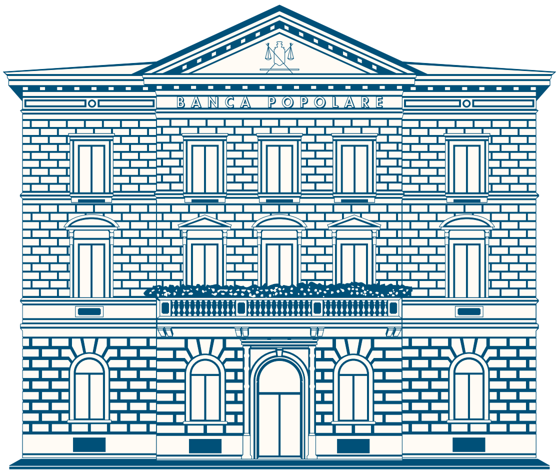
Banca Popolare di Sondrio



ANNUAL REPORT 2022

Banca Popolare
di Sondrio

2022 FINANCIAL
STATEMENTS
152th YEAR

EXTRAORDINARY AND ORDINARY SHAREHOLDERS' MEETING OF 29 APRIL 2023

Joint-stock company
Head Office and General Management: I - 23100 Sondrio SO - Piazza Garibaldi 16
Tel. 0342 528.111 - Fax 0342 528.204
Websites: http://www.popso.it - https://istituzionale.popso.it
E-mail info@popso.it - Certified e-mail (PEC): postacertificata@pec.popso.it

Sondrio Companies Register No. 00053810149 - Official List of Banks No. 842
Parent Company of the Banca Popolare di Sondrio Banking Group,
Official List of Banking Groups No. 5696.0 - Member of the Interbank Deposits Protection Fund
Tax code and VAT number: 00053810149
Share capital: 1,360,157,331 euro; Reserves: 1,385,452,113 euro
(Figures approved at the shareholders' meeting of 29 April 2023)

Rating:

- Rating given by Fitch Ratings to Banca Popolare di Sondrio on 27 July 2022:
  - Long-term Issuer Default Rating (IDR): BB+
  - Short-term Issuer Default Rating (IDR): B
  - Viability Rating: bb+
  - Government Support Rating: ns
  - Long-term Deposit Rating: BBB-
  - Short-term Deposit Rating: F3
  - SSenior Preferred Debt: BB+
  - Subordinated Tier 2 Debt: BB-
  - Outlook: Stable

- Rating given by DBRS Morningstar to Banca Popolare di Sondrio on 14 November 2022:
  - Long-Term Issuer Rating: BBB (low)
  - Short-Term Issuer Rating: R-2 (middle)
  - Intrinsic Assessment: BBB (low)
  - Support Assessment: SA3
  - Trend: Stable
  - Long-Term Deposit Rating: BBB
  - Short-Term Deposit Rating: R-2 (high)
  - Long-term Senior Debt: BBB (low)
  - Short-term Debt: R-2 (middle)
  - Subordinated Debt: BB

- Rating given by Scope Ratings to Banca Popolare di Sondrio on 14 March 2023:
  - Issuer rating: BBB
  - Outlook: Stable

BOARD OF DIRECTORS

Chair	FRANCESCO VENOSTA
Deputy Chair	LINO ENRICO STOPPANI*
Managing Director	MARIO ALBERTO PEDRANZINI**
Directors	PAOLO BIGLIOLI ALESSANDRO CARRETTA NICOLA CORDONE CECILIA CORRADINI LORETTA CREDARO* DONATELLA DEPPERU ANNA DORO FEDERICO FALCK* ATTILIO PIERO FERRARI* PIERLUIGI MOLLA ANNALISA RAINOLDI* SERENELLA ROSSI

BOARD OF STATUTORY AUDITORS

Chair	SERENELLA ROSSANO
Standing Auditors	MASSIMO DE BUGLIO LAURA ITALI
Alternate Auditors	ALESSANDRO MELLARINI PAOLO VIDO

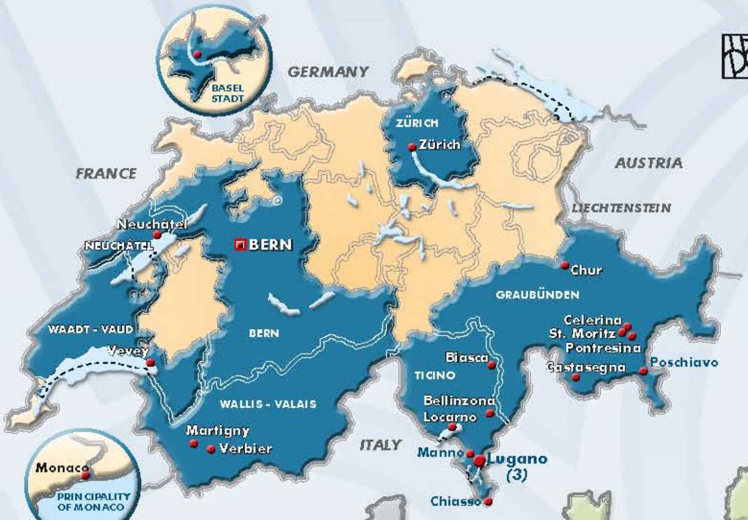
GENERAL MANAGEMENT

General Manager	MARIO ALBERTO PEDRANZINI
Deputy General Managers	GIOVANNI RUFFINI MARIO ERBA MILO GUSMEROLI CESARE POLETTI

Manager responsible for preparing the Company's accounting documents	MAURIZIO BERTOLETTI

* Members of the Executive Committee
** Member of the Executive Committee and Secretary of the Board of Directors

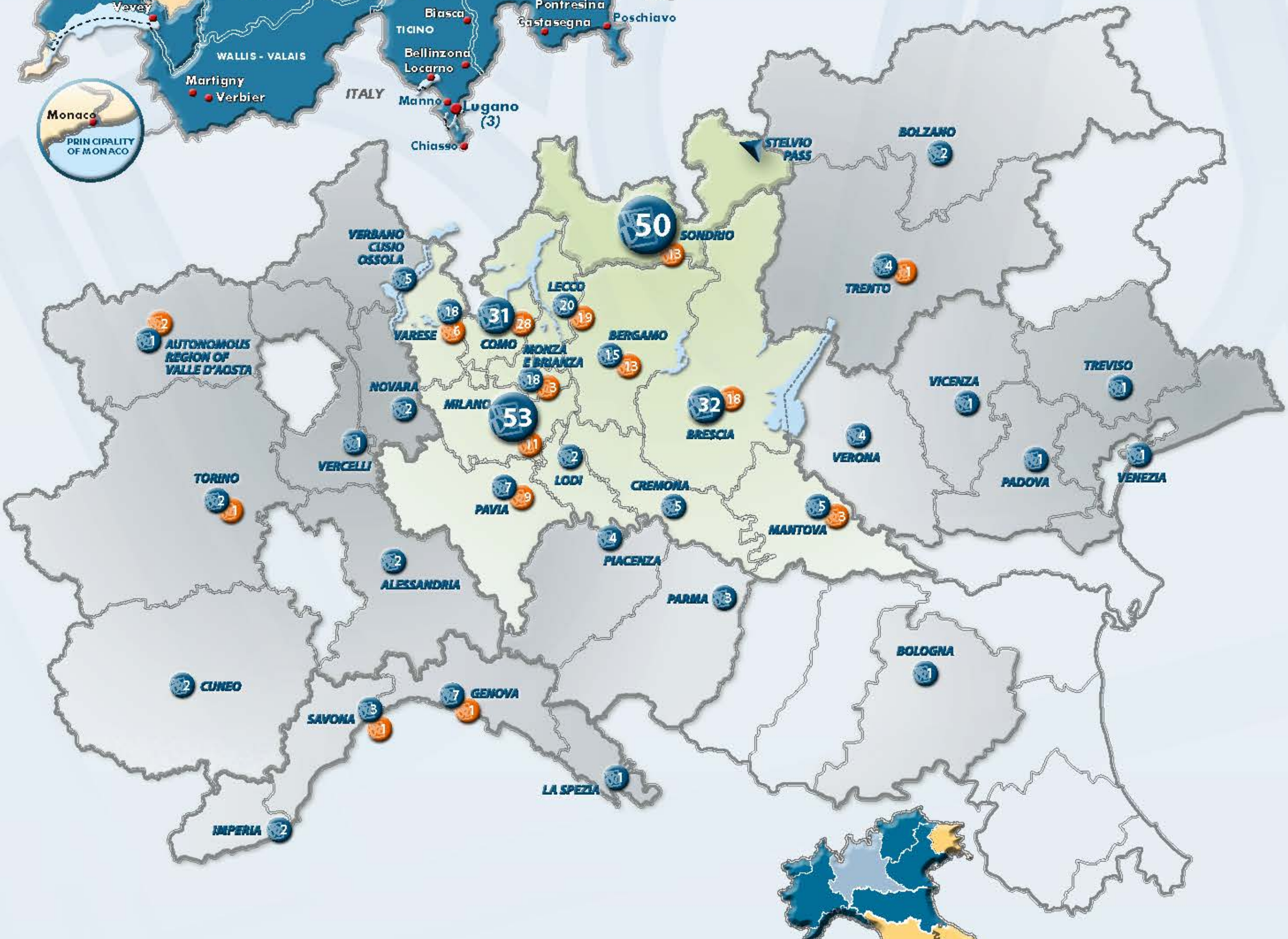
THE BANKING GROUP IN



BPS (SUISSE)

Banca Popolare di Sondrio (SUISSE)

OPERATING IN THE SWISS TERRITORY
IT HAS 20 OFFICES IN 8 CANTONS,
AS WELL AS THE REPRESENTATIVE OFFICE IN VERBIER,
THE DIRECT BANKING VIRTUAL BRANCH IN LUGANO
AND THE MONACO BRANCH OUTSIDE SWITZERLAND
IN THE PRINCIPALITY OF THE SAME NAME.



For more information about all our branches, visit the website: www.popso.it/filiali-atm

Number of branches in each province

Number of treasuries

IL GRUPPO BANCARIO

BRANCH NETWORK

BANCA POPOLARE DI SONDRIO
Founded in 1871

GENERAL MANAGEMENT AND HEAD OFFICE
Sondrio, piazza Giuseppe Garibaldi 16
tel. +39 0342 528111 - fax +39 0342 528204
www.popso.it - info@popso.it

FIELD OFFICES
ORGANISATION AND IT SYSTEMS: "F. Morani" Service Centre - via Ranée 511/1 - Berbenno di Valtellina (So) - fraz. San Pietro
INTERNATIONAL UNIT: lungo Mallero Luigi Cadorna 24, Sondrio
COMMERCIAL UNIT - PUBLIC ENTITIES AND TREASURY OFFICES - SUPPLY OFFICE - TECHNICAL, HEALTH AND SAFETY DEPARTMENT: corso Vittorio Veneto 7, Sondrio
PERSONNEL DEPARTMENT: corso Vittorio Veneto 36, Sondrio

VIRTUAL UNIT
corso Vittorio Veneto 7, Sondrio

BRANCHES AND TREASURIES

PROVINCE OF SONDRIO
ALBOSAGGIA via Porto 11
APRICA corso Roma 140
ARDENNO via Libertà
BERBENNO DI VALTELLINA - fraz. San Pietro - via Nazionale Ovest 110
BIANZONE piazza Ezio Vanoni 11
BORMIO
Head Office, via Roma 131 - ang. via don Evaristo Peccedi
Branch no. 1, via Roma 64
BUGLIO IN MONTE piazza della Libertà 1
CAMPODOLCINO via Corti 67
CASPOGGIO piazza Milano
CEDRASCO via Vittorio Veneto 15
CEPINA VALDISOTTO via Roma 13/E
CHIAVENNA via Francesco e Giovanni Dolzino 67
CHIESA IN VALMALENCO via Roma 138
CHIURO via Stelvio 8
COLORINA via Roma 84
COSIO VALTELLINO - fraz. Regoledo - via Roma 7
COSIO VALTELLINO - fraz. Cosio Stazione - piazza San Martino 14
DELEBIO piazza San Carpoforo 7/9
DUBINO - Nuova Olonio - via Spluga 83
GORDONA via Scogli 9
GROSIO via Roma 67
GROSIO - fraz. Ravoledo - via Pizzo Dosdè
GROSOTTO via Statale 73
ISOLACCIA VALDIDENTRO via Nazionale 31
LANZADA via Palù 388
LIVIGNO
Head Office, via Sant'Antoni 135
Branch no. 1, via Saroch 728/730
LIVIGNO via Dala Gesa 557/A
MADESIMO via Giosuè Carducci 3
MADONNA DI TIRANO piazza Basilica 55
MAZZO DI VALTELLINA via Santo Stefano 20
MELLO piazza San Fedele 1
MONTAGNA IN VALTELLINA via Stelvio 336
MONTAGNA IN VALTELLINA via Cicci 36
MORBEGNO
Head Office, piazza Caduti per la Libertà 7
Branch no. 1, via V Alpini 172
NOVATE MEZZOLA via Roma 13
PASSO DELLO STELVIO località Passo dello Stelvio
PIANTEDO via Colico 43
PONTE IN VALTELLINA piazza della Vittoria 1
SAMOLACO - fraz. Era - viale Europa 1365
SAN CASSIANO VALCHIAVENNA via Spluga 108
SAN NICOLÒ VALFURVA via San Nicolò 82
SEMOGO VALDIDENTRO via Cima Piazzi 28
SONDALO via Dr. Ausonio Zubiani 2
SONDRIO
Head Office, piazza Giuseppe Garibaldi 16
Branch no. 1, via Bernina 1
Branch no. 2, via Giacinto Sertorelli 2
Branch no. 3, Ingresso Ospedale Civile - via Stelvio 25
Branch no. 4, piazzale Giovanni Bertacchi 57
Branch no. 5, Galleria Campello 2
TALAMONA via Don Giuseppe Cusini 83/A
TEGLIO piazza Santa Eufemia 2
TEGLIO - fraz. San Giacomo - via Nazionale
TIRANO piazza Cavour 20
TRAONA via Valeriana 88/A
TRESENDA DI TEGLIO via Nazionale 57
TRESIVIO piazza San Pietro e Paolo 24
VALFURVA - fraz. Madonna Dei Monti piazza Madonna Del Carmine 6
VILLA DI CHIAVENNA via Roma 38
VILLA DI TIRANO via Foppa 12
VERCEIA via Nazionale 118/D

