to the economic or financial situation of the debtor counterparty, such as political-military reasons for example.

From a purely representative point of view, we identify three macro areas of credit risk:

- Reinsurance;
- Intermediaries and other counterparties;
- Investments.

The risk factors underlying the individual credit risk sub-categories are as follows:

- Regarding the sub-class of Reinsurance:
 - o Credit risk towards reinsurers: represents the risk of losses resulting from the insolvency of one or more reinsurers;
 - o baseline risk: resulting from any discrepancies between reinsurance requirements and the actual coverage envisaged by the arrangement, entailing a greater risk for the Company with respect to that envisaged.
- With regard to intermediaries and other counterparties:
 - o Credit risk towards intermediaries and other counterparties: represents the risk of losses following the contractual default of third parties (e.g. receivables from policyholders, insurance intermediaries, current accounts in banks).

With regard to the counterparty default risk distribution of Credemassicurazioni according to Solvency II regulations, the table below shows the best estimate of the representation of the risk at the valuation date (it should be noted that the total weight of counterparty default risks is equal to 2.5%).

Credit risk - risk/sum of risk components - relative and total	31/12/2022	
	% Relative	% Overall
Type 1 counterparties	91.8%	2.3%
Type 2 counterparties	8.2%	0.2%

The policies relating to managing the credit risk of issuers of financial instruments refer to that illustrated above for market risk in terms of the general principles for the control of financial investments. With regard to reinsurers, Credemassicurazioni has drawn up policies to manage and control this risk in terms of guidelines and limits for counterparties.

The counterparty default risk is identified with reference to the counterparties for which there are credit positions.

The risk measures used are summarised below:

- SCR Counterparty Default Risk;
- Maximum amount in current accounts: this represents the maximum amount in a current account to be held for the portfolio;
- Exposure by Reinsurer: this indicator identifies the exposure towards each reinsurer in terms of amounts insured;
- Rating or Solvency Ratio by Reinsurer: this indicator corresponds to the rating of the individual reinsurer or, in the event of non-network counterparties, to the Solvency Ratio of the same.

Operational, compliance, reputational, conduct risks and risk of belonging to a group Operational risk is defined as the risk of incurring losses resulting from the inadequacy or the malfunctioning (shortcomings or errors) of internal procedures, human resources or systems, or from external events (see Art. 1, paragraph 1, letter vv-bis 5 of the CAP).

Operational risks can in turn be divided into the following sub-categories:

- Operational risk;
- IT Risk & Cyber Risk;
- Regulatory Operational Risk.

The main risk factors that characterise operational risk are:

- People Risk: human resources may be a source of risk for an enterprise, if the organisational structure is not efficient, or if there are shortcomings in the professionalism of employees or, for example, if the pay structure or the career prospects are not adequate and if the company environment is not suitable. There are numerous examples of losses due to incompetent or negligent resources, of particular note are cases of erroneous data entry in systems, errors when transposing data or infringements of regulations.
- Process Risk: business processes are a source of operational risk in the event that there are inefficiencies in the design, formalisation and definition of the structure of the same and therefore in the definition of the individuals that are part of the same and of the relative level of responsibility and authorisation. All business processes, including valuation and calculation models and risk management processes themselves, may be inadequate and therefore a source of operational risk. They are a source of operational risk:
 - o outsourcing of business activities in the event of deficiencies/inadequacies in the processes of managing the relations with outsourcers such as to cause losses to the company;
 - o failure to update or inadequate filing of the procedures and regulations that formalise internal processes;
 - o failure to/inadequate/untimely issue of internal implementation rules in relation to the applicable external legislation.
- IT Security Risk and IT Risk: information systems may cause losses to the enterprise if adequate IT Security measures are not adopted, or in the management of hardware and software. The growing dependence on information systems and technological resources in general has made this risk factor increasingly important. There are numerous examples of loss relating to this factor, such as the assumption of excessive risks due to errors in computer programmes, the failure to fulfil contractual requirements due to IT system errors and the loss of important data resulting from system failures.
- External Events: events linked to external factors may cause losses to the company because of natural disasters, in the prevention and security against events of an accidental nature, infrastructure obsolescence, prevention and security against acts of a criminal nature, authorisation steps for the execution of operational activities, in the control measures against unauthorised activities and fraud by employees, preventive measures against fraud by external parties, inadequate and/or untimely updating of internal regulations in relation to changes in the external regulations from which they derive.

A bottom-up approach is adopted for the identification of operational risk, based on a Risk Self-Assessment method, with the aim of assessing the level of risk and the quality of the measures set in place to mitigate the risk relating to operating activities and all business processes.

The purpose of this approach, based on an analysis by Functional Area, is to identify loss events that could occur, assess the possible impact and possible frequency of occurrence of these events, assess the effectiveness of the controls monitoring the possible organisational tools that can be activated for risk mitigation.

The Company also conducts an annual assessment of the effective losses incurred from operational risk (known as LDC - Loss Data Collection). This analysis also enables back-testing to be conducted on the assessment ex ante through Risk Self-Assessment.

The Company also continued with work to complete the Business Continuity Plan.

As regards assessment of the solvency capital requirement (SCR), operational risks are assessed through the application of the Standard Formula. The overall weight of operational risks, according to Solvency II regulations, is 4.9% (this value represents the best estimate of the risk at the valuation date).

Legislative compliance risk (namely non compliance with regulations), regards the risk of incurring judicial or administrative sanctions, and suffering reputational loss or damage due to the failure to comply with the law, regulations or provisions of Supervisory Authorities or of self-regulations, such as articles of association, codes of conduct or self-disciplinary codes; the risk resulting from unfavourable changes to the legislative framework or decisions of the courts.

In the management of compliance risk, the company identified achieving compliance in terms of transparency and correctness of settlements with policyholders or injured parties, pre-contractual and contractual information, correct execution of contracts, with particular reference to claims management and, more generally, consumer protection, as key success factors.

In brief, by formalising the compliance risk matrix, the process of assessing compliance with legislation seeks to achieve the following:

- to improve the level of sensitivity of first-level controls towards regulatory provisions;
- to assess the existing controls on processes;
- to stimulate thought on potential risks;
- to evaluate the ability to recognise or prevent said risks;
- to identify organisational measures needed to fill any gaps that may have been found. The Compliance department operates according to a methodological approach based on techniques of identification, assessment, management and monitoring of non-compliance risk, in line with the best market practice and coherent with those used in Risk Management and Internal Audit processes.

According to the model adopted by Credemassicurazioni, moreover, there are other risks/loss events that are not strictly related to specific risk factors, but that may originate from risk factors relating to the risk categories previously illustrated. In particular this regards the risk category related to belonging to a group and to the reputational and conduct risks and ESG, as identified by the laws and regulations of this industry.

The risk related to belonging to a group (risk of “contagion”) means the risk that, following relations between the enterprise and other group entities, difficult situations that arise in one company of the same group may spread and have negative effects on the solvency of the enterprise itself.

In accordance with its strategy and with the investment policies adopted by the Management Body, a policy for intragroup relations has been defined, which sets appropriate operational limits. The risk is therefore identified and analysed consistent with the categories and counterparties of the transactions in question, with particular regard to any guarantees issued within the Group and consistent with the characteristics of the following types of transaction:

- Significant transactions (between 1% and 5% inclusive of the Solvency Capital Requirement for the period);
- Very significant transactions (>5% of the Solvency Capital Requirement for the period).

Reputational risk means the risk of the company’s image deteriorating, and of increased conflict both with policyholders (also due to the poor quality of the services offered, to the placement of inadequate policies or behaviour during the sales, after sales or settlement phases) and with the Supervisory Authorities and shareholders.

Reputational risk is thus closely linked to the sale of products and to the provision of related services. To protect the Customer/Insured and consequently monitor the reputational risk, a series of measures are implemented:

- placement procedures that entail the prior assessment of the adequacy of the contract with a view to initially identifying the insurance requirements and the customer’s protection needs, as well as providing adequate information on the product;
- assistance and general services to the distribution network;
- the claims management service;
- the claims settlement service.

Furthermore, since reputational risk is strictly connected to operational, IT and cyber risks and to conduct risk, the specific operational and organisational controls put in place to manage these risks represent an additional element in support of reputational risk management.

Conduct risk - as a sub-category of operational, compliance and reputational risk – can be defined as the current or prospective risk of losses resulting from inappropriate offerings of products and/or services, including instances of inappropriate conduct (malfeasance/negligence) by the company.

Conduct risk management is closely linked to the activities defined as part of the POG process (governed in the respective POG Policy). As part of its risk management, the Company has the following objectives:

- make business initiatives oriented and focused on the figure of the customer. In this context, the focus is on product design and the definition of services in line with customer needs;
- establish a code/system of conduct fully rooted within the company structure. In this context, the focus is on the sale of products/provision of services, ensuring transparency of information to customers,
- to ensure that the business is continuously focused on achieving the best result for the customer (see KPI and KRI monitoring), protecting the integrity and conduct of the Company in customer relations.

ESG (Environmental, Social and Governance) risk aims to assess an environmental, social or governance event or condition which, if it occurs, could cause an actual or potential negative impact on the value of the investment or on the value of the liability. This type of risk falls under second-level risks or indirect risks as it can manifest itself by causing a negative impact on assets and liabilities by influencing the risk factors already contemplated in the other risk categories (e.g. Market and Underwriting Risk).

Within the category of ESG risks, particular importance is assigned to climate risks as they could generate high losses for Insurance Companies if not correctly identified and managed.

With specific reference to climate risks, in line with the indications of the Commission Delegated Regulation (EU) no. 2021/1256 of 21 April 2021, the Company has structured a series of analyses on its portfolio (both investments and technical/insurance) to verify the materiality of the exposure to climate risks and, subsequently, conducting the scenario analysis to quantify the impact they produce on the main economic and capital figures.

The Framework developed by the Company for climate risk management identifies the following steps:

- Identification of risk factors and the scope of analysis - identification and classification of the main sources of climate risk and the scope of products and assets potentially impacted according to the guidelines indicated by EIOPA.
- Materiality assessment - the assessment, preparatory to the relevance analysis (see next point), is carried out on each individual perimeter (both Asset and Liabilities);
- Relevance Analysis - analysis activated only for the risks identified as potentially material in the previous point, and has as its objective the identification of the climatic risks relevant to the business and for the related stress analysis for ORSA purposes. The analysis is carried out on each individual perimeter (both Asset and Liabilities) and envisages at least the following macro activities:
 - o Identification of the criteria and methodologies to be used on the portfolios exposed to risk (both assets and liabilities) analysed in the following paragraphs;
 - o Qualitative/quantitative assessment of each perimeter identified with respect to the methodologies identified and the specific materiality thresholds.