AUTONOMOUS REGION OF VALLE D'AOSTA
AOSTA corso Battaglione Aosta 79
PONT SAINT MARTIN via Emile Chanoux 45
SAINT-VINCENT via Duca D'Aosta 9

PROVINCE OF ALESSANDRIA
ALESSANDRIA corso Crimea 21
NOVI LIGURE corso Romualdo Marenco 59

PROVINCE OF BERGAMO
ALBANO SANT'ALESSANDRO via Vittorio Emanuele II 6
ALMÈ via Campofiori 36
BARIANO via Umberto I 1
BERGAMO
Head Office, via Broseta 64/B
Branch no. 1, via Vittore Ghislandi 4
Branch no. 2, via Guglielmo D'Alzano 3/E
BERGAMO - Ospedale Papa Giovanni XXIII - piazza Oms 1
BONATE SOTTO via Vittorio Veneto - ang. via Antonio Locatelli
BREMBATE via Vittore Tasca 8/10
CARVICO via Giuseppe Verdi 1
CISANO BERGAMASCO via Giuseppe Mazzini 25
COSTA VOLPINO via Nazionale 92
GAZZANIGA via IV Novembre 3
GHISALBA via Roma 41/43
GRUMELLO DEL MONTE via Roma 133
MAPELLO via Giuseppe Bravi 31
MOZZANICA piazza Antonio Locatelli
NEMBRO piazza Umberto I 1
OSIO SOTTO via Monte Grappa 12
ROMANO DI LOMBARDIA via Balilla 20
SARNICO via Giuseppe Garibaldi 1/C
SCANZOROSCIATE corso Europa 9
SERIATE piazza Caduti per la Libertà 7
TRESCORE BALNEARIO piazza Cavour 6
TREVIGLIO via Cesare Battisti 8/B
TREVIGLIO - Ospedale - piazzale Ospedale 1
VERDELLINO largo Luigi Einaudi 5
VILMINORE DI SCALVE piazza Vittorio Veneto 8

PROVINCE OF BOLOGNA
BOLOGNA via Riva di Reno 58/B

PROVINCE OF BOLZANO
BOLZANO viale Amedeo Duca d'Aosta 88 / Amedeo Duca D'Aosta Allee 88
MERANO corso della Libertà 16 / Freiheitsstrasse 16

PROVINCE OF BRESCIA
ANGOLO TERME piazza Caduti 3
BERZO DEMO via Nazionale 14
BIENNO via Giuseppe Fantoni 36
BORNO via Vittorio Veneto 25
BRENO piazza Generale Pietro Ronchi 4
BRESCIA
Head Office, via Antonio Gramsci 15
Branch no. 1, via Crocifissa di Rosa 1
Branch no. 2, via Solferino 61
Branch no. 3, viale Piave 61/A
Branch no. 4, via Fratelli Ugoni 2
CAPO DI PONTE via Aldo Moro 26/A
CEVO via Roma 15
CHIARI via Consorzio Agrario 1 - ang. viale Teosa 23/B
COCCAGLIO via Adelchi Negri 12
COLLEBEATO via San Francesco d'Assisi 12
CORTE FRANCA piazza di Franciacorta 7/C
CORTENO GOLGI via Brescia 2
DARFO BOARIO TERME
Branch no. 1, corso Italia 10/12
Branch no. 2, piazza Patrioti 2
DESENZANO DEL GARDA via Guglielmo Marconi 1/A
EDOLO piazza Martiri della Libertà 16
ERBUSCO via Provinciale 29
ESINE via Chiosi 79
GARDONE VAL TROMPIA via Giacomo Matteotti 300
GIANICO piazza Roma 3
ISEO via Roma 12/E
LONATO DEL GARDA corso Giuseppe Garibaldi 59
LUMEZZANE - fraz. Sant'Apollonio - via Massimo D'Azeglio 108
MALONNO via Valle Camonica - ang. via Adamello
MANERBA DEL GARDA via Valtenesi 43
MANERBIO via Dante Alighieri 8
MARONE corso Zanardelli 3
MONTE ISOLA frazione Siviano 116
MONTICHIARI via Mantova - ang. via 3 Innocenti 74
ORZINUOVI piazza Giuseppe Garibaldi 19
OSPITALETTO via Brescia 107/109
PALAZZOLO SULL'OGLIO via Brescia 23
PIAN CAMUNO via Agostino Gemelli 21
PISOGNE via Trento 1
PONTE DI LEGNO piazzale Europa 39
PONTE DI LEGNO - loc. Passo Del Tonale - via Case Sparse 84
REZZATO via Broli 49
SALE MARASINO via Roma 33/35
SALÒ viale Alcide De Gasperi 13
SALÒ via Giuseppe Garibaldi 21
SAREZZO via della Repubblica 99
TOSCOLANO MADERNO piazza San Marco 51
TOSCOLANO MADERNO viale Guglielmo Marconi 9
VEZZA D'OGLIO via Nazionale 116
ZONE via Orti 1

PROVINCE OF COMO
ALBIOLO via Indipendenza 10
ALTA VALLE INTELVI piazza Lanfranconi 22
APPIANO GENTILE piazza della Libertà 9
ARGEGNO piazza Conti Persini
AROSIO piazza Montello 36
BELLAGIO via Valassina 58
BINAGO via Roma 9
BREGNANO via Giuseppe Mazzini 22
BRUNATE via Alessandro Volta 28
BULGAROGRASSO via Pietro Ferloni 2
CAMPIONE D'ITALIA piazza Roma 1/G
CANTÙ via Milano 47
CANZO via Alessandro Verza 39
CAPIAGO INTIMIANO via Vittorio Emanuele II 7
CARATE URIO via Regina 85
CARIMATE - fraz. Montesolaro - piazza Lorenzo Spallino 6
CARLAZZO via V° Alpini 59/A
CARUGO via Luigi Cadorna 32
CASNATE CON BERNATE via Roma 7
CASTELMARTE via Dante 1
CENTRO VALLE INTELVI via Provinciale 79
COMO
Head Office, viale Innocenzo XI 71
Branch no. 1, via Giorgio Giulini 12
Branch no. 2, via Statale per Lecco 70 - fraz. Lora
Branch no. 3, via Asiago 25 - fraz. Tavernola
Branch no. 4, via Indipendenza 16
DOMASO via Statale Regina 77
DONGO piazza Virgilio Matteri 14
ERBA via Alessandro Volta 3
FINO MORNASCO via Giuseppe Garibaldi - ang. piazza Odescalchi 5
GARZENO via Roma 32
GERA LARIO via Statale Regina 18
GRAVEDONA ED UNITI piazza Giuseppe Garibaldi 11
GUANZATE via Giuseppe Garibaldi 1
LAMBRUGO piazza Papa Giovanni II 8
LURAGO D'ERBA via Roma 58
MASLIANICO via XX Settembre 47
MENAGGIO via Annetta e Celestino Lusardi 62
MERONE via San Girolamo Emiliani 5/C
MONTORFANO via Brianza 6/B
MUSSO via Statale Regina 30
OSSUCCIO via Statale 72
PARÈ piazza della Chiesa 5/6
PIANELLO DEL LARIO via Statale Regina 32
PLESIO via Grona 85
PORLEZZA lungolago Giacomo Matteotti 15
PUSIANO via Giuseppe Mazzini - Complesso Pusiano 2000
SALA COMACINA via Statale 14/A
SAN BARTOLOMEO VAL CAVARGNA via Fontana 6
SAN SIRO via Statale 223
SCHIGNANO via Roma 8
SORICO piazza Cesare Battisti 1/A
TREMEZZO via Regina 26
TURATE via Vittorio Emanuele 14
UGGIATE TREVANO piazza Vittorio Emanule 12
VALSOLDA - fraz. San Mamete - piazza Roma 7/9
VENIANO via Alessandro Manzoni 5
VERCANA via Vico 3
VILLA GUARDIA via Varesina - ang. via Monte Rosa - CenterVill

PROVINCE OF CREMONA
CREMA via Giuseppe Mazzini 109
CREMONA
Head Office, via Dante Alighieri 149/A
Branch no. 1, piazza Antonio Stradivari 9 - ang. via Lombardini
PANDINO via Umberto I 1/3
RIVOLTA D'ADDA via Cesare Battisti 8

PROVINCE OF CUNEO
ALBA viale Torino 4
CUNEO piazza Tancredi Duccio Galimberti 13

PROVINCE OF GENOVA
BUSALLA via Vittorio Veneto 23
CAMOGLI via Cuneo 9
CHIAVARI piazza Nostra Signora dell'Orto 42/B - ang. via Doria
GENOVA
Head Office, via XXV Aprile 7
Branch no. 1, piazza Tommaseo 7 rosso
Branch no. 2, via Sabotino 32/34 rossi
RAPALLO via Gen. A. Lamarmora 4 - ang. via San Filippo Neri
SANTA MARGHERITA LIGURE piazza Giuseppe Mazzini 40

PROVINCE OF IMPERIA
IMPERIA - Oneglia - Branch no. 1, via Giuseppe Berio 43
IMPERIA - Porto Maurizio - Branch no. 2, viale Giacomo Matteotti 8

PROVINCE OF LA SPEZIA
LA SPEZIA via XX Settembre 17

PROVINCE OF LECCO
AIRUNO via San Giovanni 11
ABBADIA LARIANA via Nazionale 140/A
BALLABIO via Ambrogio Confalonieri 6
BARZAGO viale Rimembranze 20
BARZIO via Martiri Patrioti Barziesi 11
BELLANO via Vittorio Veneto 9
BOSISIO PARINI via San Gaetano 4
CALOLZIOCORTE corso Europa 71/A
CASATENOVO via Roma 23
CASSAGO BRIANZA via Vittorio Emanuele II 2
CASTELLO DI BRIANZA via Roma 18
COLICO via Nazionale - ang. via Sacco
COLLE BRIANZA via Cantù 1
DERVIO via Don Ambrogio Invernizzi 2
ESINO LARIO piazza Gulfi 2
IMBERSAGO via Contessa Lina Castelbarco 5
LECCO
Head Office, corso Martiri della Liberazione 65
Branch no. 1, viale Filippo Turati 59
Branch no. 2, piazza XX Settembre 11
Branch no. 3, corso Emanuele Filiberto 104
Branch no. 4, viale Montegrappa 18
LECCO - Ospedale di Lecco - via dell'Eremo 9/11
LOMAGNA via Milano 24
MANDELLO DEL LARIO via Strada Statale 85/A
MALGRATE via Gaggio 14
MERATE via Don Cesare Cazzaniga 5
MERATE piazza Giulio Prinetti 6
MERATE - fraz. Pagnano - via Rimembranze 3
MERATE - Ospedale di Merate - largo Leopoldo Mandic 1
MONTE MARENZO via Colombara Vecchia 2
MONTICELLO BRIANZA via Provinciale 57
NIBIONNO - fraz. Cibrone - via Montello 1
OGGIONO via Lazzaretto 50
PESCATE via Roma 98/E
PRIMALUNA via Provinciale 66
SUELLO via Roma 10/12
VALGREGHENTINO piazza Roma 2
VALMADRERA via San Rocco 31/33
VARENNA via Corrado Venini 73

PROVINCE OF LODI
CODOGNO via Giuseppe Verdi 18/C
LODI via Giuseppe Garibaldi 23

PROVINCE OF MANTOVA
CASTIGLIONE DELLE STIVIERE piazza Ugo Dallò 25
GAZOLDO DEGLI IPPOLITI via Guglielmo Marconi 74/76
MANTOVA
Head Office, corso Vittorio Emanuele II 26
Branch no. 1, piazza Broletto 7
MARMIROLO via Tito Speri 34
SAN BENEDETTO PO via Enrico Ferri 15
SUZZARA piazza Giuseppe Garibaldi 4
VIADANA piazza Giacomo Matteotti 4/A

PROVINCE OF MILANO
ABBIATEGRASSO piazza Giuseppe Garibaldi 2
BASIGLIO piazza Monsignor Rossi 1
BUCCINASCO via Aldo Moro 9

CERNUSCO SUL NAVIGLIO viale Assunta 47/49
CINISELLO BALSAMO via Giuseppe Garibaldi 86
COLOGNO MONZESE viale Emilia 56
LEGNANO via Alcide De Gasperi 10
MELEGNANO piazza Giuseppe Garibaldi 1
MILANO
Head Office, via Santa Maria Fulcorina 1
Branch no. 1, *Porpora*, via Nicola Antonio Porpora 104
Branch no. 2, *Barona*, viale Faenza 22
Branch no. 3, *a2a*, corso di Porta Vittoria 4
Branch no. 4, *Regione Lombardia*, piazza Città di Lombardia 1 - Nucleo 1
Branch no. 5, *Bovisa*, via degli Imbriani 54
Branch no. 6, *Corvetto*, via Marco d'Agrate 11
Branch no. 7, *Caneva*, via Cenisio 50
Branch no. 8, *Quarto Oggiaro*, via M. Lessona - ang. via F. De Roberto
Branch no. 9, *A.L.E.R.*, viale Romagna 24
Branch no. 10, *Solari*, via Andrea Solari 15
Branch no. 11, *Università Bocconi*, via Ferdinando Bocconi 8
Branch no. 12, *Baggio*, via delle Forze Armate 260
Branch no. 13, *Repubblica*, viale Monte Santo 8
Branch no. 14, *Palazzo di Giustizia*, via Colonnetta 5 - ang. via C. Battisti
Branch no. 15, *Murat*, via Gioacchino Murat 76
Branch no. 16, *Ortomercato*, via Cesare Lombroso 54
Branch no. 17, *Monumentale*, piazzale Cimitero Monumentale 23
Branch no. 18, *Fiera*, viale Ezio Belisario 1
Branch no. 19, *Giambellino*, via Giambellino 39
Branch no. 20, *Sempione*, via Antonio Canova 39 - ang. corso Sempione
Branch no. 21, *Politecnico*, via Edoardo Bonardi 4
Branch no. 22, *Sforza*, via F. Sforza 48 - ang. corso di Porta Romana
Branch no. 23, *Certosa*, viale Certosa 62
Branch no. 24, *Piave*, viale Piave 1 - ang. via Pindemonte
Branch no. 25, *Zara*, viale Zara 13
Branch no. 26, *Lodi*, corso Lodi - ang. via S. Gerolamo Emiliani 1
Branch no. 27, *Don Gnocchi*, via Alfonso Capecelatro 66
Branch no. 28, *Corsica*, via privata Sanremo - ang. viale Corsica 81
Branch no. 29, *Bicocca*, piazza della Trivulziana 6
Branch no. 30, *De Angeli*, piazza Ernesto De Angeli 9
Branch no. 31, *Isola*, via Carlo Farini 47 - ang. via Dina Galli
Branch no. 32, *Venezia*, viale Luigi Majno 42 - viale Piave 43
Branch no. 33, *Porta Romana*, corso di Porta Romana 120
Branch no. 34, *San Babila*, via Cino del Duca 12
Branch no. 35, *Loreto*, piazzale Loreto 1 - ang. viale Brianza
Branch no. 36, *Monti*, via Vincenzo Monti 41
Branch no. 37, *Vercelli*, corso Vercelli 38
Branch no. 38, *Università Cattolica del Sacro Cuore*, largo A. Gemelli 1
Branch no. 39, *Gruppo AZIMUT - Sportello Interno* - corso Venezia 48
Branch no. 40, *Politecnico - Bovisa*, via Raffaele Lambruschini 4
MILANO - Istituto Nazionale Tumori - via Giacomo Venezian 1 Ⓣ
MILANO - ASP Golgi Redaelli - via Bartolomeo D'Alviano 78 Ⓣ
MILANO - Bicocca - piazza dell'Ateneo Nuovo 1 - Edificio U 6 Ⓣ
MILANO - Istituto Neurologico - via Giovanni Celoria 11 Ⓣ
MILANO - I.U.L.M. - via Carlo Bo 1 Ⓣ
MILANO - Pio Albergo Trivulzio - via Antonio Tolomeo Trivulzio 15 Ⓣ
MILANO - Pirelli - via Fabio Filzi 22 Ⓣ
PERO via Mario Greppi 13
SEGRATE via Roma 96
SEGRATE via Fratelli Cervi 13 - Residenza Botteghe Ⓣ
SESTO SAN GIOVANNI
Branch no. 1, piazza IV Novembre 12
Branch no. 2, piazza della Resistenza 52
TREZZO SULL'ADDA via Antonio Gramsci 10
TURBIGO via Allea Comunale 17 Ⓣ
VIZZOLO PREDABISSI - A.S.S.T. Melegnano e della Martesana via Pandina 1 Ⓣ