The ESG risk management system requires the definition of indicators used to monitor exposure, with a specific focus on climate risks related to the environmental risks inherent in the Company's Asset and Liabilities portfolios.

The risk measures used and the volumes analysed are summarised below:

- Weighted Average Carbon Footprint;
- Percentage of Climate Policy Relevant Activities;
- Weighted Average Liabilities Hazard Exposure;
- Percentage of high climate risk liabilities.

Strategic risk

Strategic risk means the current or future risk of a fall in profits or of share capital and of the sustainability of the business model, including the risk of not being able to generate adequate return on capital on the basis of the risk appetite defined by the enterprise, resulting from changes in the operating scenario or from erroneous business decisions, from the inadequate implementation of decisions, improper management of the risk associated with belonging to a group, and from poor reactivity to changes in the competitive scenario.

Strategic risks are analysed by means of specific sensitivity analyses at the time of the ORSA or

whenever there are significant changes in the market, of the production mix and of the assumptions underlying the assessments (by way of example, best estimate redemption rates, assumption of minimum guaranteed rate, etc.).

In this context, the presence of potential emerging risks is also assessed on the basis of information deriving from the business plan, product developments, regulatory changes and any other change potentially impacting the company's risk profile.

Following the results of this analysis, any changes to be made in the company risk map are assessed.

The assessments made by the Company as at the valuation date have made it possible to outline the risk map – Solvency II Framework – to which the Company is exposed (shown below).

Risk Module	Risk Sub-module	Exposure
Non-Life underwriting risk	Non-Life premium and reserve risk	X
	Non-Life lapse risk	X
	Non-life CAT risk	X
Health underwriting risk	Health premium and reserve risk	X
	Health Lapse risk	X
	Health CAT	X
	Health SLT Mortality risk	---
	Health SLT Longevity risk	---
	Health SLT Disability morbidity risk	---
	Health SLT Lapse risk	---
	Health SLT Expense risk	---
	Health SLT Revision risk	---
Market risk	Interest rate risk	X
	Equity risk	X
	Property risk	X
	Spread risk	X
	Currency risk	X
	Concentration risk	---
Counterparty default risk	Type 1 counterparties	X
	Type 2 counterparties	X
Operational Risk	Operational risk	X

Forward-looking risk assessments have not identified any emerging risks from a regulatory (Solvency II) perspective in relation to the actions envisaged by the new investment and business strategies.

In addition, in relation to Regulation (EU) no. 2019/2088 of the European Parliament on disclosure in the financial services sector, the following emerging risks are identified: ESG (Environmental, Social and Governance) risk.

With reference to the future and monitored data at the valuation date, the analysis made it possible to identify the risk sub-modules that are most significant and have most impact on the Company, namely the risk sub-modules Non-Life premium and reserve risk, Health premium and reserve risk, followed by the Non-Life lapse risk sub-module.

In addition, the Company is exposed to Spread risk on ITA government securities (a risk not contemplated in the Standard Formula). In its assessments, the Company takes this risk factor into consideration through specific sensitivity analyses carried out periodically and in the ORSA Report YE 31.12.2022.

The results of qualitative/quantitative analyses of the adequacy of the Company's risk profile with respect to the requirements underlying the application of the Standard Formula were positive.

In addition to calculating the impacts due to quantifiable risks, the Company also manages and monitors the risks outside the scope of the Standard Formula and the non-quantifiable risks from a regulatory perspective, such as:

- spread risk on Government bonds;
- liquidity risk;
- ALM risk;
- strategic risk;
- compliance risk;

- reputational risk;
- conduct risks
- ESG risk (with a specific focus on climate risks related to environmental risks);
- risk associated with belonging to a group;
- emerging and sustainability risks.

At present, these types of risks have a level of management consistent with the relevance of the risk factors that characterise them, are periodically monitored and do not entail an add-on in terms of regulatory capital.

At present, there are not results that indicate critical situations in terms of solvency resulting from strategic risks. Nevertheless, the impact of possible changes of the macro-economic scenario that may have a significant impact on the Company's Own Funds must continue to be considered.

PART F

INFORMATION ON CONSOLIDATED SHAREHOLDERS' EQUITY

Section 1 – Consolidated shareholders' equity

A. Qualitative information

Effective 1 January 2014, Regulation (EU) no. 575/2013 ("CRR") came into force, through which the rules defined by the Basel Committee for banking supervision were introduced into the European Union, together with a detailed series of documents called "Basel III" regarding capital adequacy (First Pillar) and disclosures to the public (Third Pillar).

Regulation (EU) no. 575/2013 and EU Directive no. 2013/36/EU ("CRD IV") establish the new reference regulatory framework in the European Union for banks and investment companies. From 1 January 2014, CRR and CRD IV are accompanied by technical regulating or implementing standards approved by the European Commission on the proposal of the European Supervisory Authority ("ESA"), which implement the primary legislation.

With the adoption of the Implementing Regulation (EU) no. 680/2014, the Implementing Technical Standards were established, which are binding with regard to the harmonised prudential reporting of banks and of investment companies relating to: own funds, credit and counterparty risk, market risk, operational risk, large risks, recognition of mortgage losses, overall equity position, liquidity monitoring and financial leverage. Furthermore, Banca d'Italia issued Circulars 286 and 154, which transpose the mentioned ITS, according to the matrix currently adopted for supervisory reporting.

The Group considers assessing its capital structure a priority and these analyses are conducted within specific Group Governance Committees. On these occasions, the main impacts relating to legislation in progress are also highlighted (e.g. potential impacts relating to the finalisation of the reform of Basel III as per the recent agreement of the Basel Committee dated 14 January 2019) and those already approved by not currently applicable (e.g.

(EU) Regulation no. 876/2019 and (EU) Directive no. 787/2019 which amend (EU) Regulation no. 575/2013 and Directive no. 2013/36/EU/876 respectively, just as (EU) Regulation no. 877/2019 and EU Directive no. 879/2019).

The Group Governance Committees always include members appointed from the Parent Company's Board of Directors, chosen from the members of the Board, and the respective analyses are then presented to the Parent Company's Board of Directors.

From a supervisory profile, absorption is determined taking into account the current reporting "rules".

From a management perspective, absorption is calculated using internal models for credit and market risk and using a standard "management" model".

The risks are examined both at overall level and in detail within the Group companies (analysis of specific portfolios).

At 31 December 2022, Own Funds were determined based on the provisions contained in Regulation (EU) no. 575/2013 (CRR).

B. Quantitative information

B.1 Consolidated Shareholders' Equity: breakdown by business area

Items of shareholders' equity	Prudential consolidation	Insurance companies	Other companies	Consolidation adjustments and eliminations	Total
1. Share capital	341,323	121,600	8	(121,565)	341,366
2. Share premium	321,801	-	-	-	321,801
3. Reserves	2,353,886	250,982	2,074	14,015	2,620,957
4. Equity instruments	-	-	-	-	-
5. (Treasury shares)	(10,072)	-	-	-	(10,072)
6. Valuation reserves:	(151,951)	(227,580)	(2)	-	(379,533)
- Equity securities measured at fair value through other comprehensive income	4,065	-	-	-	4,065
- Coverage of equity securities measured at fair value through other comprehensive income	-	-	-	-	-
- Financial assets measured at fair value through other comprehensive income	(130,575)	(227,655)	-	-	(358,230)
- Property, plant and equipment	-	-	-	-	-
- Intangible assets	-	-	-	-	-
- Hedge of foreign investments	-	-	-	-	-
- Cash flow hedges	(72,379)	-	-	-	(72,379)
- Hedging instruments [elements not designated]	-	-	-	-	-
- Exchange differences	-	-	-	-	-
- Non-current assets and groups of assets held for sale and discontinued operations	-	-	-	-	-
Financial liabilities measured at fair value through profit or loss (changes to own credit rating)	-	-	-	-	-
- Actuarial gains (losses) on defined benefit pension plans	(6,142)	75	(2)	-	(6,069)
- Share of valuation reserves of equity investments valued at equity	-	-	-	-	-
- Special revaluation laws	53,080	-	-	-	53,080
7. Profit (Loss) for the year (+/-) pertaining to the group and non-controlling interests	280,563	32,649	754	3,020	316,986
Shareholders' equity	3,135,550	177,651	2,834	(104,530)	3,211,505

The table above shows the components of shareholders' equity, adding those of the Group to those of third parties, broken down by type of company included in the scope of consolidation. More specifically, in the column regarding the prudential consolidation, the amount indicated is the result of the consolidation of the companies belonging to the banking group, before the economic effects of transactions made with other companies included in the scope of consolidation; subsidiaries, other than those belonging to the banking group and consolidated on a line-by-line basis have been measured under the equity method. In the column regarding insurance companies, the amount shown is the result of consolidation, before the economic effects of transactions made with companies belonging to the banking group. The "Consolidation adjustments and eliminations" column, on the other hand, shows the adjustments needed to obtain the figure indicated in the financial statements.

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

Asset/amounts	Prudential consolidation		Insurance companies		Other companies		Consolidation adjustments and eliminations		Total	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	11,663	142,239	-	-	-	-	-	-	11,663	142,239
2. Equity securities	6,885	2,819	-	-	-	-	-	-	6,885	2,819
3. Loans	-	-	-	-	-	-	-	-	-	-
Total 31/12/2022	18,548	145,058	-	-	-	-	-	-	18,548	145,058
Total 31/12/2021	29,386	4,934	-	-	-	-	-	-	29,386	4,934

Asset/amounts	Insurance companies		Other companies		Consolidation adjustments and eliminations		Total	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	4,087	176,785	-	-	-	-	4,087	176,785
2. Equity securities	-	-	-	-	-	-	-	-
3. Units of UCITS	6,992	61,948	-	-	-	-	6,992	61,948
4. Loans	-	-	-	-	-	-	-	-
Total 31/12/2022	11,079	238,733	-	-	-	-	11,079	238,733
Total 31/12/2021	42,360	56,581	-	-	-	-	42,360	56,581

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

	Debt securities	Equity securities	Loans
1. Opening balances	23,139	1,313	-
2. Positive changes	8,387	6,459	-
2.1 Fair value increases	5,729	6,023	-
2.2 Value adjustments for credit risk	196	X	-
2.3 Reversal to income statement of negative reserves from disposals	1,529	X	-
2.4 Transfers to other components of shareholders' equity (equity securities)	-	-	-
2.5 Other changes	933	436	-
3. Negative changes	162,102	3,706	-
3.1 Fair value reductions	157,109	3,506	-
3.2 Recoveries for credit risk	274	-	-
3.3 Reversal to income statement of positive reserves: realised	3,526	X	-
3.4 Transfers to other components of shareholders' equity (equity securities)	-	200	-
3.5 Other changes	1,193	-	-
4. Closing balance	(130,576)	4,066	-

In 2021, Credemtel participated in the share capital increase of the company S-Invest S.r.l., an Italian company that will use the funds collected to subscribe to the convertible loan of a Swiss company called Sonect AG.

The financial asset in question is held according to a business model whose objective is achieved through the collection of contractually envisaged cash flows and through selling ("Hold to Collect and Sell - HTCS" business model).

For the purposes of the impairment test, the latest available financial statements were used, which show a significant loss and negative shareholders' equity. Since Sonect AG is in a start-up and it is not possible to formulate forecasts on a return to profit in the short term, it was not possible to consider the adjusted shareholders' equity of S-Invest to be sufficiently consistent with the consequent write-down from impairment, for € 200 thousand, of the equity investment held by Credemtel.

With regard to the performance of the financial markets, the following should be noted:

- In the first quarter of 2022, the invasion of Ukraine and the consequent increase in risk aversion on the part of investors resulted in heavy falls in share prices, of varying intensity between countries, which were initially reabsorbed almost everywhere at the end of March. On the bond markets, yields on long-term government bonds rose based on monetary policy decisions and expectations.
- In the second quarter of 2022, financial conditions on the international markets worsened, reflecting on the one hand the progressive normalisation of monetary policies in many advanced countries, aimed at containing inflationary pressures, and on the other, geopolitical tensions and greater uncertainty about the situation in Ukraine and the outlook for the global business cycle. Stock prices fell, particularly in the United States. Long-term government bond yields rose and yield spreads between countries widened.
- In the third quarter of the year, financial conditions on the international markets became more tense, affected by high inflation, the acceleration of the monetary policy normalisation process of the main central banks and downside risks for the international economy. The yields on government securities rose, especially for the shorter maturities, and share prices fell.
- In the last quarter of 2022, between mid-October and mid-December, the international financial markets improved, benefiting from the attenuation of the uncertainty over budgetary policy in the United Kingdom and the expectations of operators of a slowdown in the rate of increase in monetary policy rates in the major advanced economies. After the December meetings of the main central banks of advanced countries, operators once again changed their expectations regarding the pace and duration of the monetary tightening process. Long-term government bond yields in Europe and the United States temporarily resumed growth.

Looking at Italy in more detail:

- During the first quarter of 2022, Italian government bond yields were pushed up by expectations of a faster than previously expected reduction in quantitative easing in the Eurozone, in a context of strong inflationary pressures. The spread with the corresponding German bonds widened, settling at 150 basis points at the end of March.
- From April, the yields of Italian government bonds with a ten-year maturity have risen by more than 100 basis points and the spread with the corresponding German bonds has widened; the redenomination risk premium also increased. The announcements of the ECB, which at the extraordinary meeting of 15 June reaffirmed the commitment to counter the re-emergence of fragmentation risks in the Eurozone, helped to contain the increase in the ten-year spread, which had reached 242 basis points around that date. The spread at 30 June was around 205 basis points.
- Also in the third quarter, the yields of Italian government bonds over the ten-year maturity rose; those on short-term maturities grew more markedly. The trend in yields mainly reflected the process of normalisation of the ECB's monetary policy. The sovereign risk premium, measured by the yield spread with respect to German government bonds, increased, reflecting the political uncertainty following the fall of the government in mid-July and the increased risk aversion in the markets; at the end of September, the spread stood at 244 basis points.
 - In the last quarter of 2022, expectations of a slowdown in the rate of rise in interest rates and the greater risk appetite of investors favoured the decline in returns on long-term government bonds and sovereign risk premiums; at the end of December, the spread fell towards 210 basis points.

The net reserves in securities issued by Central Administrations of countries belonging to the European Union recorded a negative balance of around € 75 million at 31 December 2022.

Valuation reserves for financial assets available for sale: annual changes

	Debt securities	Equity securities	Units of UCITS	Loans
1. Opening balances	(29,326)	-	15,104	-
2. Positive changes	17,409	-	10,523	-
2.1 Fair value increases	16,932	-	9,505	-
2.2 Reversal to income statement of negative reserves	477	-	1,018	-
- due to impairment	-	-	-	-
- following disposal	477	-	1,018	-
2.3 Other changes	-	-	-	-
3. Negative changes	160,782	-	80,584	-
3.1 Fair value reductions	159,941	-	73,503	-
3.2 Impairment losses	-	-	-	-
3.3 Reversal to income statement of positive reserves: realised	841	-	7,081	-
3.4 Other changes	-	-	-	-
4. Closing balance	(172,699)	-	(54,957)	-

The net reserves in securities issued by Central Administrations recorded a negative balance of around € 153.8 million at 31 December 2022, € 98.9 million of which referred to the Italian Government. The aforementioned net reserves were included fully in the calculation of the CET1 at 31 December 2022.

B.4 Valuation reserves for defined benefit plans: annual changes

Net changes during the year show a positive balance of € 7,3 million, after the relative taxes.

Section 2 – Own funds and capital ratios

This section can be found in the disclosure on own funds and capital adequacy contained in the public disclosure ("Third Pillar"), "Own Funds" chapter.

PART G

BUSINESS COMBINATIONS INVOLVING COMPANIES OR BUSINESS DIVISIONS

Section 1 – Operations performed during the year

1.1 Business combinations

No operations were performed.

1.2.1 Annual changes to goodwill

No operations were performed.

Section 2 – Business combinations completed after the period

No operations were performed.

Section 3 – Retrospective adjustments

No operations were performed.

PART H

RELATED PARTY TRANSACTIONS

1 Information on remuneration of strategic executives

The following table provides information on the remuneration of executives with strategic responsibilities, in compliance with the provisions of IAS 24.

Executives with strategic responsibilities of Credito Emiliano are those with the power and the responsibility, directly or indirectly, to plan, supervise and control the business activities of Credito Emiliano.

In this context, executives with strategic responsibilities include: the Members of the Board of Directors, the Statutory Auditors, the General Manager, the Joint General Managers, the Deputy General Managers, the other members of Central Management, the Manager responsible for preparing the company's financial reports, the Heads of Internal Control Departments (Head of the Audit Service, Head of the Anti-Money Laundering Department, Compliance Officer and Risk Officer), the Head of the Commercial Business Unit, the Head of the Private Business Unit, the Head of the Finance Business Unit, the Executive Coordinator of the Administration, Corporate Governance and External Relations and Value Governance areas, the Head of Service in charge of the Credit area and the Head of Service in charge of the Organisation area.

Remuneration summary	Total 31/12/2022	Total 31/12/2021
Directors	1,664	1,566
Statutory Auditors	480	433
Executives	10,142	7,370
Total	12,286	9,369

The remuneration of executives includes short-term benefits, post-employment benefits, other long-term benefits, benefits due to termination of the employment contract and share-based payments.

2. Information on transactions with related parties

In compliance with legislation regarding related party transactions, the Credito Emiliano Group adopted specific procedures in order to regulate these transactions and to guarantee adequate information flows.

In accordance with Consob resolution no. 17221 of 12 March 2010 and Banca d'Italia circular 285/2013, Credito Emiliano adopted specific procedures to manage related party transactions and associated party transactions.

The regulations are available for consultation on the website for consultation on Credito Emiliano's website www.credem.it.

The relationships and transactions performed with related and associated parties do not raise any critical aspects and are part of ordinary service and credit activities. The conditions applied to individual relationships and to transactions with related and associated parties do not differ from the current market practice.

In 2022, a transaction that could be defined as of greater importance in accordance with the aforementioned procedure was carried out.

In the same period, the Board of Directors adopted a "framework resolution". In particular, the decision regarded:

- the granting of loans to related and associated parties attributable to the Deputy Chairman Luigi Maramotti and the Board member, Edoardo Prezioso, for a maximum overall amount not exceeding € 100 million and in any event under the legislative limit of 5% of consolidated regulatory capital, disbursed by the Credito Emiliano Group in more tranches, also as part of revolving transactions.

CONSOLIDATED FINANCIAL STATEMENTS – EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In 2022 intragroup transactions and/or transactions with Italian and foreign related and associated parties were set in place, considered part of ordinary operations and related financial activities, concluded at conditions similar to those applied to transactions concluded with independent third parties.

The intragroup transactions were carried out on the basis of reciprocal assessments of economic convenience, and the conditions to be applied were established according to criteria of substantial correctness, with a view to the common objective of creating value for the Credem Group as a whole.

The same principle was also applied to the provision of intragroup services, as well as that which regulates said services on a minimum basis adapted to recover the relative production costs.

Information on transactions with related parties

	Loans	Payables	Guarantees	Assets under administration	Assets under management
Directors, statutory auditors and executives	2,856	5,574	564	16,732	11,956
Family members	2,912	12,637	628	161,952	9,131
Subsidiaries and associated companies	38,072	270,794	87,447	18,313	141,396
Other related parties	-	-	-	-	-
Total	43,840	289,005	88,639	196,997	162,483

Information on transactions with related parties

	Interest income	Interest expense	Fee and commission income and other revenues	Fee and commission expenses and other charges
Directors, statutory auditors and executives	17	9	204	20
Family members	5	13	198	60
Subsidiaries and associated companies	992	577	1,392	279
Other related parties	-	-	-	-
Total	1,014	599	1,794	359

The percentage of related party transactions over total Group transactions is as follows (%):

Balance sheet	Loans	Payables	Guarantees and	Assets under administration	Assets under
Total	0.1	0.5	0.8	0.8	0.5

Income	Interest	Interest expense	Fee and Commission income and other	Fee and commission expenses and
Total	0.1	0.4	0.2	0.1

Details of transactions with associated companies are provided below (€/thousand):

Balance sheet figures	Loans	Payables	Guarantees and commitments	Assets under management	Assets under custody
Total	4,919	6,623	1,020	136,277	-

Income Statement figures	Interest	Interest expense	Fee and Commission income and other revenues	Fee and Commission expenses and other charges
Total	95	6	17,970	296

The percentage of transactions with associated companies over total Group transactions is as follows (%):

Balance sheet figures	Loans	Payables	Guarantees and commitments	Assets under management	Assets under custody
Total	-	-	-	0.8	-

Income Statement figures	Interest	Interest expense	Fee and Commission income and other revenues	Fee and Commission expenses and other charges
Total	-	-	1.9	-

PART I

SHARE-BASED PAYMENTS

Qualitative information

1. Description of share-based payments

In line with the compensation policies approved by the Shareholders' Meeting and in accordance with Banca d'Italia provisions regarding remuneration and incentives, a variable pay system has been drawn up based on partial payment in cash and partial payment through the free allocation of shares. The incentive system is based on the achievement of performance objectives, measured net of risks, and depends on the adequate level of capitalisation and liquidity of the Company.