PROVINCE OF MONZA E BRIANZA

ALBIATE via Trento 35
BELLUSCO via Bergamo 5 Ⓣ
BERNAREGGIO via Michelangelo Buonarroti 6
BRIOSCO piazza della Chiesa 6 Ⓣ
BOVISIO MASCIAGO via Guglielmo Marconi 7/A
CARATE BRIANZA via Francesco Cusani 10
DESIO via Portichetto - ang. via Pio XI
GIUSSANO via Cavour 19
LISSONE
Head Office, via Dante Alighieri 43
Branch no. 1, via Trieste 33
MACHERIO via Roma 17 Ⓣ
MEDA via Yuri Gagarin - ang. corso della Resistenza
MONZA
Head Office, via Felice Cavallotti 5
Branch no. 1, via Felice Cavallotti 5
NOVA MILANESE via Antonio Locatelli
SEREGNO
Head Office, via Cavour 84
Branch no. 1, via Cesare Formenti 5
SEVESO via San Martino 20
VAREDO corso Vittorio Emanuele II 53
VILLASANTA - fraz. San Fiorano - via Amatore Antonio Sciesa 7/9
VIMERCATE piazza Papa Giovanni Paolo II 9 - ang. via Giusepep Mazzini

PROVINCE OF NAPOLI

NAPOLI *Gruppo AZIMUT - Sportello Interno* - via Gaetano Filangieri 36 - Palazzo Mannajoulo

PROVINCE OF NOVARA

ARONA via Antonio Gramsci 19
NOVARA via Andrea Costa 7

PROVINCE OF PADOVA

PADOVA via Ponte Molino 4

PROVINCE OF PARMA

FIDENZA piazza Giuseppe Garibaldi 24
PARMA
Branch no. 1, via Emilia Est 3/A
Branch no. 2, via Antonio Gramsci 28/A

PROVINCE OF PAVIA

BELGIOIOSO piazza Vittorio Veneto 23 Ⓣ
BRONI via Giuseppe Mazzini 1
CANNETO PAVESE via Roma 15 Ⓣ
CASTEGGIO piazza Cavour 4
CILAVEGNA via Giuseppe Mazzini 4 Ⓣ
MEDE corso Italia 2 Ⓣ
MORTARA via Roma 23
PAVIA
Head Office, piazzale Ponte Coperto Ticino 11
Branch no. 1, corso Strada Nuova 75
PAVIA - DEA - via Privata Campeggi 40 Ⓣ
PAVIA - Policlinico San Matteo - viale Camillo Golgi 19 Ⓣ
RIVANAZZANO TERME piazza Cornaggia 41 Ⓣ
ROBBIO piazza della Libertà 33 Ⓣ
STRADELLA via XXVI Aprile 56 Ⓣ
VIGEVANO piazza IV Novembre 8
VOGHERA via Emilia 49

PROVINCE OF PIACENZA

CASTEL SAN GIOVANNI corso Giacomo Matteotti 27
PIACENZA
Head Office, via Raimondo Palmerio 11
Branch no. 1, via Cristoforo Colombo 18
Branch no. 2, piazzale Torino 16

PROVINCE OF ROMA

CIAMPINO viale del Lavoro 56
FRASCATI via Cairoli 1
GENZANO DI ROMA viale Giacomo Matteotti 14
GROTTAFERRATA via XXV Luglio
MONTE COMPATRI piazza Marco Mastrofini 11 Ⓣ
ROMA
Head Office, *Eur*, viale Cesare Pavese 336
Branch no. 1, *Monte Sacro*, via Val Santerno 27
Branch no. 2, *Ponte Marconi*, via Silvestro Gherardi 45
Branch no. 3, *Prati Trionfale*, via Trionfale 22
Branch no. 4, *Bravetta*, piazza Biagio Pace 1
Branch no. 5, *Portonaccio*, piazza S. Maria Consolatrice 16/B
Branch no. 6, *Appio Latino*, via Cesare Baronio 12
Branch no. 7, *Aurelio*, via Baldo degli Ubaldi 267
Branch no. 8, *Africano Vescovio*, viale Somalia 255
Branch no. 9, *Casal Palocco*, piazzale Filippo il Macedone 70/75
Branch no. 10, *Laurentina*, via Laurentina 617/619
Branch no. 11, *Esquilino*, via Carlo Alberto 6/A
Branch no. 12, *Boccea*, circonvallazione Cornelia 295
Branch no. 13, *Tuscolano*, via Foligno 51/A
Branch no. 14, *Garbatella*, largo delle Sette Chiese 6
Branch no. 15, *Farnesina*, via della Farnesina 154
Branch no. 16, *Monte Sacro Alto/Talenti*, via Nomentana 925/A
Branch no. 17, *San Lorenzo*, piazza dei Sanniti 10/11
Branch no. 18, *Infernetto*, via Ermanno Wolf Ferrari 348
Branch no. 19, *Nuovo Salario*, piazza Filattiera 24
Branch no. 20, *Tuscolano/Appio Claudio*, via Caio Canuleio 29
Branch no. 21, *Nomentano*, via Famiano Nardini 25
Branch no. 22, *WFP - Sportello Interno* -, via Cesare Giulio Viola 68/70
Branch no. 23, *Ostia*, via Carlo Del Greco 1
Branch no. 24, *San Clemente/Colosseo*, via di S. Giovanni in Laterano 51/A
Branch no. 25, *Parioli*, viale dei Parioli 39/B
Branch no. 26, *Tritone*, via del Tritone 207
Branch no. 27, *Prati*, piazza Cavour 7
Branch no. 28, *Prenestino/Torpignattara*, piazza della Marranella 9
Branch no. 29, *FAO - Sportello Interno* -, viale delle Terme di Caracalla 1
Branch no. 30, *IFAD - Sportello Interno* -, via Paolo Di Dono 44
Branch no. 31, *Campus Bio-Medico di Roma - Policlinico*, via A. del Portillo 200
Branch no. 32, *Monteverde Vecchio*, via Anton Giulio Barrili 50/H
Branch no. 33, *Trastevere*, piazza Sidney Sonnino 40
Branch no. 34, *Gregorio VII*, via Gregorio VII 348 - ang. piazza Pio XI 40
Branch no. 35, *Parione*, corso Vittorio Emanuele II 139
Branch no. 36, *CONSOB - Sportello Interno* -, via G. B. Martini 3
Branch no. 37, *Trieste/Salario*, via Tagliamento 37
Branch no. 38, *Gruppo AZIMUT - Sportello Interno* - via Flaminia 133
Branch no. 39, *Policlinico Universitario Fondazione Agostino Gemelli IRCCS, largo Agostino Gemelli 8*
Branch no. 40, *Balduina*, piazzale delle Medaglie d'Oro 65
ROMA - Biblioteca Nazionale Centrale - viale Castro Pretorio 105 Ⓣ
ROMA - Università Foro Italico - piazza Lauro De Bosis 15 Ⓣ

PROVINCE OF SAVONA

ALASSIO via Giuseppe Mazzini 55
ALBISSOLA MARINA via dei Ceramisti 29 Ⓣ
SAVONA via Paleocapa 58
VARAZZE via Goffredo Mameli 19

PROVINCE OF TORINO

CANDIOLO via Torino 3/A Ⓣ
TORINO
Head Office, via XX Settembre 37
Branch no. 1, via Luigi Cibrario 17/A bis

PROVINCE OF TRENTO

ARCO via Santa Caterina 8/C Ⓣ
CLES piazza Navarrino 5
RIVA DEL GARDA viale Dante Alighieri 11
ROVERETO corso Antonio Rosmini 68 - ang. via Fontana
TRENTO piazza di Centa 14

PROVINCE OF TREVISO

TREVISO corso del Popolo 50 - angolo via Giuseppe Toniolo

PROVINCE OF VARESE

AEROPORTO DI MALPENSA 2000 Terminal 1 - FERNO
BESNATE via Libertà 2 Ⓣ
BISUSCHIO via Giuseppe Mazzini 80
BRUSIMPIANO piazza Battaglia 1/A Ⓣ
BUSTO ARSIZIO piazza Trento e Trieste 10
CARNAGO via Guglielmo Marconi 2
CASTELLANZA corso Giacomo Matteotti 2
CUGLIATE FABIASCO via Pagliolico 25 Ⓣ
GALLARATE via Torino 15
GAVIRATE via Guglielmo Marconi 13/A
LAVENA PONTE TRESA via Morazzoni 22
LONATE POZZOLO via Vittorio Veneto 27
LUINO via XXV Aprile 31
MARCHIROLO via Cavalier Emilio Busetti 7/A
PORTO CERESIO via Giacomo Matteotti 12 Ⓣ
SARONNO via San Giuseppe 59
SESTO CALENDE piazza Giuseppe Mazzini 10
SOLBIATE OLONA via Vittorio Veneto 5
SOMMA LOMBARDO via Milano 13
VARESE
Head Office, viale Belforte 151
Branch no. 1, piazza Monte Grappa 6
Branch no. 2, via San Giusto - ang. via Malta
VEDANO OLONA via Giacomo Matteotti - ang. via Cavour 12 Ⓣ
VIGGIÙ via Saltrio 2 Ⓣ

PROVINCE OF VENEZIA

VENEZIA Sestiere Santa Croce, Fondamenta Santa Chiara 518/A

PROVINCE OF VERBANO-CUSIO-OSSOLA

CANNOBIO viale Vittorio Veneto 2/bis
DOMODOSSOLA piazza Repubblica dell'Ossola 4
GRAVELLONA TOCE corso Guglielmo Marconi 95
VERBANIA - Intra, piazza Daniele Ranzoni 27
VERBANIA - Pallanza, largo Vittorio Tonolli 34

PROVINCE OF VERCELLI

VERCELLI piazza Baldo Mazzucchelli 12

PROVINCE OF VERONA

BARDOLINO via Mirabello 15
PESCHIERA DEL GARDA via Venezia 40/A
VERONA corso Cavour 45
VILLAFRANCA DI VERONA corso Vittorio Emanuele II 194

PROVINCE OF VICENZA

VICENZA corso Santi Felice e Fortunato 88

TEMPORARY BRANCHES

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BANCA POPOLARE DI SONDRIO (SUISSE)

OPERATING IN THE SWISS TERRITORY IT HAS 20 OFFICES IN 8 CANTONS, AS WELL AS THE REPRESENTATIVE OFFICE IN VERBIER, THE DIRECT BANKING VIRTUAL BRANCH IN LUGANO AND THE MONACO BRANCH OUTSIDE SWITZERLAND IN THE PRINCIPALITY OF THE SAME NAME.
General Management: Lugano, via Giacomo Luvini 2a
tel. +41 58 855 30 00 - fax +41 58 855 30 15
Head Office: Lugano, via Maggio 1 - tel. +41 58 855 31 00
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Ⓣ Treasury - Updated to 16 March 2023

BANCA POPOLARE DI SONDRIO

Joint-stock company - Founded in 1871 - Official List of Banks No. 842,
Official List of Banking Groups No. 5696.0,
Sondrio Companies Register No. 00053810149 - Share capital 1,360,157,331 euro made up of
453,385,777 ordinary shares - Reserves 1,380,852,212 euro.

NOTICE OF CALLING TO THE SHAREHOLDERS' MEETING

The Shareholders' Meeting of Banca Popolare di Sondrio spa (the «Bank») is convened in ordinary and extraordinary session at the registered office in Sondrio, Piazza Garibaldi 16, for 10.00 a.m. on Saturday, 29 April 2023 in a single call, to resolve on the following

AGENDA

Extraordinary part

1) Proposal to amend article 24 of the Articles of Association. Related and consequent resolutions.

Ordinary part

1) Financial statements at 31 December 2022:
   a) Presentation of the financial statements at 31 December 2022: Directors' report on operations; report of the Board of Statutory Auditors; related and consequent resolutions; presentation of the consolidated financial statements at 31 December 2022;
   b) Allocation of the profit for the financial year 2022 and distribution of the dividend; related and consequent resolutions;
2) Resolutions on remuneration matters:
   a) Annual report on remuneration policy and compensation paid:
      a1) Approval of the 2023 Remuneration Policies of the Banca Popolare di Sondrio Banking Group;
      a2) Approval by non-binding resolution of the remuneration paid in the financial year 2022;
   b) Approval of the 2023 Share-based Remuneration Plan, pursuant to ex art.114-bis of Legislative Decree 58/98 (Consolidated Finance Act);

c) Approval of the Long-term Share-based Remuneration Plan, pursuant to ex art. 114-*bis* of Legislative Decree 58/98 (Consolidated Finance Act);
3) Resolutions on treasury shares:
   a) Authorisation to purchase and sell treasury shares pursuant to art. 8 of the Articles of Association and articles 2357 and 2357-ter of the Italian Civil Code, art. 132 of Legislative Decree 58/98 (Consolidated Finance Act), and Article 144-*bis* of Regulation No. 11971 approved by Consob resolution of 14 May 1999;
   b) Authorisation for the use of treasury shares already held in service of the 2023 Share-based Remuneration Plan, to ex art.114-*bis* of Legislative Decree 58/98 (Consolidated Finance Act), and/or to service the Long-term Share-based Remuneration Plan, to ex art.114-*bis* of Legislative Decree 58/98 (Consolidated Finance Act;
4) Determination of directors' emoluments;
5) Appointment of five Directors for the three-year period 2023-2025;
6) Appointment of a director for the remainder of the three-year period 2021-2023 pursuant to Article 25, paragraph 3, of the Articles of Association to replace a director who left office early.

Share capital

The share capital, fully subscribed and paid up, amounts to 1,360,157,331 euro and comprises 453,385,777 ordinary shares. Each share confers the right to one vote. The Bank holds 3,641,718 treasury shares.

Attendance at the Meeting

Pursuant to art. 83-sexies of Legislative Decree 58/98, Consolidated Finance Act, the persons entitled to participate in the Meeting, exclusively through the Designated Representative according to the procedures described below, are those who will hold the right to vote at the end of the accounting day of the seventh trading day prior to the date of the Meeting (20 April 2023 - «record date»), and for whom the Bank has received the relevant communication made by the authorised intermediary.

Therefore, those who will be holders of the Bank's shares only after that date will not be entitled to attend and vote at the Meeting.

The notice from the intermediary must be received by the Bank by the end of the third trading day preceding the date set for the Meeting (i.e. by 26 April 2023). In any case, art. 83-sexies, paragraph 4, of Legislative Decree 58/98, Consolidated Finance Act applies, and therefore the legitimacy to intervene and vote remains in case the communications are received by the Bank after the deadline of 26 April 2023 indicated above, provided that they are received before the start of the works.

It should be noted that Shareholders whose shares are deposited with the Bank or with Banca Popolare di Sondrio (SUISSE) SA must also request, pursuant to article 42 of the Bank of Italy-Consob Provision of 13 August

2018, the issuance of the notice attesting to the entitlement to exercise voting rights.

Taking into account the extension of the containment measures adopted during the pandemic emergency situation, in accordance with fundamental principles of health protection, pursuant to the provisions of art. 106, paragraph 4, of Decree Law 17 March 2020 No. 18, as subsequently amended and supplemented (most recently by Decree-Law. 29 December 2022 No. 198, converted with L. 24 February 2023 No. 14), participation in the Meeting of the entitled parties will take place, without access to the meeting rooms, **exclusively through the Designated Representative pursuant to ex art. 135-*undecies* of Legislative Decree 58/98, Consolidated Finance Act,** in the manner described below.

Remote or postal voting procedures will not be used.

The Directors, the Statutory Auditors, the Meeting Secretary, the Representative of the Independent Auditors and the Designated Representative will participate, including if necessary by the use of remote conferencing systems in compliance with the current instructions in force.

Participation through the Designated Representative

In accordance with art. 106, paragraph 4, Decree Law 17 March 2020 No. 18, as subsequently amended and supplemented, participation in the Shareholders' Meeting of those who have the right to vote is permitted exclusively through the Designated Representative pursuant to ex art. 135-undecies of Legislative Decree 58/98, Consolidated Finance Act (the «Designated Representative»), by means of conferment, at no cost for the delegating party (except for any postage costs), of a specific proxy containing voting instructions on all or some of the proposals for resolutions on the items on the agenda. The proxy will only be effective in relation to the proposed resolutions for which voting instructions were given.

The Designated Representative identified by the Bank is Computershare S.p.A., based in Milan and with offices at via Nizza 262/73, Turin.

The proxy must be granted to the Designated Representative, with voting instructions, by the end of the second trading day prior to the date of the Meeting (i.e by 27 April 2023), using the specific form available from the Bank's website at the link, https://istituzionale.popso.it/en/investor-relations/shareholders-meeting, also stating how those entitled can grant the proxy and also revoke, by the same deadline, the proxy granted and the voting instructions given. Alternatively, the proxy can be sent, within the same deadline, using the specific web application available on the Bank's website at https://istituzionale.popso.it/en/investor-relations/shareholders-meeting, prepared and managed directly by Computershare S.p.A., through which it will be possible to proceed with the guided filling in of the proxy form and of the voting instructions.

The Designated Representative may also be granted delegations or sub-delegations in accordance with art. 135-novies of Legislative Decree 58/98, Consolidated Finance Act, as an exception to art. 135-undecies of the same

Decree, with voting instructions on all or some of the resolution proposals regarding the items on the agenda, by using the proxy/sub-proxy form available on the Bank's website at the address https://istituzionale.popso.it/en/investor-relations/shareholders-meetting to be sent to Computershare S.p.A. according to the terms and methods indicated in the form. The proxy/sub-proxy may also be granted by means of an electronic document signed in electronic form pursuant to art. 21, paragraph 2, of Legislative Decree 7 March 2005 No. 82 and notified to Computershare S.p.A. via e-mail at popso@pecserviziotitoli.it.

Additional agenda items and presentation of new proposed resolutions

In accordance with article 13 of the Articles of Association, shareholders who, also jointly, represent a total of not less than 2.5% of the share capital, can request additional topics to be added to the agenda, or present proposed resolutions on matters already on the agenda, within 10 days of publication of the Notice of Meeting, on the basis and with the timing established in art. 126-bis of Legislative Decree 58/98 (Consolidated Finance Act).

Requests must indicate the additional topics proposed, or the proposed resolutions on matters already on the agenda and must be presented in writing, or sent by registered letter with proof of receipt to the head office of Banca Popolare di Sondrio spa, at piazza Garibaldi 16, Sondrio, or sent by certified e-mail to segreteria@postacertificata.popso.it, indicating in the subject line the wording «2023 Meeting - additional agenda items/proposed resolutions».

Requesting parties must send to the Bank - through their intermediary - the communications certifying their entitlement to exercise the right pursuant to article 43 of the Bank of Italy-Consob Provision of 13 August 2018.

Within the same term and in the same manner, shareholders requesting the integration must prepare and send to the Board of Directors of the Bank a report outlining the reasons for the new topics that they would like to propose for discussion, or the reasons for additional motions that they would like to propose on matters already on the agenda.

Any additions to the agenda or the presentation of proposals for resolutions on items already on the agenda shall be notified, by the same means of publication of this notice, at least fifteen days before the date set for the Meeting (i.e. by 14 April 2023). At the same time, the reports prepared by the parties requesting the additions and/or the new proposed resolutions will be made available to the public, together with any considerations made by the Board of Directors, in the same ways as those envisaged for the Meeting documentation.

It is not permitted to add items to the agenda for those topics on which the Shareholders' Meeting has to vote, in accordance with the law, on the proposal of the Board of Directors or on the basis of a project or a report prepared by the Board, other than those mentioned in art. 125-ter, paragraph 1, of Legislative Decree 58/98 (Consolidated Finance Act).

Even if persons entitled to vote represent less than one-fortieth of the share capital, they may still present proposed resolutions individually and/or make voting declarations on items on the agenda. Given that participation at the Meeting is only allowed via the Designated Representative, these proposals must be presented in the manner described above by 10 April 2023. After checking their relevance with respect to the items on the agenda, as well as their proper and complete nature with respect to the applicable regulations, the proposals will be published on the website of the Bank by 14 April 2023, so that those entitled to vote can express themselves in an informed manner, taking account of the new proposals, and therefore allow the Designated Representative to collect any voting instructions in their regard as well.

The legitimacy to formulate proposals shall be certified by the notice provided for by art. 83-sexies of the Consolidated Finance Act issued by the intermediary for the purpose of attending the Meeting and exercising the voting right.

Right to ask questions on agenda items before the Meeting

Those who have the right to vote may propose questions on the items on the agenda before the meeting, by submitting them in writing by 20 April 2023, or by sending them by registered mail with return receipt to the registered office of Banca Popolare di Sondrio spa in Sondrio, Piazza Garibaldi 16, or by sending them by certified e-mail to segreteria@postacertificata.popso.it, indicating in the subject line of the e-mail «Shareholders' Meeting 2023 - questions on agenda items».

Requesting parties must send to the Bank - through their intermediary - the communications certifying their entitlement to exercise the right pursuant to article 43 of the Bank of Italy-Consob Provision of 13 August 2018 or the communication for intervention in the shareholders' meeting pursuant to article 83-sexies of Legislative Decree 58/98, Consolidated Finance Act, even after the submission of applications, provided that it is no later than the third day following the record date (i.e. by 23 April 2023).

In view of the fact that participation in the Shareholders' Meeting is permitted exclusively through the Designated Representative, questions that are relevant to agenda items will be answered by 27 April 2023 in a specific section of the Bank's website. The Bank may provide a single response to questions with the same content.

The Bank will not answer questions that do not comply with the above terms, conditions and procedures.

Proposal to amend article 24 of the Articles of Association. Related and consequent resolutions

With reference to item 1) on the agenda of the Extraordinary Shareholders' Meeting - Proposal to amend Article 24 of the Articles of Association. Resolutions pertaining thereto and consequent thereto -, it is specified that the elimination of the tenth paragraph of the aforementioned provision will be submitted to the Meeting. This will allow that at each annual renewal of one-third of the members of the Board of Directors, the candidate indicated in first place will be taken from the list that has obtained the second highest number of votes, provided that this list has obtained a number of votes at the shareholders' meeting equal to at least half of the percentage of capital required for the submission of lists (i.e. at least 0.5%). It will thus be possible to give broader representation within the Board of Directors to the components of the corporate body.

Assuming the proposal is approved, the new election mechanism will be applied immediately at the Ordinary Shareholders' Meeting that will follow the Extraordinary Shareholders' Meeting and appoint five directors for the three-year period 2023-2025.

More information on this can be found in the document «Reports on Proposals on Agenda Items» published on the company website at https://istituzionale.popso.it/en/investor-relations/shareholders-meeting.

Appointment of five directors for the three-year period 2023-2025

With reference to item 5) on the agenda of the Ordinary Shareholders' Meeting - Appointment of five directors for the three-year period 2023-2025 - it is recalled that the Board of Directors is renewed for one-third each year on the basis of seniority.

Only shareholders who, on the date of submission of the list, own - alone or together with others - voting shares representing a total of at least 1% of the share capital are entitled to submit a list. No shareholder may submit, or participate in submitting, or vote for more than one list, not even through a third party or trust company. Shareholders belonging to the same group - i.e. the parent company, the subsidiaries and the companies subject to joint control - and shareholders who signed a shareholders' agreement pursuant to art. 122 of Legislative Decree 58/98, Consolidated Finance Act, relating to the issuer's shares, may not submit more than one list, not even through a third party or trust company. A candidate may appear on only one list under penalty of ineligibility.

It is recalled that the lists of candidates for the office of director must be filed at the registered office by the twenty-fifth day prior to the date of the Meeting, i.e. by 4 April 2023.

Submitting shareholders have to prove the ownership of the required number of shares by means of specific communication pursuant to article 43 of Bank of Italy-Consob Provision of 13 August 2018 issued by an authorised intermediary in compliance with current legislation, with regard to the shares registered in their favour on the day on which the lists are filed with the Bank; if not available at the time of filing the lists, such communication shall be received by the Bank by the twenty-first day before the date set for the Shareholders' Meeting, i.e. by 8 April 2023.

Lists for the election of the Board of Directors can also be submitted by certified e-mail to segreteria@postacertificata.popso.it

For any matters not specified above concerning the list voting mechanism, reference should be made to the Directors' report and to Article 23 of the Articles of Association, which is reproduced below.

“““““““

Article 23

Presentation of lists of candidates

1. The directors are appointed on the basis of lists containing up to the maximum number of Directors to be elected, in which the candidates are listed with progressive numbering.
2. The lists containing a number of candidates equal to or higher than three must be composed so as to ensure the minimum number of independent directors and gender balance required by the law in force from time to time in the composition of the Board of Directors resulting from the vote, taking into account - in the assignment of the sequential number to the candidates - the election mechanism set out in article 24 below.
3. Each candidate may appear on only one list under penalty of ineligibility.
4. The Board of Directors and shareholders who, alone or jointly, represent at least 1% of the share capital may submit a list, unless the law and regulations in force from time to time establish a lower percentage, to be indicated in the notice of call of the Meeting.
5. Each shareholder may take part in the submission of a list by signing at the bottom of it. A shareholder may not submit for more than one list, even through a third party or through trust companies. Shareholders belonging to the same group - i.e. the parent company, the subsidiaries and the companies subject to joint control - and shareholders who signed a shareholders' agreement pursuant to art. 122 of Legislative Decree No. 58/1998 concerning the issuer's shares, may not submit more than one list, even through a third party or trust company. In case of non-compliance, the stipulation will not be counted for any list.
6. The lists shall be filed at the registered office - also by means of distance communication - according to the methods notified in the notice of call, which allow to identify the persons who filed them, by the twenty-fifth day prior to the date set for the Meeting, or within any other term set out by the law in force from time to time.
7. The lists shall be accompanied by the information related to the identity of the shareholders who have submitted them, with an indication of the number of shares and of the corresponding total percentage held by the submitting shareholders and - within the terms set out by the law in force from time to time - by a notice proving the ownership of the equity investment, as well as by any other information required by said law. Shareholders who submit a list and who are different from shareholders holding a controlling stake or a relative majority shall also submit a statement certifying the absence of any relationship with said shareholders, which can be qualified as significant according to the law in force from time to time.