The aim of the system is to enhance the loyalty of those in key business positions and targets top managers that are in the category of the most important staff. The percentage of the overall bonus awarded to recipients in shares was equal to or greater than 50% in 2022, conditional to achievement of the objectives set by the Board of Directors, and with the approval of the Appointments and Remuneration Committee. More specifically, the remuneration plans reserved for the Group's most important staff, which envisage the payment of part of the bonus through the free assignment of shares are as follows:

- 2022 bonus system;
- Bonus systems and other forms of short and medium-term variable remuneration relating to previous years.

The number of shares is calculated on the basis of the share price at the time the bonus is awarded. Correction mechanisms are envisaged during the deferment period, by effect of which bonuses accrued may decrease or become zero.

In particular, individual deferred amounts that have already been allocated may not be paid or may be reduced in the event of certain conditions relating to profit, profitability adjusted for risk, inadequate capital and liquidity levels. The bonus may also not be disbursed if the employment contract is terminated or because of professional conduct contrary to good faith and correctness obligations.

For recognition in the financial statements, the Monte Carlo Method is used to take into account the allocation conditions of the various bonus percentages. On the basis of the appropriate assumptions, this method envisages a consistent number of alternative scenarios over the time period considered. More specifically, in each scenario, a forecast of the parameters that define performance objectives is made each year, starting from the last financial statement value, according to Geometric Brownian Motion.

This calculation method can be broken down into the following phases:

- projection of financial statement parameters and of the share price in the chosen time horizon;
- verification of performance parameters;
- calculation of the bonus for each member of the plan and projection of individual trajectories, verifying the achievement of individual objectives and for each year the continuity of work and survival;
- calculation of individual amounts according to the individual bonus payment system;
- calculation, based on the estimated share price, of the number of shares necessary to pay the part of the bonus in shares (where not already established);
- proportional allocation on the basis of the vesting period of the shares assigned;
- repetition of the procedure for the number of times established.

Quantitative information

	Plan	share pertinent to the period	impact on
Group	- 2022 Bonus system - Bonus systems and other forms of short and medium-term variable remuneration relating to previous years	3,934.4	23,701.3

PART L – SEGMENT REPORTING

SEGMENT REPORTING – breakdown by operating segments

The operating segments identified at Group level are:

Commercial Banking, which encompasses the corresponding segment of Credito Emiliano and, wholly, the financial statements of Credemleasing, Credemfactor, Banca Euromobiliare and Avvera;

Asset Management, which encompasses the financial statements of Euromobiliare Asset Management SGR, Credem Private Equity SGR, Euromobiliare Fiduciaria and Euromobiliare Advisory Sim;

Bancassurance, entirely represented by Credemvita and the shareholding in Credemassicurazioni;

Finance, encompassing the corresponding segment of Credito Emiliano, which includes the management of interest and exchange rate risk on the banking book, the investment portfolio and trading activities;

Treasury, encompassing the corresponding segment of Credito Emiliano which includes the treasury activities;

Corporate Centre, which includes, as regards Credito Emiliano, all departments supporting the Commercial Banking and Finance segments.

Other, in which the balance sheets of Magazzini Generali delle Tagliate, Credemtel, Sata and Blue Eye Solutions are fully incorporated; this operating segment also includes consolidation adjustments.

As regards Credito Emiliano, for segments related to Commercial Banking, Finance, Treasury and Corporate Centre, management accounting data was used.

To ensure reported margins are consistent with actual profit realised, management accounting figures are periodically reconciled with book values.

Accounting policies determining the calculation of income and expenses by operating segments for Credito Emiliano

The financial results of operating segments are calculated using the following main criteria:

the net interest income is obtained by applying internal transfer rates appropriate to the financial nature of the product;

net fee and commission income is charged on a regular basis to the customers responsible for generating it and hence, to the relevant operating segment;

operating segments cover the cost of the resources they use to perform their relative operations based on prices that reflect the actual expenses incurred;

the costs directly attributable to the sales outlet are attributed to the same, such as, for example, the personnel and the costs relating to the use and the running of the premises; the other costs, including those relating to the central structure and the services centre, are usually attributed to the “Corporate Centre and other” segment;

overhead costs relating to individual companies are fully attributed to the “operating segments” to which the respective companies belong.

SEGMENT REPORTING – comments

We invite you to refer to the extensive content contained in the Report on Operations with regard to the various business segments and to individual group companies; to supplement these, please find some brief comments here below.

Commercial Banking shows a particularly favourable trend in the financial margin generated by the trend in the customer spread.

The performance of commissions was positive, as was that of the trading component; the contribution of the other revenue components linked to services was also positive.

Operating costs increased slightly, although their breakdown shows different trends: on the one hand, there was a significant increase in IT expenses, while personnel expenses increased more moderately.

Value adjustments to loans were down slightly.

With regard to the trend in volumes, Total Business remained substantially stable at 128 billion, with a recomposition that saw an increase in loans to customers and direct bank deposits and a decrease in indirect funding from customers and in particular managed funding.

Asset Management showed a decrease in operating revenues and in particular in commissions, which decreased by 40% compared to the previous year, while costs have a limited trend; volumes were down (-10%), negatively impacted by market trends.

The performance of Bancassurance shows a slight decrease overall, with substantially stable operating revenues and operating costs that recorded growth mainly linked to IT investments.

The contribution of the Finance segment was stable.

The decrease in the Treasury segment is mainly due to the contraction in the financial margin.

SEGMENT REPORTING - DECEMBER 2021

	Commercial Banking	Asset Management	Bancassurance	ALM Treasury	Corporate centre &	Total
LOANS TO CUSTOMERS	37,951				-4,795	33,156
INSURANCE DEPOSITS			8,665			8,665
DIRECT BANKING DEPOSITS	35,165			2,534	-589	37,110
TOTAL DIRECT DEPOSITS	35,165		8,665	2,534	-589	45,775
ASSETS UNDER MANAGEMENT	43,574	15,023			-23,260	35,337
ASSETS UNDER ADMINISTRATION	11,780				12,019	23,799
TOTAL INDIRECT DEPOSITS	55,354	15,023			-11,241	59,136
TOTAL DEPOSITS	90,519	15,023	8,665	2,534	-11,830	104,911
TOTAL BUSINESS	128,470	15,023	8,665	2,534	-16,625	138,067

SEGMENT REPORTING - DECEMBER 2022

	Commercial Banking	Asset Management	Bancassurance	ALM Treasury	Corporate centre &	Total
LOANS TO CUSTOMERS	40,385				-5,902	34,483
INSURANCE DEPOSITS			8,260			8,260
DIRECT BANKING DEPOSITS	36,849			3,441	-519	39,771
TOTAL DIRECT DEPOSITS	36,849		8,260	3,441	-519	48,031
ASSETS UNDER MANAGEMENT	38,953	13,524			-21,501	30,976
ASSETS UNDER ADMINISTRATION	11,533				11,406	22,939
TOTAL INDIRECT DEPOSITS	50,486	13,524			-10,095	53,915
TOTAL DEPOSITS	87,335	13,524	8,260	3,441	-10,614	101,946
TOTAL BUSINESS	127,720	13,524	8,260	3,441	-16,516	136,429

SEGMENT REPORTING – % changes

	Commercial Banking	Asset Management	Bancassurance	ALM Treasury	Corporate centre &	Total
LOANS TO CUSTOMERS	6.4					4.0
INSURANCE DEPOSITS			-4.7			-4.7
DIRECT BANKING DEPOSITS	4.8			35.8		7.2
TOTAL DIRECT DEPOSITS	4.8		-4.7	35.8		4.9
ASSETS UNDER MANAGEMENT	-10.6	-10.0				-12.3
ASSETS UNDER ADMINISTRATION	-2.1					-3.6
TOTAL INDIRECT DEPOSITS	-8.8	-10.0				-8.8
TOTAL DEPOSITS	-3.5	-10.0	-4.7	35.8		-2.8
TOTAL BUSINESS	-0.6	-10.0	-4.7	35.8		-1.2

SEGMENT REPORTING - DECEMBER 2021

	Commercial Banking	Asset Management	Bancassurance	Finance	Treasury	Corporate Center	Other	Total
Net interest	293,496	69		112,770	81,817	-2,801	4,278	489,630
Net fee and commission income	587,057	122,805	-52,580	8,424	10,283		-41,048	634,941
Trading and other net revenues	10,360	1,736	117,844	45,307			144,429	319,676
Operating revenues	890,914	124,610	65,264	166,501	92,100	-2,801	107,659	1,444,247
Net margin relating to service agreements with other segments	-3,261	3,934	-673					
Net margin relating to service agreements with the service centre	-221,732			-10,078	-4,038	224,078	11,770	
Revenues and internal costs	-224,993	3,934	-673	-10,078	-4,038	224,078	11,770	
Write-down of financial assets	-55,008	-308	28	-250	-167		26,656	-29,049
Other provisions for risks	-3,630						-9,391	-13,021
Personnel expenses	-384,271	-15,108	-5,778	-3,248	-949	-127,584	-13,743	-550,682
IT costs	-13,453	-4,267	-3,165			-115,570		-136,455
Real estate costs	-40,655	-749	-177	-29	-23	-8,634		-50,268
Other expenses	-114,134	-9,429	-6,496	-3,477	-2,412	-70,664	-99,094	-305,705
Operating expenses	-611,151	-29,861	-15,588	-7,005	-3,551	-322,452	-95,572	-1,085,180
Other costs and non-recurring revenues	-16,924				-1,508	27,258	98,288	107,114
Profit before tax	37,846	98,683	49,003	149,418	83,003	-73,916	122,145	466,181

SEGMENT REPORTING - DECEMBER 2022

	Commercial Banking	Asset Management	Bancassurance	Finance	Treasury	Corporate Center	Other	Total
Net interest	458,710	998		119,914	73,290	-2,697	3,772	653,986
Net fee and commission income	640,717	74,052	-53,183	10,375	3,577	2	-75,011	600,529
Trading and other net revenues	12,678	1,447	117,992	49,714			152,851	334,682
Operating revenues	1,112,105	76,497	64,809	180,003	76,867	-2,695	81,611	1,589,197
Net margin relating to service agreements with other segments	-6,339	7,751	-1,412					
Net margin relating to service agreements with the service centre	-228,003			-6,454	-3,204	232,005	5,656	
Revenues and internal costs	-234,342	7,751	-1,412	-6,454	-3,204	232,005	5,656	
Write-down of financial assets	-53,826	-120		-184	1,300		-2,723	-55,552
Other provisions for risks	-189						-13,942	-14,131
Personnel expenses	-390,612	-14,203	-6,292	-3,524	-848	-133,445	-14,524	-563,448
IT costs	-15,510	-4,947	-3,427			-113,771		-137,655
Real estate costs	-45,308	-771	-195	-38	-12	-8,369		-54,693
Other expenses	-145,755	-10,964	-7,451	-10,507	-2,888	-72,739	-65,245	-315,548
Operating expenses	-651,200	-31,005	-17,365	-14,252	-2,447	-328,324	-96,434	-1,141,027
Other costs and non-recurring revenues	-12,580				-607	20,034	6,574	13,421
Profit before tax	213,983	53,243	46,032	159,297	70,609	-78,981	-2,592	461,591