8. The ownership of the number of shares necessary to submit the lists is determined by taking into account the shares that are registered in favour of the individual legitimated person or group of legitimated persons submitting the list, on the day when the lists are filed at the registered office. In order to prove the ownership of the number of shares suitable for the submission of lists, the persons entitled to do so shall file - together with the list - the notice issued by an intermediary authorised by law, showing the ownership of the related number of shares. The communication required in order to prove the ownership of shares may be made even after the filing of the list, provided that it is made at least twenty-one days before the date of the Meeting and according to the methods set out by the law in force from time to time.
9. Together with each list, detailed information on the personal and professional characteristics of the candidates and the list of offices held in other companies shall be filed at the registered office, as well as the declarations in which the candidates accept the candidature and, under their own responsibility, state that they are suitable for the office, by certifying, in particular, the non-existence of any reasons for ineligibility and incompatibility and the possession of the requirements set out by current legislation and by these Articles of Association for holding the office of director. Candidates shall state whether they comply with the specific independence requirements set out in the legislation in force from time to time for the position of independent director, and this quality shall be indicated in the lists.
10. Lists for which the above requirements are not observed shall be considered as not submitted. However, any irregularities in lists concerning single candidates shall not automatically imply the exclusion of the whole list, but only of the candidates to whom the irregularities refer.

»»»»»»

Reference should be made to the recommendations made by Consob in Notice No. DEM/9017893 of 26 February 2009 with regard to the relations between lists pursuant to art. 147-ter, paragraph 3 of Legislative Decree 58/98, Consolidated Finance Act, and Article 144-quinquies of Regulation No. 11971 approved by Consob resolution of 14 May 1999, to which reference should be made.

It should also be remembered that article 20, paragraph 2, of the articles of association states that:

«The composition of the Board of Directors shall ensure collegial adequacy, as well as the presence of the minimum number of independent directors and gender balance in accordance with the legislation in force from time to time.»

For the presentation of lists, the shareholders are required to take into account the document «Optimal qualitative and quantitative composition of the Board of Directors of Banca Popolare di Sondrio» published on the Company’s website at the link https://istituzionale.popso.it/en/investor-relations/shareholders-meeting.

In this document the Board of Directors has identified the ideal composition of the board in terms of quality and quantity and the profile that candidates need to have for the office of director. This document has been made known to the Bank's shareholders, so that the choice of candidates to be submitted for the renewal of the Board of Directors can take into account the professional skills required to perform the tasks entrusted to the Board.

The lists will be made available to the public at the Company's registered office, on the authorised storage mechanism «eMarket STORAGE» (www.emarketstorage.com) and on the Company's website at https://istituzionale.popso.it/en/investor-relations/shareholders-meeting by the twenty-first day prior to the date of the Shareholders' Meeting, i.e. by 8 April 2023.

Appointment of a director for the remainder of the three-year period 2021-2023 pursuant to Article 25(3) of the Articles of Association to replace a director who left office early.

With reference to item 6) on the agenda of the Ordinary Shareholders' Meeting - Appointment of a director for the remainder of the three-year period 2021-2023 pursuant to Article 25, paragraph 3, of the Articles of Association in replacement of a director who left office early - it should be noted that, following the resignation of Adriano Propersi (see Press Release issued by the Bank on 28 July 2022 and published on the corporate website), the need arises to proceed with his replacement.

In implementation of the provisions of Article 25(1) of the Articles of Association, the Board of Directors, by resolution approved by the Board of Statutory Auditors, co-opted Attilio Piero Ferrari, the only non-elected candidate on the list to which the director who had left office early belonged.

Pursuant to the law and the Articles of Association, the Board appointment of Mr. Attilio Piero Ferrari expires at the first Shareholders' Meeting and, therefore, it is necessary for the Ordinary Shareholders' Meeting to pass an appointment resolution to replace the director who left office early.

In this regard, please note that Adriano Propersi was most recently appointed by the Shareholders' Meeting of 11 May 2021 and taken from the majority list «List No. 1», of candidates for the election of five directors for the three-year period 2021/2023 and, therefore, his replacement is governed by Article 25, paragraph 3, of the Articles of Association, the text of which is set forth below:

""""""

Article 25

Replacement of directors

1. If, for any reason, one or more directors leave office during the year, the others shall replace them, by resolution approved by the Board of Statutory Auditors, selecting them, where possible, from among the unelected candidates on the lists to which the outgoing directors belong, in accordance

with the provisions of Article 20(2), in compliance with the laws in force from time to time on the minimum number of independent directors and gender balance. The directors thus appointed shall remain in office until the next Meeting.

2. If the majority of the directors appointed by the Meeting are no longer in office, those remaining in office must convene the Meeting to replace the missing ones.
3. If the Shareholders' Meeting has to replace directors taken from the only list presented or, in the event of several lists, taken from the list obtaining the highest number of votes, or otherwise elected pursuant to Article 24(3), or by relative majority, the election shall take place by relative majority vote of individual candidates without list obligation.
4. If the Shareholders' Meeting is required to replace a director drawn from another list pursuant to Article 24(2), letter b) above, the election shall be conducted by a relative majority vote of individual candidates, selecting them, where possible, from among the unelected candidates on the list to which the outgoing director belonged, or, alternatively, from among the candidates placed on any additional minority lists, or always by relative majority vote, but without taking into account the vote of the shareholders who submitted the majority list in the last election of the Board of Directors or who, according to the communications made pursuant to the regulations in force from time to time, hold, even indirectly, the relative majority of the votes that can be exercised at the Shareholders' Meeting and the votes of shareholders connected to them, as defined by the regulations in force from time to time.
5. In any case, the replacement of directors must take place in compliance with Article 20(2) of these Articles of Association, without prejudice to compliance with the legislation in force from time to time on the minimum number of independent directors and gender balance.
6. At least fifteen days before the date set for the ordinary Meeting, detailed information on the personal and professional characteristics of the candidates and the list of offices held in other companies shall be filed at the registered office, as well as the declarations in which the candidates accept the candidature and attest, under their own responsibility, the non-existence of any reasons for ineligibility and incompatibility and the possession of the requirements set out by current legislation and by these Articles of Association for the office of director.
7. Candidates shall state whether they comply with the specific independence requirements set out in the legislation in force from time to time for the position of independent director.
8. The directors elected by the Meeting shall take the place and, for the purposes of the rotation referred to in Article 22(2), the seniority in office of those they replaced. In the case of simultaneous appointments to posts of different lengths of term, those of the longest term shall be held by those elected with the most votes, seniority prevailing in the event of a tie.

"""""""

The submission of nominations pursuant to Article 25(6) may be made not only at the registered office, but also by electronic notification to the certified e-mail address segreteria@postacertificata.popso.it

We also recall the content of Article 20 of the Articles of Association, paragraph 2, already referred to above, and the document «Optimal Qualitative and Quantitative Composition of the Board of Directors of Banca Popolare di Sondrio» already referred to above.

Documentation

The explanatory reports of the Board of Directors containing the proposed resolutions and documents that will be submitted to the Shareholders' Meeting will be made available at head office, on the «eMarket STORAGE» authorised storage mechanism (www.emarketstorage.com) and on the Company's website at the link https://istituzionale.popso.it/en/investor-relations/shareholders-meeting by the current legal deadline. Shareholders have a right to look at this documentation and to obtain a copy of it at their own expense.

Sondrio, 17 March 2023

FOR THE BOARD OF DIRECTORS
Chair
(Francesco Venosta)

The notice of calling was published, as required by law, on the Company's website at the link https://istituzionale.popso.it/it/investor-relations/assemblea-dei-soci and, as an extract, in the daily newspaper «Il Sole 24 Ore» on 18 March 2023.

EXTRAORDINARY PART

Point 1) on the agenda: Proposal to amend article 24 of the Articles of Association. Related and consequent resolutions.

Explanatory Report of the Board of Directors of Banca Popolare di Sondrio spa drafted pursuant to Article 125-ter of Legislative Decree 24 February 1998 No. 58, as amended, and Article 72 and Schedule No. 3 of Annex 3A of the Regulations adopted by Consob Resolution No. 11971 of 14 May 1999, as amended (Issuers' Regulation)

Shareholders,

with this Report (hereinafter, the «**Report**, drafted pursuant to Article125- ter of Legislative Decree 24 February 1998 No. 58 (»**TUF**») and 72, as well as of Schedule No. 3 of Annex 3A, of the Issuers' Regulation, we intend to provide an illustration of the proposed amendment to the Articles of Association of Banca Popolare di Sondrio - società per azioni (»**BPS**» or the «**Bank**») that the Board of Directors of your Bank intended to submit for your approval.

* * *

1. Justification for the proposed amendment to the Articles of Association

The proposed amendment to the Articles of Association submitted for the approval of the Shareholders concerns Article 24, paragraphs 2 and 10, of the BPS Articles of Association.

* * *

Article 24 of the Articles of Association: proposal to repeal paragraph 10, with the consequent elimination of the reference to the same contained in paragraph 2, in order to provide broader representation within the Board of Directors of the components of the corporate structure

The proposed amendment to the Articles of Association concerns Article 24, the current paragraph 10 of which is proposed to be repealed, with the removal of the reference to the same contained in paragraph 2.

As a result of this amendment, the mechanism provided for in Article 24(2) of the Articles of Association would apply to each annual renewal of one-third of the members of the Board of Directors and, consequently, on each of these occasions, subject to the general provisions, a member taken from the list that obtained the second highest number of votes would be appointed as a director of the Bank (so-called «minority director»).

In other words, on each occasion of renewal according to the mechanism provided for in Article 22(2), of the Articles of Association, the rule shall generally apply according to which all candidates except the last one are taken from the list that obtained the highest number of votes, in the progressive order in which they are listed, while the candidate indicated in first place is taken from the list that obtained the second highest number of votes (and that was not presented or voted by shareholders connected, according to the laws in force from time to time, with the shareholders that presented or voted the list that obtained the highest number of votes). The provisions of Article 24(4) of the Articles of Association remain unaffected, according to which only lists that have obtained a number of votes at the Shareholders' Meeting equal to at least half of the percentage of capital required to submit such lists may be taken into consideration for the election of directors.

The proposed amendment to the Articles of Association therefore offers the opportunity to give broader representation within the Board of Directors to the components of the corporate structure, making it possible to increase the number of minority directors.

Approval of the statutory amendment and its initial implementation

The proposed amendment to the Articles of Association will be submitted for approval to the Extraordinary Shareholders' Meeting called for 29 April, which will be held immediately prior to the Ordinary Shareholders' Meeting, called for the same date, time and place, and called, among other things, to decide on the appointment of five directors for the three-year period 2023-2025.

It should be noted, in this regard, that the Board of Directors has assessed the full legitimacy of proceeding simultaneously, in a single Shareholders' Meeting, to amend the Articles of Association and the consequent renewal of the corporate bodies on the basis of the rules that are the subject of the proposed amendment, with effectiveness subject to the registration of the resolution to amend the Articles of Association in the competent Company Registry.

Should the proposal to amend the Articles of Association be approved, therefore, without prejudice to the need to proceed with the registration of the resolution to amend the Articles of Association in the competent Company Registry for the purpose of the effectiveness of the resolution to appoint the directors, for the three-year period 2023-2025, the following would be taken from the list that has obtained the highest number of votes, in the progressive order in which the first four candidates indicated are listed, while the candidate indicated in first place would be taken from the list that obtained the second highest number of votes (and that was not submitted or voted by shareholders connected, according to the laws in force at the time, with the shareholders that submitted or voted for the list that obtained the highest number of votes), provided that the provisions of Article 24(4) of the Articles of Association are complied with.

In the event that the proposal to amend the Articles of Association is not approved, for the three-year period 2023-2025, the directors would be drawn solely from the list that obtained the highest number of votes, with the first five candidates indicated being elected, in the progressive order in which they are listed, provided that the provisions of Article 24(4) of the Articles of Association are complied with.

* * *

2. Comparison of the article of the Articles of Association whose amendment is proposed in the current and proposed text, with an explanation of the changes made.

Below is the Article of the Articles of Association with evidence of the proposed changes to the text of the current Articles of Association.

Current text

Article 24
Election of directors

1. A shareholder may not vote for more than one list, even if through an intermediary or trust company. Shareholders belonging to the same group – i.e. the parent company, the subsidiaries and the companies subject to joint control – and shareholders who signed a shareholders' agreement pursuant to art. 122 of Legislative Decree No. 58/1998 concerning the issuer's shares, may not vote for more than one list, even through a third party or trust company.
2. Except as provided in paragraph 10 of this article below, the election of directors shall be conducted as follows:
   a) from the list that obtained the highest number of votes are taken, in the progressive order in which they are listed in the list, all of the Directors to be elected, except the last one;
   b) the candidate in first place is taken from the list that obtained the second highest number of votes and that was not submitted or voted by shareholders connected with the shareholders who submitted or voted the list that obtained the highest number of votes, according to the legislation in force from time to time.
3. If it is not possible to complete the Board's composition, due to a possible lack of candidates on the list that obtained the highest number of votes, this shall be carried out by taking from the list that obtained the second highest number of votes - in the order in which they are listed - any candidate that was not yet elected, so as to comply with the provisions in force from time to time concerning the minimum number of independent directors and gender balance.
4. Lists that have not obtained at the Shareholders' Meeting a number of votes equal to at least half of the percentage of capital necessary for the submission of the lists will not be taken into consideration.
5. If only one list exceeds this limit, and the same applies to the submission

of a single list, all the Directors shall be taken from that list, subject to compliance with the legislation in force from time to time concerning the minimum number of independent Directors and gender balance.