SEGMENT REPORTING – changes

Type of business	Commercial Banking	Asset Management	Bancassurance	Finance	Treasury	Corporate Center	Other	Total
Net interest	56.3			6.3	-10.4	-3.7	-11.8	33.6
Net fee and commission income	9.1	-39.7	1.1	23.2	-65.2		82.7	-5.4
Trading and other net revenues	22.4	-16.6	0.1	9.7			5.8	4.7
Operating revenues	24.8	-38.6	-0.7	8.1	-16.5	-3.8	-24.2	10.0
Net margin relating to service agreements with other segments. Net margin relating to service agreements with service centers								
Revenues and internal costs	4.2	97.0	109.8	-36.0	-20.6	3.5	-51.9	
Write-down of financial assets								
Other provisions for risks								
Personnel expenses	1.7	-6.0	8.9	8.5	-10.7	4.6	5.7	2.3
IT costs	15.3	15.9	8.3			-1.6		0.9
Real estate costs	11.4	2.9	10.2	28.4	-49.7	-3.1		8.8
Other expenses	27.7	16.3	14.7	202.2	19.8	2.9	-34.2	3.2
Operating expenses	6.6	3.8	11.4	103.5	-31.1	1.8	0.9	5.1
Other costs and non-recurring revenues								
Profit before tax	465.4	-46.0	-6.1	6.6	-14.9	-6.9	-102.1	-1.0

The disaggregation of fee and commission income by operating segment is shown below

	Commercial Banking	Asset Management	Bancassurance	Finance	Treasury	Corporate centre	Other	Total
Securities placement and order collection	330,046	6,592		10,375	3,577		-150,311	200,280
Corporate Finance	1,969							1,969
Investment advisory activities	12,764	8,205					-8,163	12,806
Management of collective portfolios		208,768					-399	208,369
Custody and administration	3,947						-4	3,943
Payment services	221,353						-335	221,018
Distribution of third party products	150,554		13,576				-102,561	61,569
Guarantees given	4,736						-16	4,720
Financing operations	16,410							16,410
Currency trading	3,865						-6	3,859
Other commissions	26,853	1,278					-430	27,701
	772,497	224,843	13,576	10,375	3,577		-262,225	762,644

KEY:

Interest margin

- + Item 30 Net Interest Income
- + Item 70 Dividends and similar income (solely for the portion relating to dividends of equity securities in financial assets classified in HTCs)
- + Item 250 Gains/(losses) on equity investments excluding gains/losses on disposals/valuations
- Credemvita Net Interest Income

Non-interest margin

- + Item 60 Net fee and commission income
- + Item 80 Net profit (loss) from trading
- + Item 90 Net profit (loss) from hedging
- + Item 100 Gains (losses) on disposal or repurchase
- + Item 110 Net profit (loss) from financial assets and liabilities measured at fair value
- + Item 115 Net profit (loss) from financial assets and liabilities pertaining to insurance companies pursuant to IAS 39
- + Item 130 a) Net value adjustments for credit risk from financial assets measured at amortised cost (for the part relating to securities included under this category of financial assets)
- + Item 130 b) Net value adjustments for credit risk from financial assets measured at fair value through other comprehensive income
- + Item 160 Net premiums earned
- + Item 170 Net other operating income/charges from insurance activities
- + Item 230 Other operating income/charges (net of extraordinary items)
- + Item 70 Dividends and similar income (net of the portion relating to dividends of equity securities classified in HTCs)
- + Credemvita Net Interest Income

Operating profit

- + Net Interest and other banking income
- + Item 190 Administrative costs (personnel expenses and other administrative expenses)
- + Item 200 Net value adjustments to (recoveries on) property, plant and equipment
- + Item 210 Net value adjustments to (recoveries on) intangible assets

Profit before tax

- + Operating profit
- + Item 130 Net value adjustments/recoveries for credit risk (net of those included in the non-interest margin)
- + Item 140 Profits/losses from contractual changes without derecognitions
- + Item 200 Net provisions for risks and charges
- + Extraordinary income/charges:
- + Item 230 Other operating income/charges (only extraordinary items – imbalance of extraordinary items)
- + Item 270 Net value adjustments/recoveries on goodwill
- + Item 280 Gains/(losses) on disposal of investments
- + Item 320 Profit/(loss) after tax from discontinued operations

PART M – LEASES

SECTION 1 - LESSEE

Qualitative information

On 13 January 2016, the IASB published the new standard “IFRS 16 Leases”, which replaces standard IAS 17 - Leases, as well as interpretations IFRIC 4 Determining whether an Arrangement contains a Lease, SIC 15 Operating Leases—Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard was approved by the European Commission by means of Regulation no. 2017/1986 and applies as from 1 January 2019.

The new standard provides a new definition of lease and introduces a criterion based on the control (right of use) of an asset to distinguish lease contracts from service contracts, identifying the following as discriminants: the identification of the asset, the right to replace the same, the right to substantially obtain all of the economic benefits resulting from the use of the asset and the right to direct the use of the asset underlying the contract.

The main change introduced by the standard is represented by a change in how operating lease transactions are recognised in the financial statements of the lessee/user, through the introduction of a single accounting model for the recognition of lease contracts by the lessee, regardless of whether they are classified as operating or finance leases.

According to the new accounting method, the lessee recognises a right of use for the leased asset in balance sheet assets and a Lease Liability in balance sheet liabilities, corresponding to the present value of the instalments envisaged for the contract, and not yet paid. The amortisation of the right of use and the interest expense deriving from the discounting of the Lease Liability are recorded in the income statement.

The disclosure required has also been extended for both the lessee and the lessor, with new qualitative and quantitative information required.

Methodological approach and transition decisions

With regard to the types of transition permitted by IFRS 16, the Group decided to make the transition adopting the Modified Retrospective Approach, by recognising the cumulative impact of the initial application of the standard to operating leases in place, calculating the impact on opening balances at 1 January 2019, without restating the comparative data. As at the date of initial application, the balance of the right of use assets is therefore equal to that of the Lease Liabilities adjusted to take into consideration any prepaid or accrued payments. Lease Liabilities were determined by discounting the remaining lease payments at the date of initial application using the Incremental Borrowing Rate.

Among the operational decisions taken by the Group during the transition, it is worth highlighting:

- the choice not to redefine the scope of first-time application, namely to apply the new standard to all lease contracts already identified on the basis of the definition contained in IAS 17;
- the exclusion from the scope of application of short-term leases, i.e. with a residual life at the date of initial application of less than 12 months;
- the exclusion from the scope of application of “low value” leases, i.e. with an estimated asset value less than € 5,000;
- the use of the IAS 37 assessment at the year-end date as an alternative to the impairment test.

With regard to the decisions taken by the Group in terms of the application of the standard, it should also be noted that:

- with regard to operating leases, the scope of application refers to property and vehicle rental lease contracts;
- the Group has set the incremental borrowing rate on the basis of the interest rate curve for issues of Senior unsecured bonds of the Group. The rate established, which encompasses the Group credit risk component, also considers the different contractual terms;
- with regard to the term of property leases, in general, the Group has considered only the first period of contractual renewal as reasonably certain.

Other information

Commercial lease contracts are regulated by law, therefore the lessor is permitted to cancel the lease at each expiry (usually every six years) with notice of at least twelve months.

The lessee has the same right. This means that, at any month of any year, cancellation of lease contracts could potentially be sent (or received from the lessor), and would therefore expire after twelve months. In recent years, however, given the situation of the property market, very few annual cancellations by lessors are being made.

Withdrawal is regulated between the parties in almost all of our contracts, and may be exercised only by the lessor at any time with six months' notice. In recent years, the bank has often been exercised to better manage the planned closures of branches.

Furthermore, in parts B and C of these Explanatory notes to the consolidated financial statements, the equity and economic information required by standard IFRS 16 is reported.

Quantitative information

Property, plant and equipment used in the business:	Total 31/12/2022			Total 31/12/2021		
	Buildings	Other	Total	Buildings	Other	Total
Right of use opening balance	127,032	3,068	130,100	132,936	3,508	136,444
- Depreciation	-22,985	-1,727	-24,712	-21,369	-1,792	-23,161
+/- Other changes	20,872	874	21,746	15,465	1,352	16,817
Book value final balance	124,919	2,215	127,134	127,032	3,068	130,100

Lease liabilities	Total 31/12/2022	Total 31/12/2021
Lease liability opening balance	134,266	139,650
- payments for leases	-26,305	-25,522
+ Interest expense accrued during the year	3,207	3,324
+/- Other changes	19,867	16,814
Lease liability closing balance	131,035	134,266

Other information	Total 31/12/2022	Total 31/12/2021
Costs for low-value leases	58	50
Costs for short-term leases	76	168
Other lease expenses	2,671	2,068

Other lease expenses related to non-deductible VAT and other services.

SECTION 2 - LESSOR

Qualitative information

In 2022, the leasing and long-term rental market finalized investments for a value of approximately € 31.5 billion, an increase of 9.7% compared to 2021. The number of new transactions entered into was also up, recording +5.6% compared to the previous year.

The market continues to be characterised by the prevalence of investments in the "securities" segment, which accounts for 91% of the total value of new contracts signed in the period. In this regard, attention is drawn to the following:

- vehicles segment: investments in the segment have contributed approximately 51% to total new contracts and show, compared to 2021, an increase of 13.7% in the volumes financed and of 5.8% in the number of new contracts signed. The rental market recorded a particularly positive performance in terms of volumes, both for commercial vehicles (+21.2%) and for cars (+17.2%). The leased car market also grew significantly (+17.3%).
- capital goods segment: it continued to record growth both in terms of volumes (+6.9%) as well as in the number of new contracts (+5.2%), driven by the trend of finance leases (+5.4%), which accounts for 88.3% of the segment. The performance continues to benefit from SME subsidised measures including the "New Sabatini" law. The increases affected all amount brackets (with the exception of that lower than € 50 thousand) and were concentrated in particular on investments above € 2.5 million. Operating leases also recorded a good trend (+20.7%).

The real estate segment was down, both in terms of contracts signed (-3.9%) and contracted volumes (-3.4%). In detail, the sub-category of properties to be built, which accounted for 43.3% of the total, recorded 5.5% growth in terms of new contract volumes, driven by the strong momentum of 'big-ticket' investments (+9.3% for the contracts exceeding € 2.5 million). The sub-category of "built properties" recorded a decrease in volumes of 9.2% and is characterised by investments concentrated for 43.4% in the amount range between € 0.5 and 2.5 million.