6. If two or more lists among those from which the candidates are to be drawn have obtained the same number of votes, the same shall be subject to a second ballot until the number of votes obtained ceases to be equal.
7. If the composition of the Board of Directors resulting from the vote does not ensure the appointment of the minimum number of independent directors required by the law in force from time to time, the non-independent candidate elected in the list that obtained the highest number of votes and that is marked by the highest sequential number is replaced by the next candidate of the same list who complies with the specific independence requirements set out by the law in force from time to time for the position of independent director. If this does not identify suitable substitutes, the director appointed from the list that obtained the second highest number of votes also gets substituted. If no suitable replacements can be found, or if it is impossible to apply the mechanism, the Meeting shall resolve by relative majority among single candidates who comply with the specific independence requirements set out by the law in force from time to time for the position of independent director, upon proposal of the persons who have the right to vote, and replacements shall be carried out in the above-mentioned order.
8. Furthermore, in the event that the composition of the Board of Directors resulting from the outcome of the vote does not comply with the principle of gender balance, the director, without the requisite required, is elected from the list that obtained the highest number of votes and characterised by the highest progressive number, it is replaced by the next candidate on the same list belonging to the less represented gender. If this does not identify suitable substitutes, the director appointed from the list that obtained the second highest number of votes also gets substituted. Even if suitable substitutes are not identified, or if the mechanism cannot be applied, the Shareholders' Meeting resolves on the spot by a relative majority between individual candidates belonging to the less represented gender, on the proposal of the persons present who have the right to vote, proceeding with replacement in the order indicated above.
9. If no list is validly submitted, the election shall be carried out by means of a relative majority of the candidates submitted to the meeting together with the filing of the required documentation, provided that the independence requirements are met in the number required by these Articles of Association and that the rules on gender balance in force from time to time are complied with.
10. For all partial renewals of the Board, also according to what is provided for by art. 22(2) above, as long as the director taken from a list that in a previous election obtained the second highest number of votes is in office (and therefore it is not necessary to appoint for the first time or due to expiry of the term of office or other cause for termination of said director), all the candidates of the list that obtained the highest number of votes shall be elected.

Proposed amendment

Article 24
Election of directors

1. A shareholder may not vote for more than one list, even if through an intermediary or trust company. Shareholders belonging to the same group - i.e. the parent company, the subsidiaries and the companies subject to joint control - and shareholders who signed a shareholders' agreement pursuant to art. 122 of Legislative Decree No. 58/1998 concerning the issuer's shares, may not vote for more than one list, even through a third party or trust company.
2. ~~Except as provided in paragraph 10 of this article below,~~ The election of directors shall be conducted as follows:
   a) from the list that obtained the highest number of votes are taken, in the progressive order in which they are listed in the list, all of the Directors to be elected, except the last one;
   b) the candidate in first place is taken from the list that obtained the second highest number of votes and that was not submitted or voted by shareholders connected with the shareholders who submitted or voted the list that obtained the highest number of votes, according to the legislation in force from time to time.
3. If it is not possible to complete the Board's composition, due to a possible lack of candidates on the list that obtained the highest number of votes, this shall be carried out by taking from the list that obtained the second highest number of votes - in the order in which they are listed - any candidate that was not yet elected, so as to comply with the provisions in force from time to time concerning the minimum number of independent directors and gender balance.
4. Lists that have not obtained at the Shareholders' Meeting a number of votes equal to at least half of the percentage of capital necessary for the submission of the lists will not be taken into consideration.
5. If only one list exceeds this limit, and the same applies to the submission of a single list, all the Directors shall be taken from that list, subject to compliance with the legislation in force from time to time concerning the minimum number of independent Directors and gender balance.
6. If two or more lists among those from which the candidates are to be drawn have obtained the same number of votes, the same shall be subject to a second ballot until the number of votes obtained ceases to be equal.
7. If the composition of the Board of Directors resulting from the vote does not ensure the appointment of the minimum number of independent directors required by the law in force from time to time, the non-independent candidate elected in the list that obtained the highest number of votes and that is marked by the highest sequential number is replaced by the next candidate of the same list who complies with the specific independence requirements set out by the law in force from time to time for the position of independent director. If this does not identify suitable substitutes, the director appointed from the list that obtained the second

highest number of votes also gets substituted. If no suitable replacements can be found, or if it is impossible to apply the mechanism, the Meeting shall resolve by relative majority among single candidates who comply with the specific independence requirements set out by the law in force from time to time for the position of independent director, upon proposal of the persons who have the right to vote, and replacements shall be carried out in the above-mentioned order.

8. Furthermore, in the event that the composition of the Board of Directors resulting from the outcome of the vote does not comply with the principle of gender balance, the director, without the requisite required, is elected from the list that obtained the highest number of votes and characterised by the highest progressive number, it is replaced by the next candidate on the same list belonging to the less represented gender. If this does not identify suitable substitutes, the director appointed from the list that obtained the second highest number of votes also gets substituted. Even if suitable substitutes are not identified, or if the mechanism cannot be applied, the Shareholders' Meeting resolves on the spot by a relative majority between individual candidates belonging to the less represented gender, on the proposal of the persons present who have the right to vote, proceeding with replacement in the order indicated above.
9. If no list is validly submitted, the election shall be carried out by means of a relative majority of the candidates submitted to the meeting together with the filing of the required documentation, provided that the independence requirements are met in the number required by these Articles of Association and that the rules on gender balance in force from time to time are complied with.
10. ~~For all partial renewals of the Board, also according to what is provided for by art. 22(2) above, as long as the director taken from a list that in a previous election obtained the second highest number of votes is in office (and therefore it is not necessary to appoint for the first time or due to expiry of the term of office or other cause for termination of said director), all the candidates of the list that obtained the highest number of votes shall be elected.~~

Comment

The repeal of paragraph 10, with the consequent elimination of the reference to the same contained in paragraph 2, is intended to give broader representation within the Board of Directors to the components of the corporate structure, allowing for an increase in the number of so-called minority directors. In fact, the mechanism for electing directors shall generally apply, according to which all the candidates except the last one are taken from the list that has obtained the highest number of votes, in the progressive order in which they are listed, while the candidate indicated in first place is taken from the list that has obtained the second highest number of votes.

* * *

3. Information on the recurrence of the right of withdrawal: no right of withdrawal in relation to the proposed amendment to the articles of association

Pursuant to Article 72, paragraph 1, of the Issuers' Regulation and as indicated in Schedule 3 of Annex 3A to the same Issuers' Regulation, it should be noted that the proposed amendment to Article 24, paragraphs 2 and 10, of the Bank's Articles of Association does not give rise to the right of withdrawal pursuant to Article 2437 of the Italian Civil Code.

* * *

4. Authorisations

The proposed amendment to the Articles of Association was submitted, pursuant to Articles 56 and 61 of Legislative Decree 1 September 1993 No. 385 (»**TUB**»), to the European Central Bank, which, in a ruling of 17 February 2023, stated that it was not contrary to sound and prudent management.

* * *

5. Proposed resolution to the Extraordinary General Meeting

In light of the foregoing, the Board of Directors of Banca Popolare di Sondrio submits the following resolution proposal to the Extraordinary Shareholders' Meeting:

«The Extraordinary Shareholders' Meeting of Banca Popolare di Sondrio società per azioni, having taken note of the illustrative Report of the Board of Directors on the proposed amendment to the Articles of Association and the proposal formulated therein,

RESOLVES

A. to amend Article 24 of the Articles of Association, approving this change in the text set forth in the Explanatory Report, for the reasons stated therein;

B. to confer on the Board of Directors, and on its behalf the Chair and the Managing Director, also jointly and severally, within the limits of the law, any and all powers to provide whatever is necessary for the implementation and full execution of this resolution, with any and all powers necessary and appropriate for this purpose, none excluded and excepted, including the power to make any amendments, additions or deletions of a non-substantial nature to this resolution that are necessary for its registration in the Company Registry, including any amendment necessary or opportune for technical-legal reasons or required by the competent Authorities, declaring as of now that the action has been taken and is valid».

Sondrio, 17 March 2023

THE BOARD OF DIRECTORS

ORDINARY PART

*Note. The figures in this report are in euro.
Because most of the figures in the text and tables are rounded to the nearest million or thousand euro, the percentages may differ marginally from those that would result from a comparison of the same amounts expressed in different units*

DIRECTORS' REPORT ON OPERATIONS

Shareholders,

As is customary, as a preface to the Report we would like to address a grateful thought, with a few remarks, to those who have passed away since last year's Annual General Meeting and who were particularly close to our bank in life.

Let us begin with the collaborator Alessandro Rossi of Casciago, born in Varese on 4 January 1975, who passed away at the age of 48 on 11 March 2023.

Hired at this bank on 3 September 2001, he was assigned to the Como branch and subsequently transferred to the Milan branch No. 1, remaining there until March 2006. He then took up service at branch No. 23 in Milan.

In June 2007, he had moved to the Gallarate branch and two years later, he was assigned to the Marchirolo branch in the role of deputy head of that branch. He was placed in the third area, fourth level.

His untimely death has particularly saddened us and left a void in all those who knew and appreciated him.

Tireless worker, always available, knowledgeable, affable. We remember him with sincere regret.

Mr. Paolo Sironi di Morbegno, a retired employee, born in Chiavenna on 2 March 1940 and passed away at the age of eighty-two on 27 June 2022.

Recruited on 1 March 1965, he was assigned to the Chiavenna branch and remained there until mid-May 1968, after which he was transferred to the Morbegno branch, where he retired at the end of December 1993. He had the title of deputy office manager.

A person with gentle manners and respect for institutions, even as a pensioner he was not idle: he enthusiastically dedicated part of his time to the community, with particular attention to the associations in Morbegno.

We remember Mr. Paolo Sironi's long, painstaking collaboration.

The accountant Giuliano Bresesti from Teglio, San Giacomo district, was born on 4 December 1956. He died aged 65 on 9 November 2022.

He had joined the Bank on 7 November 1978 and was assigned to the corporate and treasury department at headquarters.

After joining the Sondrio branch in September '79 and until December '81, there was a succession of assignments at other branches and services, which enriched his work experience: Tirano branch, return to head office at the branch coordination office and inspectorate office, return to the Tirano branch, then agencies in Teglio and Tresenda, and then (16 December '91- 21 August '94), he headed the Primaluna agency in the province of Lecco. He returned to Valtellina at the Sondalo branch, in

October '94, he was back in Tirano, and from 18 October 2007 until 31 December 2021, the eve of his retirement, he worked at the agency in Villa di Tirano. His qualification was that of a Level 1 Middle Manager.

He was hard-working and of few words. We remember accountant Bresesti's willingness to perform the various tasks entrusted to him.

Surveyor Maurizio Bettini from Sernio, born in Tirano 11 September 1956, passed away on 24 January 2023.

Recruited into our bank on 2 January 1979, he had taken up service at the Aprica branch. On 25 January of the same year, he was transferred to the Tresenda agency as deputy manager and, in the same capacity, later took up his post at the Grosotto agency. In the following years, he was branch manager in Tresenda, Mazzo, Villa di Tirano, Grosio and Teglio. On 25 June 2007, he was transferred to the Tirano branch as deputy manager, a position he held until 31 May 2019, when he retired from this bank due to age limit. His qualification was that of a Level 2 Middle Manager.

Surveyor Bettini made a fruitful contribution by working diligently.

We move on to Mrs. Angela Fagioli of Sondrio, a retired employee, born on 29 May 1952, who passed away on 19 February 2023.

She was hired on 15 June 1970 and assigned to the CED-Data Processing Centre of the Service Centre.

Her commitment to this bank ended on 30 September 2010 due to retirement. She was placed in the third area, third level.

She was attached to family and the values that make it strong and united.

We remember Mrs. Fagioli's long, valued collaboration and loyalty to the company.

On 17 April 2022 was the passing of Knight of the Grand Cross Professor Antonio La Torre, born in Messina on 1 March 1928, one of the most eminent magistrates, jurists and intellectuals in the history of his city.

We are pleased to point out that Professor Antonio La Torre was a member of the Board of Arbitrators of this Popolare Bank from March 2002 to the end of 2021.

In June '49, at the age of 21, he graduated in law at the University of Messina, with 110 cum laude and publication of his thesis.

In 1950, he entered the Magistracy, ranking first among the 200 winners of the examination competition. In '64, he was admitted as a «Magistrate of exceptional ability» to the special examination competition for Appeal Magistrate and became the youngest Court of Appeal director in Italy.

In 1971, he won the competition for examining magistrate of the Supreme Court with top marks.

It is a succession of prestigious assignments and professional successes.

He retired in March 2000 as First Honorary President of the Supreme Court of Cassation.

He had words of esteem for our bank, to which he paid particular attention, both with regard to its actual institutional activity and its cultural aspects, so much so that he came to Sondrio as a lecturer on 6 December 1996 and 10 June 2005. On both occasions, he entertained the large audience in the auditorium with elevated elocutions on topics related to law. In addition, he was a valued writer of our Newsletter.

To the distinguished jurist goes our heartfelt remembrance together with renewed gratitude.

Professor lawyer Alberto Crespi, renowned jurist and criminal lawyer, born in 1923 in Milan to a family of entrepreneurs, died on 9 September 2022.

He has been a lecturer at the University of Cagliari, the Università Cattolica del Sacro Cuore in Milan and the University of Milan.

In his professional capacity as a lawyer, he assisted various personalities connected to the major Italian financial events of the second half of the last century.

His passions include art and classical music, primarily organ music.

Professor Crespi was a gentleman and man of honour from another era, with a noble soul and exceptional culture.

It is with pleasure and pride that we recall that he served as pro-bishop of our bank from March 1994 until the end of 2021, carrying out the delicate task with the ability and wisdom that distinguished him, values accompanied by thoughtful helpfulness.

Bookkeeper Alfredo Valgoi di Bormio, born 29 March 1932, passed away 18 February 2023.

A talented and good-natured person, he was well liked in Alta Valle (Upper Valley) and also appreciated in reference to his work as a freelancer. He got to know his fellow citizens well, with whom he had jovial interpersonal relationships, which he cultivated with spontaneity.

He loved Bormio, his town, and passionately dedicated himself to the community and its development.

He was fond of our bank, whose performance and news he followed year after year. In April 1975, he was appointed supervisory and discount commissioner of our Bormio branch, a role he held until 31 May 2016 and always performed with passion and thoughtfulness.

On 10 December 2022, the lawyer Corrado Sforza Fogliani of Piacenza, born on 15 December 1938, thus almost eighty-four years old, died.

He graduated in law at the University of Milan and for several years held the post of magistrate in Piacenza. Subsequently, he was President of the Chamber of the Provincial Tax Commission of Piacenza.

From October '86 and for 25 years, he was President of the Banca di Piacenza, to which he remained attached, serving on the Board of Directors and Executive Committee.

After serving as vice-president of Confedilizia, a position he began in May 1983, he became its national president in January 1991 and left office in 2016.

In 2000, he was elected as a member of the National Council of the Italian Banking Association (ABI), of which he authoritatively assumed the vice-presidency.

From 2012 to 2014, he was a director of the Federation of Banks, Insurance and Finance.

On 8 July 2015, he assumed the onerous office of president of the National Association of Popular Banks (Assopopolari).

Among the much that could be added, his many publications leap to mind, revealing ease of writing, profound preparation and vast culture.

He was very attached to the world of popular banks, of whose autonomy and independence he was a staunch defender, in the conviction that these credit institutions, being intimately acquainted by their nature with the territories they preside over, the local business community and their residents, are able to distinguish themselves in terms of efficiency and effectiveness in their operations, limiting the risk of insolvency as much as possible.

We gladly remember the noble figure of the far-sighted and enlightened banker Corrado Sforza Fogliani, who was also a point of reference for the Banca Popolare di Sondrio.

Professor Chiara Frugoni, historian and writer, born in Pisa on 4 February 1940, passed away on 10 April 2022.

She graduated from Rome's La Sapienza University in 1964 and started teaching at university in 1974. From 1980 to 1988, she taught Medieval History at the University of Pisa and then moved to the University of Rome Tor Vergata as a teacher until 2000.

A passionate scholar of the medieval period, Professor Frugoni has produced numerous valuable works.

It is nice to remember that, despite her many commitments, she also reserved space and time for our Newsletter, of which she was a valued contributor.

On 28 July 2022, Professor Pietro Citati, born in Florence on 20 February 1930, passed away in Roccamare di Castiglione della Pescaia, Grosseto province. He was a writer, journalist and literary critic.

He spent his childhood and youth in Turin, where he successfully attended the Massimo d'Azeglio classical high school. In 1942, he moved with his family to Liguria and, after the war, returned to his native Tuscany.

He graduated in Modern Literature from the Scuola Normale Superiore in Pisa and began his career as a literary critic with the magazines Il Punto, L'Approdo and Paragone.

From 1954 to 1959 he was a teacher of literature in vocational schools in Frascati and the Roman suburbs. Later, he collaborated with the daily newspapers Il Giorno, Corriere della Sera, la Repubblica.

A prolific essayist with elegant writing, he loved to write about the great literary authors of the past, with whom he identified himself to such an extent that, inexorably, when he spoke of them he spoke of his own existence.

Among his many literary endeavours, we recall «The Fall of Mexico», a work on which he entertained a large audience in our Fabio Besta hall in Sondrio on 18 April 1997. In particular, he had considered a chapter in the book where the Aztec emperor Montezuma II is mentioned.

Professor Pietro Citati was also a contributor to our Newsletter for years. We say this with pride and gratitude.

The death of the last secretary of the Communist Party of the former Soviet Union Mikhail Gorbachev on 30 August set the world's mass media in motion in a flash, momentarily interrupting their programmes to give space to the news.

When one speaks of Gorbachev, one's first thought runs to the complicated years when the so-called «Cold War» was a reality of great risk for the Western world, which could awaken from one day to the next to the din of missiles and bombings. Echoing in the memory is the phrase «Iron Curtain», which stood for the separation of Europe into two blocs, East and West, based on Soviet and Anglo-American influence respectively.

The year 1985 was the year of Mikhail Gorbachev's accession to the Kremlin, who would remain there until 1991. The newcomer is the proponent of reforms linked to «Perestroika» and «Glasnost». These reforms changed history forever, having facilitated the dissolution of the USSR - Union of Soviet Socialist Republics - and promoted the reunification of East and West Germany and the end of the Cold War.

Gorbachev, born in 1931, son of peasants, Nobel Peace Prize 1991, was the dreamer man who, in dialogue with the great of the earth, first and foremost US President Ronald Reagan, laid a solid foundation for peaceful coexistence between peoples, a true revolution for the benefit of limiting nuclear weapons, progress and the serenity of peoples.

Our bank, attentive then as now to political events in the world and its protagonists, invited the prestigious Soviet statesman to Sondrio, who accepted the proposal and dedicated the day of 15 November 1994 to this city.

The distinguished guest spoke warmly in the conference room of our headquarters to numerous representatives of the economic and business worlds of Valtellina and Valchiavenna, who were present at the occasion. Afterwards, in the packed hall of the Teatro Pedretti, now the Teatro Sociale, Gorbachev delivered an intense speech on the general world political and economic problems and how to intervene to try to solve them. For those who were present at the event, the memory of the charismatic character's verbal power and intellectual honesty remains indelible.

Professor Alberto Papuzzi, journalist, writer and lecturer, born in Bolzano in 1942, passed away at the end of September 2022.

His work as a journalist began at the age of 20 at Venezia Notte, the local edition of Milan's La Notte newspaper.

He then arrived at La Stampa, a prestigious national newspaper, which he left in the mid-1970s to join l'Unità, Turin edition. After a short time, he moved on to the Gazzetta del Popolo, a historical newspaper in Turin.

At the end of the 1970s, he gave up journalism and worked at Casa Editrice Einaudi as head of the press office, remaining there until the end of the 1980s. Later, he returned to La Stampa, where he became Head of Culture in 2001.

Despite his commitments, he also set aside time for the Popolare di Sondrio, whose cultural and other activities he appreciated, agreeing to write articles for the company newsletter. His high level of collaboration with the magazine, which began in 2004, lasted until the end of 2018.

We remember him with sincere regret and renew our gratitude for the attention he paid to this bank and the people working in it.

Death, life's mysterious sequel, has inspired artists and poets from every age and place. One among many, Vincenzo Cardarelli, who in his poem «To Death», among others, expresses the following wish: «To die convinced that such a journey is the best. And in that last moment be as cheerful as when you count the minutes on the station clock and each one is worth a century». And then a prayer: «On the verge of crossing the threshold of time, when even the memory of us will fade away, let us, O Death, say farewell to the world, grant us one more delay. Let the huge step not be precipitous».

SUMMARY OF RESULTS

Shareholders,

The year we have left behind will undoubtedly remain etched in the collective memory for the return of war to the heart of Europe. An event as unforeseen and tragic as the outbreak of the Covid-19 pandemic in early 2020. Without wishing to make similarities or comparisons, these are undoubtedly events that have dramatically marked world affairs, with social and economic repercussions extended to the entire globe.

The risk of an escalation of the conflict seemed real at times, and the nuclear danger - linked to possible accidents in production plants or the use of atomic weapons - resurfaced, reminding us of the darkest scenarios of the Cold War. The consequences of the ongoing conflict affected all countries, from those dependent on Russia for energy sources to those receiving vital grain supplies from Ukraine.

The hope that the current year will bring peace depends not only on the will of the belligerents, but also on the commitment that the main players on the international scene will provide.

In 2022, the international economy experienced a significant slowdown, while the inflationary spiral reached very worrying levels, driven in particular by the very significant increases in gas prices, which were then transmitted to other sectors. In this respect, reference is made to the chapter on international references.

In a complex general scenario, our bank has been committed to continuing an important development action alongside businesses and families, supported by an excellent level of capitalisation and an effective policy of safeguarding asset quality. The creation of value in the medium to long term was accompanied by the commitment dedicated to the process of adapting corporate governance to the new legal status of a joint-stock company.

The accounting figures show a busy and profitable financial year: profit amounted to 212.902 million euro, a slight increase over the previous year, +0.38%. A very satisfying result, achieved in an extremely difficult context and the result of the commitment of our staff of 2,916, an increase of 50. The profitability figure, which relied in particular on the excellent performance of the core business, is corroborated by the solidity of the balance sheet, evidenced by ratios that place us at top levels at national level.

The key figures are summarised below.

Total assets came in at 52,519 million, +5.81%. Capital and reserves, including valuation reserves and net profit of the period, amounted to 2,873 million, +1.44%.

Direct deposits rose 6.44% to 38,159 million, while loans and receivables with customers amounted to 26,712 million, +6.68%.

Net interest income was 582.209 million, +30.29%; net fee and commission income reached 331.191 million, +6.90%. Reclassified total income amounted to 942.466 million, +4.42%.

The Banca Popolare di Sondrio share closed the year with a slight increase: +2.22%. The shareholder structure amounted to 158,400 shareholders.

RESULTS IN BRIEF

(in millions of euro)

Balance sheet figures	31/12/2022	31/12/2021	Var. %
Loans and receivables with customers	26,712	25,040	6.68
Loans and receivables with customers measured at amortised cost	26,324	24,606	6.98
Loans and receivables with customers measured at fair value through profit or loss	388	434	-10.68
Loans and receivables with banks	3,842	4,846	-20.72
Financial assets that do not constitute loans	13,655	13,707	-0.38
Equity investments	696	613	13.52
Total assets	52,519	49,636	5.81
Direct funding from customers	38,159	35,850	6.44
Indirect funding from customers	37,109	38,970	-4.78
Direct funding from insurance premiums	1,958	1,909	2.54
Customer assets under administration	77,226	76,730	0.65
Other direct and indirect funding	19,147	18,574	3.08
Equity	2,873	2,832	1.44

Income statement	31/12/2022	31/12/2021	Var. %
Net interest income	582	447	30.29
Total income*	942	903	4.42
Profit from continuing operations	299	302	-0.78
Profit (Loss) for the period	213	212	0.38

Capital ratios			
CET1 Capital ratio	16.46%	17.53%	
Total Capital ratio	19.70%	21.27%	
Free capital	1,926	2,050	

Other information on the Banking Group			
Number of employees	2,916	2,866	
Number of branches	352	350	

* Total income is represented as per the reclassification made in the table commenting on the income statement

KEY RATIOS % **

	31/12/2022	31/12/2021
Cost/Income	44.93	46.75
Net interest income/Total assets	1.11	0.90
Net financial income/Total assets	1.46	1.55
Net interest income/Total income	61.78	49.51
Administrative expenses/Total income	45.12	46.24
Profit for the year/Total assets	0.41	0.43
Net bad loans/Loans to customers	0.44	0.75
Loans to customers/Direct funding from customers	70.00	69.85

** The ratios indicated were calculated using the figures shown in the table commenting on the income statement

Banca Popolare di Sondrio FOUNDED IN 1871

THE BANKING GROUP IN THE HEART OF THE ALPS

BPS (SUISSE)
Banca Popolare di Sondrio (SUISSE)

Factorit

POPSO
COVERED BOND

SINERGIA
SECONDA

Banca Popolare di Sondrio (SUISSE) SA, Factorit spa, Banca della Nuova Terra spa and the other companies of the Banking Group have contributed to expanding and qualifying our commercial offer, with positive economic results.

INTERNATIONAL ASPECTS

The year 2022 will inevitably go down in the annals of history for the return of war to the heart of Europe. After Covid-19 had put the pandemic stamp on previous years, the Russian invasion of Ukraine was the event that affected the geopolitical dynamics of the year under review. Consequences ensued that had worldwide repercussions, with differing effects between countries, depending on the degree of dependence of their economies on those of the belligerents.

The conflict brought to the surface phenomena that had been kept under wraps, triggering a rise in energy costs - especially natural gas -, which then affected many other commodities. Inflation reached levels not seen in decades, forcing the major central banks to tighten monetary policies, while at the same time the risks of an economic slowdown or even recession increased.

As a result, the world economy declined sharply in 2022 compared to the previous year: from a growth rate of 5.9% to around 3%. It should be noted that in the last quarter of the year, the signs of a worsening economic situation seem to have intensified, especially in the most advanced countries and in China.

The latter was particularly affected by the flare-up of the pandemic. The sudden abandonment of the extremely restrictive measures adopted for a long time seems to have created new problems, also in relation to the low immunisation level of the population. The Asian giant's difficulties are, moreover, attested by the GDP figure, which grew by 3% in the twelve months, below government expectations and far from the 8% of the previous year. However, the world's other major economy, the United States, also showed a marked decline from +5.9% in 2021. In fact, GDP growth stopped at +2.1%.

After the good results of the summer period, world trade also slowed down, with annual growth around 5.5%.

The slowdown in the economic cycle finally had some effect on oil and natural gas prices. This latter energy source, which is particularly important for Europe, which has discovered itself to be severely dependent on Russia for its supplies, began to show a marked decline in the autumn, favoured by substantially stable inflows, falling industrial demand and very mild weather.

An extremely complex geopolitical and macroeconomic landscape, in which international stock exchanges have seen the spectre of stagflation gradually take shape - in a spiral fuelled by inflation, restrictive monetary policies, and economic slowdown. This translated into a surge in volatility and risk aversion in the markets, which severely penalised performance.

In the US, the Standard&Poor 500 index dropped 19.44%, while in Europe, the Euro Stoxx 50 ended the year with a correction of -11.74%. The stock markets of emerging countries also suffered heavy losses. In addition to the collapse of the Russian market by more than 50%, the decline in China, in the order of 22%, stands out.

The euro area has become the international player most directly exposed to the consequences of the conflict in Ukraine. The aforementioned very high dependence on Russia for energy supplies has in fact exposed its economic system to a veritable explosion in natural gas costs and serious risks to the stability of supply. While the latter have at least partly eased, price increases have been a major contributor to the run-up in inflation, which was +9.2% at the end of the year. The REPowerUE programme is the new initiative set up by the European Union to diversify energy supply and accelerate the use of renewable energy sources.

The transmission of inflation to wages was still limited and is expected to remain under control, avoiding the start of a self-feeding cycle. The difficulties for households, who see their real spending capacity progressively eroded, are evident. Many analysts have highlighted the fact that the most damaged ones are those who are economically fragile, since the increase in commodities prices burden them.

The European Central Bank gradually raised official rates and also took steps to gradually reduce the size of the Eurosystem balance sheet.

Eurozone GDP, discounting the aforementioned difficulties, nevertheless increased by 3.5% at the end of the year, above China and the US. This was despite the fact that the last months of 2022 were characterised by substantial stagnation.

The Swiss Confederation ended 2022 with GDP growth of around 2%, a result to which the sustained momentum of private consumption contributed in particular. Foreign trade results were also positive, although the trend was down over the end of the year.

Price increases remained very moderate, at around 2.8% in December, thanks in part to the appreciation of the Swiss franc, whose strength acted as a buffer against imported inflation.

In line with the other monetary authorities, the Swiss National Bank gradually raised interest rates, with three interventions in the second half of the year to counter inflationary pressure.

Euro

The European currency - which celebrated, on 1 January, the entry of Croatia as the twentieth country among those sharing its use - presented a trend of lights and shadows in the year under review.

The revaluations against the British pound (+5.55%), the Japanese yen (+7.88%) and the Chinese renminbi (+2.27%) were countered by slides against the US dollar (-5.83%) and the Swiss franc (-4.68%). The exchange rate with the latter currency was below parity at 0.9847 at the end of the year.