Lastly, the air, sea and rail segment recorded strong growth both in terms of contracts signed (+76.5%) and contracted volumes (+54.4%).

The Company recorded a commercial performance that was in line with the sector, showing, compared to the same period of the previous year, an increase of +9% in the overall value of the financed investments and of 8.2% in the number of new contracts stipulated. The securities sector accounts for 72% of new contracts and continues to be composed predominantly of capital goods, which represent almost 75% of the volumes of the sector, marking an increase of 1.6% compared to the volumes of December 2021. Vehicles recorded a 16.4% increase in the value financed, characterised by investments in industrial and commercial vehicles (more than 69% the impact on the automotive sector). Similarly to the market, nautical products recorded a considerable growth compared to the same period of the previous year (+76.2%).

The real estate sector, unlike the System, recorded overall volumes up by 13.4%; the "to be built" segment contributes to the sector for 52% of the financed volumes, with an increase of 17.8% compared to the previous year, while the "finished" properties segment recorded a +9.1% in volumes. The segment is characterised by transactions mainly concentrated in the amount range up to € 2.5 million.

Overall, the market share relating solely to financial leasing was 5,28%.

The overall economic result recorded an increase compared to the same period of the previous year.

The main trends in the core business show an increase in net interest and other banking income, positively impacted by net interest income thanks to the increase in average capital generated (+5.3% compared to 31 December 2021), the trend in market interest rates and (which saw market rates gradually return to positive territory during the second half of the year) by the positive trend in commission income from the management of lease agreements.

Adjustments to loans show overall a write-back mainly attributable to performing loans which show an improvement in the quality of the related portfolio, as well as incorporating the effects of the updates made to the IFRS 9 methodology adopted by the Group.

Administrative costs increased overall due in particular to the component related to the management and disbursement of leasing contracts; the Cost/Income (including amortisation) stood at 29,6% and confirmed a good level of operating efficiency.

In the Group, finance lease transactions are made by Credemleasing.

Quantitative information

1. Information on the balance sheet and income statement

2. Finance leases

Information relating to receivables for finance leases is shown below (broken down by the residual life of future receivables including the share of redemption, relating to active contracts only) and the breakdown of the same information by performing and non-performing exposure:

2.1 Classification by time period of payments to be received and reconciliation with loans for leases recognised under assets

Time Period	Total 31/12/2022 Payments to be received for leases	Total 31/12/2021 Payments to be received for leases
Up to 1 year	767,692	694,108
From over 1 year to 2 years	591,288	553,240
From over 2 years to 3 years	487,934	431,037
From over 3 years to 4 years	372,076	349,479
From over 4 years to 5 years	261,254	246,415
Over 5 years	762,701	772,907
Total payments to be received for leases	3,242,945	3,047,186
Reconciliation with loans		
Financial profits not accrued (-)	(287,088)	(229,717)
Residual amount not guaranteed (-)	-	-
Loans for leases	2,955,857	2,817,469

	Total 2022			Total 2021		
	Payments to be received for leases		Total payments to be received for leases	Payments to be received for leases		Total payments to be received for leases
Time Period	Non-performing exposures	Performing exposures		Non-performing exposures	Performing exposures	
Up to 1 year	29,567	738,125	767,692	32,360	661,748	694,108
From over 1 year to 2 years	5,801	585,488	591,289	5,535	547,704	553,239
From over 2 years to 3 years	4,869	483,065	487,934	4,322	426,715	431,037
From over 3 years to 4 years	3,690	368,386	372,076	5,275	344,204	349,479
From over 4 years to 5 years	2,992	258,261	261,253	3,518	242,897	246,415
Over 5 years	10,286	752,415	762,701	9,336	763,571	772,907
Total payments to be received for leases	57,205	3,185,740	3,242,945	60,346	2,986,839	3,047,185
RECONCILIATION						
Financial profits not accrued (-)	(5,070)	(282,018)	(287,088)	(4,287)	(225,430)	(229,717)
Residual amount not guaranteed	-	-	-	-	-	-
Loans for leases	52,135	2,903,722	2,955,857	56,059	2,761,409	2,817,468

2.2 Other information

Finance lease contracts grant the lessee the right, at the end of the contract duration indicated, and provided that said lessee has completely fulfilled all obligations undertaken, to choose between:

- acquiring ownership of the asset by paying a set amount;
- returning the leased asset.

The contracts' duration, in relation to the useful life of the assets, and the pre-set repurchase value of the assets are such as to lead lessees, in most cases, to purchase the assets upon lease maturity.

The assets leased vary depending on the requesting party and/or type of activity carried out. In general, leased goods fall into 4 categories: vehicles (automobiles, commercial vehicles, industrial vehicles), air, sea and railway (aircraft, motorboats and sports craft, railway cars), capital goods and real estate (buildings for commercial, industrial and residential use, both built and to be built).

3. Operating leases

A classification of the payments to be received by time periods is provided.

3.1 Classification of the payments to be received by time periods

Time Period	Total 31/12/2022 Payments to be received for leases	Total 31/12/2021 Payments to be received for leases
Up to 1 year	1,400	1,424
From over 1 year to 2 years	1,393	1,420
2 to 3 years	1,363	1,495
3 to 4 years	1,334	1,525
4 to 5 years	1,299	1,581
Over 5 years	7,230	6,499
Total	14,019	13,944

3.2 Other information

There are lease contracts in place, in the capacity of lessor, for owned properties, while for several third-party properties rented, sublease contracts have been entered into.

ATTACHMENT S TO THE FINANCIAL STATEMENTS

Country-by-country reporting

Reclassified Balance Sheet

Reclassified Income Statement

List of equity investments

Fees for auditing and for services other than auditing

COUNTRY-BY-COUNTRY REPORTING

In order to increase the confidence of the citizens of the European Union in the financial sector, the so-called “CRD IV” directive introduces obligation to publish information regarding the bank’s activities, and specifically, the profits made, the taxes paid and any state contributions received, broken down by country in which the banks operate. Circular 285/2013 of Banca d’Italia, in Title III, Chapter 2, implements the rules of country by country reporting in the Italian legislative system. In line with this, the Group publishes the information requested as an attachment to the annual consolidated financial statements.

NAME OF COMPANIES ESTABLISHED AND NATURE OF THEIR BUSINESS

Name of company	Country	Type of relationship	Voting Rights %	Activity
Credito Emiliano S.p.A.	Italy	0		commercial banking
Credem Euromobiliare Private Banking spa	Italy	1	100.00%	commercial banking
Credemleasing S.p.A.	Italy	1	100.00%	commercial banking
Credemfactor S.p.A.	Italy	1	100.00%	commercial banking
Avvera S.p.A.	Italy	1	100.00%	commercial banking
Euromobiliare Advisory Sim S.p.A.	Italy	1	100.00%	wealth management
Euromobiliare Asset Management SGR S.p.A.	Italy	1	100.00%	wealth management
Credem Private Equity SGR S.p.A.	Italy	1	100.00%	wealth management
Credemvita S.p.A.	Italy	1	100.00%	wealth management
Credemassicurazioni S.p.A.	Italy	2	50.00%	wealth management
Credemtel S.p.A.	Italy	1	100.00%	remote banking
Magazzini Generali delle Tagliate S.p.A.	Italy	1	100.00%	cheese warehousing
Euromobiliare Fiduciaria S.p.A.	Italy	1	100.00%	fiduciary services
Sata S.r.l.	Italy	1	100.00%	software house
Blue Eye S.r.l.	Italy	1	75.00%	software house
Credem CB S.r.l.	Italy	1	70.00%	special purpose vehicle

Key: Type of relationship

0 = Parent Company

1 = subsidiary

2 = jointly controlled

Parent Company

Credito Emiliano S.p.A. is a company established in Italy in the form of a joint-stock company, called CREDITO EMILIANO S.p.A. The company name can be abbreviated to CREDEMBANCA or CREDEM.

Credito Emiliano S.p.A. is the Parent Company of the “Credito Emiliano - CREDEM” Group. Credem is a member of the Interbank Deposit Protection Fund.

Credito Emiliano S.p.A. is enrolled on the Company Register of Reggio Emilia under no. 01806740153 and on the Economic and Administrative Register REA under no. 219769, as well as on the Register of Banks under no. 5350 and on the Register of Banking Groups held by Banca d’Italia under no. 3032.

Credito Emiliano S.p.A. (Credem) is established in Italy in the form of a joint-stock company in accordance with Italian law. Article 4 of Credem’s Articles of Association establishes a duration of the company up to 31 December 2050.

Credem’s business activities envisage the collection of deposits, the disbursement of loans of various types and the offer of financial services standard to banking activity.

Credem and the companies controlled by the same form a medium-large sized group, now present throughout Italy, although maintaining its traditional roots in Emilia Romagna (Northern Italy). As it initially operated as a retail customer bank, the Group today offers a complete range of financial services including those specific to the activities of a commercial bank, savings management and

CONSOLIDATED FINANCIAL STATEMENTS –

brokerage. At present, the Group comprises 13 companies, in addition to the Parent Company, operating in sectors related to the offer of financial services (the common law company group also includes two insurance companies which operate respectively in the life and non-life segments: Credemvita S.p.A., fully consolidated and 100% held by Credem; Credemassicurazioni S.p.A., 50% held by Credem). The Group also includes Credem CB S.r.l., special purpose vehicle - SPV, 70% of which is held by Credem.

Background

Credem was originally founded in 1910 as Banca Agricola Commerciale di Reggio Emilia, a private local bank situated in the north of Emilia Romagna. The present day name of Credito Emiliano S.p.A. was established in 1983, when the control of Banca Belinzaghi - Milan was acquired, the Issuer's first step towards expansion out of its region.

On 1st January 1993, following the reorganisation of the regulation of the credit sector (Italian Legislative Decree no. 385/93), the "Credito Emiliano - CREDEM" banking group was formally established, on the basis of the previous organisation, the holding company of which was Credito Emiliano Holding S.p.A. (hereinafter also Credito Emiliano Holding or Credemholding), placed at the top of the shareholding structure and acting as Parent Company. From June 2009, the Parent Company of the banking group became Credem, and Credemholding left the scope of the banking group.

Group organisational structure

All companies established within the Group structure (hierarchically) report to the Parent Company Credem, which is also responsible for the governance of the same, as banking parent company. The various Group companies break down into "captive" companies (whose activities relate directly to the distribution networks for retail and corporate customers) and "non captive" companies (which, by contrast, operate in the market regardless of the Group's distribution structure). Some of the main ones are: Credemleasing, Credemfactor, Euromobiliare Asset Management SGR and Avvera S.p.A.. The second category includes: MGT and Credemtel S.p.A.

At 31 December 2022, the Group's distribution structure included 625 branches, business centres and financial outlets, operating in 19 regions and 94 Italian provinces, with 6,616 employees, 833 external financial advisors with mandates, 256 Avvera agents and 506 agents for salary-backed loans, and finalised credit.

Main business activities

The Group's core business sectors are commercial banking and wealth management. Commercial banking regards the distribution of financial products and services to the Group's retail and corporate customers. Credito Emiliano S.p.A. and several other Group affiliates, such as Credemleasing S.p.A., Credemfactor S.p.A., Avvera S.p.A. and Credem Euromobiliare Private Banking S.p.A. manage the commercial banking business. At 31 December 2022, the Issuer's contribution to the Group's net profits was € 182.0 million (namely 57.4%), against € 194.3 million in the same period of the previous year.

The Group's wealth management activities include the management of mutual investment funds, SICAV, portfolio management as well as *private equity* and *hedge* funds. At 31 December 2022, the Group's total business was worth around € 136.4 billion, resulting from the sum of volumes relating to direct bank deposits, insurance reserves and indirect deposits (assets under management and custody), and loans to customers. The Group's asset management activities are split between Euromobiliare Asset Management SGR S.p.A. (a company which carries out administrative and management support services for Euromobiliare International Fund SICAV), Credem Private Equity SGR S.p.A. and Credemvita S.p.A.

Main markets

The Group's core business is focused on retail services, wealth *management* and on small and medium enterprises. In terms of loans to customers, the Group's activities are addressed to the domestic market only, with special focus on the north and centre of the country, which, at 31 December 2022, accounted for almost 79.0% of the total volume of net cash credit exposures to customers. There are no significant concentrations with regard to the disbursement of loans to specific trade sectors. With regard to asset management, at 31 December 2022, asset management activities were addressed to domestic customers only, while a part of direct bank

deposits is performed by means of issues in Italian and/or foreign markets, although addressed to institutional investors. The Group operates in all retail and commercial banking sectors and, through its subsidiaries, in the management of mutual investment funds, brokerage, leasing, factoring and insurance.

TURNOVER

“Turnover” refers to the relative “Net interest and other banking income” recorded as item 120 on the consolidated income statement, which amounts, for 2022, to € 1,444,368 thousand (€ 1,330,076 thousand in 2021).

NUMBER OF FULL TIME EQUIVALENT EMPLOYEES

“Number of full time equivalent employees” refers to the ratio between the total number of hours worked by all employees, excluding overtime, and the total annual amount envisaged contractually for one full-time employee, and amounts, for 2022, to 6,224 (6,196 in 2021).

PROFIT OR LOSS BEFORE TAX

“Profit or loss before tax” refers to the sum of items 290 and 320 (the latter before tax) of the consolidated income statement, and amounts to € 461,591 thousand (€ 466,181 thousand in 2021).

TAXES ON PROFIT OR LOSS

“Taxes on profit or loss” refer to item 300 of the consolidated income statement, and amounts to (€ 144,605) thousand, (€ 113,588) thousand in 2021.

STATE CONTRIBUTIONS RECEIVED

The Group has received contributions from Public Administrations in 2022 amounting to € 229.5 thousand for funded training (€ 856 thousand in 2021). In this regard, note that, this category of contributions excludes operations set in place with central banks for the purpose of financial stability and operations performed with the objective of facilitating the transmission mechanism of monetary policy.

Reclassified balance sheet (€/million)

	31/12/2022	31/12/2021	changes 12/22-12/21	
			absolute	%
Cash and cash equivalents	3,357.8	230.9	3,126.9	n.s.
Loans to customers	42,343.8	40,188.6	2,155.2	5.4
Due from banks	1,487.4	8,948.9	-7,461.5	-83.4
Other financial assets	15,562.3	15,639.5	-77.2	-0.5
Equity investments	47.3	48.6	-1.3	-2.7
Property, plant and equipment and intangible assets	930.4	925.3	5.1	0.6
Other assets	1,312.6	1,597.4	-284.8	-17.8
Total assets	65,041.6	67,579.2	-2,537.6	-3.8
Due to customers	38,778.0	37,717.0	1,061.0	2.8
Debt securities issued (including subordinated liabilities)	7,384.5	6,943.0	441.5	6.4
Technical reserves	4,356.4	4,257.8	98.6	2.3
<i>subtotal</i>	<i>50,518.9</i>	<i>48,917.8</i>	<i>1,601.1</i>	<i>3.3</i>
Due to banks	8,736.3	12,585.6	-3,849.3	-30.6
Other financial liabilities	910.3	441.2	469.1	106.3
Specific risk provisions	239.0	244.3	-5.3	-2.2
Other liabilities	1,425.6	1,930.2	-504.6	-26.1
Minority interests	0.2	0.6	-0.4	-75.7
Total liabilities	61,830.3	64,119.7	-2,289.4	-3.6
Share capital	341.3	341.3	-	-
Treasury shares	-10.1	-4.0	-6.1	152.5
Reserves	2,563.1	2,769.8	-206.7	-7.5
Profit for the period	317.0	352.4	-35.4	-10.0
Shareholders' equity	3,211.3	3,459.5	-248.2	-7.2
Total liabilities and shareholders' equity	65,041.6	67,579.2	-2,537.6	-3.8

This reclassification was made by considering the figures that can be directly taken from the financial statements

Reclassified quarterly income statement (€/million)

	Q1	Q2	Q3	Q4	12/22	% change	12/21
net interest income	129.2	145.7	164.8	223.0	662.7	33.5	496.3
non-interest margin (*) (****)	226.1	189.3	186.5	208.3	810.2	-3.6	840.4
net interest and other banking income	355.3	335.0	351.3	431.3	1,472.9	10.2	1,336.7
personnel expenses	-143.7	-137.7	-130.6	-151.4	-563.4	2.3	-550.7
administrative costs (*)	-57.9	-58.1	-56.1	-66.5	-238.6	2.9	-231.9
operating expenses	-201.6	-195.8	-186.7	-217.9	-802.0	2.5	-782.6
gross operating profit	153.7	139.2	164.6	213.4	670.9	21.1	554.1
Amortisation/depreciation	-24.7	-25.1	-22.9	-25.6	-98.3	5.5	-93.2
operating profit	129.0	114.1	141.7	187.8	572.6	24.2	460.9
provisions for risks and charges	-0.9	-5.1	0.2	-5.5	-11.3	50.7	-7.5
extraordinary income/charges (**) (***)	-16.9	2.7	-32.7	-3.7	-50.6	n.s.	44.3
net value adjustments to loans and financial operations (**) (*****)	-0.3	2.8	-11.2	-40.4	-49.1	55.9	-31.5
PROFIT BEFORE TAX	110.9	114.5	98.0	138.2	461.6	-1.0	466.2
income tax	-33.9	-35.7	-31.1	-43.9	-144.6	27.3	-113.6
Profit (loss) pertaining to non-controlling interests	-0.1	-	-	0.1	-	-100.0	-0.2
NET PROFIT	76.9	78.8	66.9	94.4	317.0	-10.0	352.4
EARNINGS PER SHARE					0.93	-11.4	1.05
DILUTED EARNINGS PER SHARE					0.93	-11.4	1.05

This reclassification was performed considering management accounting data that could not be directly deduced from the financial statements' schedules and the Explanatory Notes to the financial statements.

(*) costs and non-interest margin are shown net of indirect taxes and taxes recovered from customers (€ 113.6 million at December 2022; € 116.1 million at December 2021); contributions to national funds of € 57.4 million were written off against expenses (€ 51.3 million at December 2021);

(**) the result from the sale of bad loans was reclassified under extraordinary charges (€ 5.2 million in 2022; € -0.1 million in 2021);

(***) the component related to the contribution to the Resolution Fund (€ 3.9 million in 2022, € 2.7 million in 2021) allocated to Provisions for Risks and Charges was reclassified to extraordinary charges;

(****) value adjustments to (recoveries on) loans included in financial assets measured at amortised cost relating to securities (€ -0.4 million; € -0.8 million in December 2021) and those included in financial assets measured at fair value through other comprehensive income (€ +0.2 million; € +0.5 million in December 2021) were recognised in the non-interest margin.

(*****) the component of negative goodwill, or badwill of 2021, amounting to € 95.6 million is reclassified under extraordinary income.

KEY:**Interest margin**

- + Item 30 Net Interest Income
- + Item 70 Dividends and similar income (solely for the portion relating to dividends of equity securities in financial assets classified in HTCs)
- + Item 250 Gains/(losses) on equity investments excluding gains/losses on disposals/valuations
- Credemvita Net Interest Income

Non-interest margin

- + Item 60 Net fee and commission income
- + Item 80 Net profit (loss) from trading
- + Item 90 Net profit (loss) from hedging
- + Item 100 Gains (losses) on disposal or repurchase
- + Item 110 Net profit (loss) from financial assets and liabilities measured at fair value
- + Item 115 Net profit (loss) from financial assets and liabilities pertaining to insurance companies pursuant to IAS 39
- + Item 130 a) Net value adjustments for credit risk from financial assets measured at amortised cost (for the part relating to securities included under this category of financial assets)
- + Item 130 b) Net value adjustments for credit risk from financial assets measured at fair value through other comprehensive income
- + Item 160 Net premiums earned
- + Item 170 Net other operating income/charges from insurance activities
- + Item 230 Other operating income/charges (net of extraordinary items)
- + Item 70 Dividends and similar income (net of the portion relating to dividends of equity securities classified in HTCs)
- + Credemvita Net Interest Income

Operating profit

- + Net Interest and other banking income
- + Item 190 Administrative costs (personnel expenses and other administrative expenses)
- + Item 200 Net value adjustments to (recoveries on) property, plant and equipment
- + Item 210 Net value adjustments to (recoveries on) intangible assets

Profit before tax

- + Operating profit
- + Item 130 Net value adjustments/recoveries for credit risk (net of those included in the non-interest margin)
- + Item 140 Profits/losses from contractual changes without derecognitions
- + Item 200 Net provisions for risks and charges
- + Extraordinary income/charges:
- + Item 230 Other operating income/charges (only extraordinary items – imbalance of extraordinary items)
- + Item 270 Net value adjustments/recoveries on goodwill
- + Item 280 Gains/(losses) on disposal of investments
- + Item 320 Profit/(loss) after tax from discontinued operations

List of equity investments

	Registered office	% on share capital	Equity ratio	Book value
Credemassicurazioni S.p.A.	Reggio Emilia	50.000	50.00	45,417
Andxor S.r.l.	Cinisello Balsamo	40.000	40.00	1,378
SBC Fintech Milan 2224	Milan	19.680	19.680	-
Gruppo Santamaria S.p.A.	Catania	10.000	10.00	567

Fees for auditing and for services other than auditing

Information pursuant to Art. 149-duodecies of the Consob Issuers' Regulation

The table below, drafted in accordance with Art. 149-duodecies of the Consob Issuers' Regulation (resolution no. 11971) outlines the fees relating to 2022 for auditing provided by the Independent Auditor and by companies belonging to the same network. These fees represent the costs incurred and recognised in the financial statements, net of reimbursement for expenses and deductible VAT (figures in €/thousand).

Type of service	Company providing the Service	Fees
Audit	EY S.p.A.	986
Audit	Ernst & Young sa (Luxembourg)	125
Release of attestations	EY S.p.A.	392
Other services	EY S.p.A.	29
Other services	EY Advisory Spa	20
Total		1,552

Note that the fees for the auditing service do not include € 49 thousand for auditing of the Credem Venture Capital II Fund, Elite Fund and EltifPlus Fund managed by Credem Private Equity SGR, € 389 thousand for the auditing of funds managed by Euromobiliare Asset Management SGR, € 50.6 thousand for the auditing of the Open-end Pension Fund, separate management products, and of Internal Insurance Funds of Credemvita and € 125 thousand for the auditing of SICAVs managed by Euromobiliare Asset Management SGR. Said fees are not indicated in the consolidated income statement, as they are borne by the individual funds.

CERTIFICATION BY
THE CHAIRMAN AND
THE MANAGER
RESPONSIBLE FOR
PREPARING THE
COMPANY'S
FINANCIAL REPORTS

Certification of the consolidated financial statements pursuant to Art. 81-ter of CONSOB Regulation no. 11971 of 14 May 1999 and subsequent amendments and additions

1. The undersigned, Lucio Iginio Zanon di Valgiurata and Paolo Tommasini, respectively, as Chairman and Manager responsible for preparing the company's financial reports of Credito Emiliano S.p.A., hereby certify, also taking into account the provisions of Art. 154-bis, paragraphs 3 and 4, Italian Legislative Decree no. 58 of 24 February 1998:

- the adequacy in relation to the characteristics of the company and
- the actual application

of the administrative and accounting procedures for the preparation of the consolidated financial statements during the 2022 financial year.

2. The assessment of the adequacy of the administrative and accounting procedures for the preparation of the consolidated financial statements as at 31 December 2022 is based on regulations and methodologies defined by the Parent Company Credito Emiliano S.p.A., in accordance with the internal control model - Integrated Framework issued by the Committee of Sponsoring Organisations of the Treadway Commission (COSO - ERM), an internal control system framework generally accepted at international level.

The assessment of IT governance procedures is carried out by making reference to the Control Objective for Information and related Technologies (COBIT) framework developed by the Information System Audit and Control Association (ISACA).

3. It is also certified that:

3.1 Consolidated Financial Statements:

- a) have been prepared in compliance with the applicable international accounting standards recognised in the European Community pursuant to Regulation (EC) no. 1606/2002 of 19 July 2002 of the European Parliament and the Council;
- b) correspond to the results of the accounting books and records;
- c) are suitable to provide a true and fair view of the equity, economic and financial situation of the issuer and of the companies included in the scope of consolidation.

3.2 The report on operations includes a reliable analysis of the performance and results of operations, as well as the situation of the issuer and of the companies included in the consolidation, together with a description of the main risks and uncertainties to which they are exposed.

Reggio Emilia, 9 March 2023

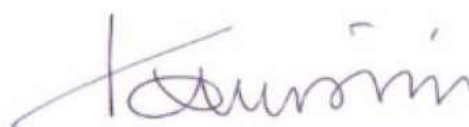
The Chairman

Lucio Iginio Zanon di Valgiurata



The Manager responsible for preparing
the company's financial reports

Paolo Tommasini



INDEPENDENT AUDITOR'S REPORT

Credito Emiliano S.p.A.

Consolidated financial statements as at December 31, 2022

**Independent auditor's report pursuant to article 14 of
Legislative Decree n. 39, dated 27 January 2010 and article
10 of EU Regulation n. 537/2014**

(Translation from the original Italian text)

**Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)**

To the Shareholders of
Credito Emiliano S.p.A.

Report on the Audit of the Consolidated Financial Statements

We have audited the consolidated financial statements of Credem Group (the "Group"), which comprise the consolidated balance sheet as at December 31, 2022, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the related explanatory notes to the consolidated financial statements.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2022, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38, dated February 28, 2005 and article 43 of Legislative Decree n.136, dated August 18, 2015.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of Credito Emiliano S.p.A. (the "Company" or "the Bank") in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current 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.

We identified the following key audit matters:

Key Audit Matter	Audit Response
Classification and measurement of loans to customers Loans to customers, which are recorded in the line item 40 b) of the consolidated balance sheet and measured at amortized cost, amount to about Euro 34,483 million as at December 31, 2022 and represent approximately 53% of the total assets of the consolidated balance sheet. Net impairment losses for credit risk on loans to customers, included in line item 130 a) of the consolidated income statement, amount to Euro 55 million for the year ended at December 31, 2022. The process of classifying loans to customers in the various risk categories and their measurement is relevant for the audit, because their amount is significant to the consolidated financial statements as a whole and because the amount of the related impairment losses is determined by the directors' through the use of estimates that have a high degree of subjectivity. Amongst the latter, the following are particularly relevant: the identification of objective evidence of impairment, the consequent classification of the exposures into Stage 3 (non-performing loans) and the estimate of the expected cash flows also in connection with the recoverable value of the guarantees held. Furthermore, as regards the collective impairment statistically calculated, carried out on loans to customers for which objective evidence of impairment has not been identified individually, the following are of particular importance: the determination of parameters for measuring the significant increase in credit risk compared to the date of initial recognition, the set-up of models for the calculation of expected credit losses (ECL), the identification of the exposure at default (EAD), the determination of the probability of default (PD) and the related loss given default (LGD), estimated on the basis of bosh historical-statistical and forward looking information, including macroeconomic factors. Moreover, the classification and measurement processes of loans to customers requires taking into consideration specific factors aimed	Our audit procedures related to this key audit matter included, amongst others: - an understanding of the policies, processes and controls implemented by the Group in relation to the classification and measurement of loans to customers and the testing of key controls, including those relating to the relevant IT applications, in order to assess their operational effectiveness; - the execution, on a sample basis, of substantive procedures aimed at verifying the correct classification and measurement of credit exposures; - an understanding, also with the support of our experts in credit risk management and IT systems, of the methodology applied in relation to impairment losses calculated on a statistical basis and an analysis of the reasonableness of the assumptions adopted, as well as the performing of tests of controls and substantive procedures, in order to verify the accurate determination of the EAD, PD and LGD parameters, which are relevant for the purpose of determining the impairment losses; - the assessment, through the analysis of the supporting documentation, of the accounting for the loans' disposals occurred in the year; - the performance of analytical procedures on the portfolio of loans to customers and the related coverage levels, with regard to the most significant changes as compared with also through the comparison with prior year amounts. Finally, we examined the adequacy of the disclosures provided in the explanatory notes.

at reflecting the current uncertainty of the evolution of the macro-economic scenario. The disclosures on the classification and measurement of financial loans to customers are provided in Part A, Part B, Part C and Part E of the explanatory notes.

Key Audit Matter	Audit Response
Goodwill is recorded for approximately Euro 291 million in line item 100 of the consolidated balance sheet and is mainly allocated to the "Commercial Banking" cash generating unit (CGU). As required by the International Accounting Standard IAS 36 "Impairment of assets", the Company performs at least annually an impairment test. Goodwill is relevant for the audit, both because it is significant to the consolidated financial statements as a whole, and because the aforementioned test requires the application of the Directors' judgment to make estimates with a high level of subjectivity with regard to the selection of assumptions and parameters, as part of the methodology selected, since these variables may be sensitive to the future performance of markets and to the macroeconomic scenarios. The disclosures on goodwill are provided in Part A and Section 10 "Intangible Assets" of Part B of the explanatory notes, which also describes the results of the sensitivity analysis performed by Management.	Goodwill impairment test Our audit procedures related to this key audit matter included, amongst others: - an understanding of the methods adopted for determining the recoverable amount, within the impairment test process approved by the Board of Directors of the Company, and the related key controls; - an analysis of the reasonableness of the assumptions and parameters used by the Directors for the execution of the impairment test and the forecast information considered in the same, also in light of the effects of the evolution of the macro-economic scenario, as well as the related sensitivity analysis; - a discussion of the evidence emerging from the comparison made by management between the actual results for the 2022 financial year and the corresponding budget. During this testing we were supported by business valuation techniques experts, particularly with reference to the matters related to the mathematical accuracy of the calculations, the reasonableness of the assumptions adopted by management, including the projections, as well as the sensitivity analyses on key assumptions. Finally, we examined the adequacy of the disclosures provided in the explanatory notes.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38 dated February 28, 2005 and article 43 of Legislative Decree n.136, dated August 18, 2015, and, within the terms provided by the 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, when preparing the consolidated financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the consolidated financial statements on a going concern basis unless they either intend to liquidate the Parent Company Credito Emiliano S.p.A. or to cease operations or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (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 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 International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.

However, future events or conditions may cause the Group to cease to continue as a going concern;

- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We have communicated with those charged with governance, identified at an appropriate level as required by the International Standard on Auditing (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 have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, the actions taken to eliminate the relevant risks or the related safeguards applied.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of Credito Emiliano S.p.A., in the general meeting held on April 30, 2014, engaged us to perform the audits of the consolidated financial statements for each of the years ending December 31, 2014 to December 31, 2022.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the consolidated financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion on the compliance with Delegated Regulation (EU) 2019/815

The Directors of Credito Emiliano S.p.A. are responsible for applying the provisions of the European Commission Delegated Regulations (EU) 2019/815 for the regulatory technical standards on the specification of a single electronic reporting format (ESEF – European Single Electronic Format) (the “Delegated Regulation”) to the consolidated financial statements, to be included in the annual financial report.

We performed the procedures under the auditing standard SA Italia n. 700B, in order to express an opinion on the compliance of the consolidated financial statements with the provisions of the Delegated Regulation.

In our opinion, the consolidated financial statements have been prepared in the XHTML format and have been marked-up, in all material aspects, in compliance with the provisions of the Delegated Regulation.

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

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of Credito Emiliano S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and Ownership Structure of Credem Group as at December 31, 2022, including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.

We performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the consolidated financial statements of Credem Group as at December 31, 2022 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operations and the above-mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the consolidated financial statements of Credem Group as at December 31, 2022 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated 30 December 2016

The Directors of Credito Emiliano S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated 30 December 2016. We verified the approval by the Directors of the non-financial information.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated 30 December 2016, such non-financial information is subject to a separate compliance report signed by us.

Milan, March 31, 2023

EY S.p.A.

Signed by: Massimiliano Bonfiglio, Auditor