The ECB, by gradually raising its reference interest rate, starting in July, from zero to 2.50%, has, in fact, followed the US Federal Reserve – which, moving as early as March, cumulatively raised it by 4.25 percentage points – with a time lag justified, among other things, by the different nature of inflation on both sides of the Atlantic: more related to domestic demand, in the context of a then more buoyant economic situation, in the United States; mainly triggered, in Europe, by supply factors, primarily that of energy commodities.

However, it is precisely the asynchrony of monetary policies, contributing to the appreciation of the dollar against the euro, that has conspired - by making imports of goods invoiced in US currency, such as most energy goods, more expensive - to fan the flames of European inflation, and moreover on the component that, also taking into account that the exchange rate is not one of the ECB's declared targets, is most beyond its control.

The strength of the Swiss franc, against a total increase in the official rate of only 175 basis points, is probably due to its reaffirmed role as a safe haven asset in a year of war.

ITALY'S ECONOMIC SITUATION

The economic combination that took shape in 2022 - war, inflation, rising interest rates - particularly affected our country, given its economic morphology, which, although benefiting from a gas price calmed especially by a very mild autumn/winter, is burdened with increasingly heavy debt.

On the growth side, where Italy's tradition is unfavourable, an unexpected resilience was nevertheless reflected in a GDP which, although on a slowing trend, achieved an annual figure of +3.7%, unexpected even in the immediately preceding forecasts. Adding to the +7% with which 2021 had rebounded after the -9% in 2020 of the Coronavirus, this made it possible to recover, indeed to surpass the 2019 GDP by 1%.

The detail of the components highlights the exclusive role of domestic demand: private consumption, which rose by 4.6%, did not, however, regain its pre-pandemic level; on the contrary, investment, which increased by 9.7%, exceeded it by almost 20%. The negative contribution of the foreign channel was determined by a more robust growth in imports (+12.5%) than in exports (+10.2%), which, together with the fact that the former were further inflated, in value, by increases in energy product prices, helps to explain the first negative trade balance in many years: 31 billion deficit against a surplus of 40 in 2021.

Unemployment also improved compared to the eve of the pandemic: the general index fell again, from 9.1% in the last quarter of 2021 to 7.7% in the third quarter of 2022, the index for young people aged 15 to 24 even from 28 to 22.5%, more than 15 percentage points below the peak in January 2021. In the fourth quarter, only slight increases were reported, to 7.9% and 23.9% respectively.

The worsening in the Italian price trend, bearing in mind that at the end of 2020 we were still in deflation (-0.3%) and that, twelve months later, we were alarmed by a local maximum of +4.2%, which was also lower than the euro area average, can be read firstly in reaching, in August, at 9.1%, perfectly realigned with that of the rest of Europe and then, when the latter, in October, was at 10.6%, in the leap to 12.6%, which would be confirmed in

November. The final survey, which fell by only 3 tenths, showed a widening gap to the EU figure, which has since fallen back to 9.2%.

Instead, the main public finance parameters would have made renewed progress: in relation to GDP, net borrowing would have fallen from 7.2 to 5.6%, debt from 150.3 to 145.7%. A further reabsorption to 144.6% (with a target for 2025 of 141.2%) allowed the Budget Law for 2023 to adopt expansionary measures amounting to some forty billion.

The prudent approach to the management of accounts seems to have gained credibility in the markets: while the spread, starting at around 140 basis points, had risen to the 250 area following the resignation of the Draghi government (in July, also triggering the revision of the outlook from stable to negative by the rating agency Moody's) and, again, with the subsequent results of the September elections, it ended the year not much above 200, and was on its way to falling well below that threshold at the beginning of this year.

THE ITALIAN BANKING MARKET

The year 2022 marked the return of rises in the ECB's official rates, the main one of which, nailed at zero since 2016, was raised, in a rapid sequence that began last July (and is set to continue in 2023), to 2.50% at the turn of the year.

In this context, the yield on interest-bearing assets for Italian banks increased much less, from 1.72% in December 2021 to 2.95% twelve months later. However since, at the same time, the cost of funding (from households and non-financial corporations) only rose from 0.44 to 0.61%, the resulting spread widened to an extent not seen in a long time, from 1.28 to 2.34%.

Not so much due to insufficient remuneration as to the erosion brought about by the rising cost of living, the volume of the aforementioned deposits has gone into negative annual variation, albeit limited to 0.3%: if the decline in bonds, which had been underway for some time, has now disappeared, unprecedented is the recession in deposits, at -0.4%, which includes the -1.5% of the component, that of current accounts, which in recent years, had instead represented the privileged parking place for Italians' savings.

An opposite trend is indeed evidenced by the nominal value of fixed-yield securities under custody, which grew by 12.2%, while the portfolio under asset management with banks fell - here the figures are for the third quarter - by 3.1%, moreover in a context that, if SIMs and AMCs are included, fell overall by as much as 12.4%.

On the other hand, the drop in assets of mutual funds (of Italian and foreign law), going back to December, to 1,075 billion euro compared to 1,273 billion euro at the end of 2021, can be attributed to large capital losses, 207 billion euro, and not to outflows of subscriptions, which, although they did indeed afflict bonds, were outweighed by inflows, concentrated on equities and balanced funds, for a net positive of around 9 billion euro.

The trend in loans to households and businesses was more comforting: +0.3%, which would become +1.6% once adjusted for technical phenomena such as securitisation.

Sticking to the raw figure, it is the result, as in the past, of a more favourable dynamic - compared to that of businesses, at -2.1% - on the part of households (+2.7%). Within which, consumer credit was consistent with this figure, loans for house purchases were more lively (+4.2%).

On the other hand, compared to previous years, the relative contribution of loans beyond one year, which slowed down further to 0.2 %, and of short-term loans, which came out of a protracted negative season and settled at +0.8 %, reversed.

As for the crucial issue of credit quality, while 2022 had been predicted as the time when the worst effects of the pandemic would manifest themselves (after the temporary respite provided by moratoria and other support measures), the more recent eruption of war, inflation, rising rates and recessionary pressures have led to predictions of further exacerbations in the next two years. However, the new peak, now postponed to 2024, is expected to be not only lower than originally predicted in '22, but probably also lower than the pre-pandemic peak.

The year under review marked a new improvement in the main indicators. The ratio of net non-performing loans to loans fell back to 0.81%. Similarly, the ratio to capital and reserves declined to 4.14%. The NPL ratio, again net of adjustments, which had unexpectedly dropped by more than a point to 2.2% in 2020, should have closed at 1.6%.

Having entered the turbulent situation of the last few years - evocatively dubbed the «permacrisis» - in a much more solid condition than on the eve of the two-year period 2007-2008, gives banks a resilience that is also reflected in the relevant profitability.

Moreover, the rise in interest rates is always good news for the relative margin, whose expected increase, already in 2022, will not in any case be cancelled out by the negative impact, on the contrary, on that part of miscellaneous revenues consisting of trading and securities commissions.

As costs are expected to increase at a lower rate than the overall increase in revenues, the result from ordinary activities will be mainly jeopardised by the increasing amount, albeit tempered by the above considerations, of loan adjustments.

THE PROVINCE OF SONDRIO'S ECONOMY

Banca Popolare di Sondrio has always been particularly attentive to the area where it was established and took its first steps. This is why, year after year, we reserve a space in the issue of the Report for the economy of the province of Sondrio.

Let's start with the primary sector. It was a difficult year for the sector, due to the general inclement weather and the marked drought, which put a strain on those working in the specific branches.

As for the wine-growing year, while the abnormally hot weather and the scarcity of rain resulted in a limited incidence of downy mildew infections, the phenomena led to water and heat stress, especially in terraced vineyards exposed to the wind and with little soil. In any case, the quality of the grapes for vinification was good, both because of the appropriate actions taken by the farmers, and because the clear days in the run-up to the harvest benefited the final ripening of the grapes in no small measure. A total of 40,748 quintals of product were delivered to wineries for vinification, of which 5,688 of Sforzato di Valtellina DOCG, 24,893 of Valtellina Superiore DOCG, 4,887 of Rosso di Valtellina DOC and 5,280 of Alpi Retiche IGT.

Apple cultivation in the province of Sondrio, as we know it today, was given a decisive boost in the 1960s. From August to mid-October, the various qualities that the more than 300 member companies of the Melavì cooperative in Ponte in Valtellina deliver to it for marketing are harvested. This is an IGP product, labelled «Melavì».

Despite the aforementioned difficult conditions caused by the drought, the quantity of product delivered to Melavì was good, totalling 103,210 quintals. Quality was also in line with previous years, with juicy and aromatic apples, albeit somewhat smaller in size. The quantity of the most popular and marketed varieties amounted to 39,087 quintals of Red Delicious, 32,377 of Golden Delicious, 12,149 of Gala, 7,213 of Rockit and 3,429 of Fuji.

As for small fruits, which have now become a full-fledged part of the province's economy, it is observed how many young people turn to this activity every year. The 100 hectares reserved for the cultivation of the American blueberry are destined to increase over time. In 2022, production was good, with a fair amount exported to the neighbouring Swiss Confederation. The quality of the product was excellent, as usual.

Agriculture used to be very fragmented in the Valtellina and Valchiavenna and allowed for individually small-scale farming. Today, more or less large farms have taken over, each capable of raising a good number of livestock, mainly cattle. The passion for this work has remained that of the farmers of the past. Quality over quantity is favoured, in favour of rural tradition, a guarantee for the preservation and enhancement of places.

The prolonged inclement weather has had a significant impact: haymaking in the valley floor has been penalised with product losses of up to 40% in some areas. The fodder maize crop was also affected, however to a lesser extent.

In the high mountains, the absence of spring rainfall caused a stunted start to the vegetation. It was therefore necessary to postpone the mountaineering by several days. Afterwards, the sward was replenished, so that the cattle could stay at high altitudes until mid-September and beyond.

In the province of Sondrio, of the many local cheeses, two bear the DOP mark: Valtellina Casera, a semi-fat cheese made on the valley floor all year round, and Bitto, a high-quality full-fat cheese produced in summer on the mountain pastures. The Consortium for the Protection of Valtellina Casera and Bitto reports that 200,000 fire-branded wheels of Valtellina Casera were produced in 2022, slightly less than the previous year; and 16,140 of Bitto, against 17,300 in 2021.

Climate change is also greatly affecting bee life and honey production. Drought is known to penalise flowering by limiting the availability of pollen, and excessive heat reduces the activity of the industrious insects. Both phenomena occurred in the year under review, resulting in honey production literally plummeting. The 670 beekeepers of Valtellina and Valchiavenna were left with a bitter taste in their mouths, similar to the year before, if not more so. Nevertheless, the number of beekeepers in the province of Sondrio is set to grow, as several young graduates in agriculture or biology, animated by good will and passion, choose to dedicate themselves to this sector. The addition of professionally trained «new recruits» could give the industry even more momentum; weather and humidity permitting, of course.

As for the secondary sector, which, contrary to its name, is of primary importance for the province's economy, it must be said that the companies operating in Valtellina and Valchiavenna, whose liveliness and efficiency are public knowledge, are medium, small and very small. At the end of the third quarter of 2022, there were a total of 13,731 of them, of which 4,230 were artisans, including, among others, 1,759 construction companies.

The economy of the province of Sondrio turned out to be positive. In Q1, Q2 and Q3, industrial production increased by 6.1%, 4.2% and 1.7% respectively, compared to the same periods in 2021, and turnover by 12.6%, 9.5% and 6.5%. Employment has not deviated significantly. Exports were good.

With regard to handicrafts, the figures for the first three quarters, compared with those of the previous year, reveal an increase in manufacturing output of 9.4%, 5.7% and 3.9% respectively; and turnover more 14.2%, 10.8% and 6.2%. In contrast, employment decreased by 1.6% in the first quarter, 1.3% in the second quarter and 1.4% in the third quarter.

The construction industry, aided by the numerous requests for work on buildings with tax benefits, especially those falling under the so-called 110% bonus, has marched on well.

Let's move on to the service sector, which includes commerce and tourism.

The phrase «shops in crisis», which is often uttered, sums up the state of the retail sector with a significant aggravation: in addition to the rising costs of products, the new trend of online shopping, which is becoming more and more widespread and steadily growing, does not allow the effects to be counteracted. In 2022, traders suffered this hardship. Many shops were closed for good, a few were newly opened. However, it should be noted that, towards the end of the year, retailers were able to catch their breath, recording sales beyond expectations in most sectors. This helped to instil hope and, more importantly, to make up, if only partially, for the year's lost earnings.

As far as tourism is concerned, the absence of snow and the excessively mild temperatures in the early months of the year penalised the sector, with few arrivals, even of foreigners. Over the Easter period, tourist resorts filled up quite a bit, admittedly a bit patchy.

In summer, the province of Sondrio was visited by a large number of holidaymakers, including from abroad. The end of the year went very well, with all the resorts overflowing; and this, despite the poor snow cover from the rainfall, which was optimally compensated for by the lift operators through artificial snowmaking. Once again, we emphasise their role as infrastructure for the benefit of the local tourist economy. The desire for the mountains, which had never been quenched, prevailed. The beauty of the locations must be accompanied by an adequate offer to keep up with demand and counteract Italian and foreign competition.

With regard to the road system, the main focus is currently on the crossing of Tirano, in view of the 2026 Winter Olympics, which will see certain skiing competitions being held on the slopes of Bormio and Livigno. For the province of Sondrio, it is important, also from a traffic point of view, not to arrive unprepared for the appointment. It is therefore pleasing to be able to say that work on the construction of the Abduan town's bypass has begun and is proceeding on schedule to meet the deadline.

A sore point, unfortunately, is the railway service, with the Milan-Sondrio-Tirano route in need of improvement, both in view of the Winter Olympics and in terms of services provided to daily users.

* * *

Shareholders,

After briefly recalling the main events of 2022 and tracing a picture of the reality in which our company was set up and developed, let's move on to illustrate the operations and results of Banca Popolare di Sondrio in its 152nd year.

TERRITORIAL EXPANSION

The renewed desire to be a bank for the territories has its most obvious and immediate expression in the primary role exercised by the branches in the constructive dialogue they have always maintained with local communities and the productive realities that make up their economic fabric.

In doing so, the branches contribute to defining and consolidating the identity profile of Banca Popolare di Sondrio, which, even in the important and delicate transition from the world of cooperatives to that of joint-stock companies, has been able to consolidate its strong appreciation among customers due to the distinctive factors that have always characterised its actions and, consequently, its image.

The effective and timely interaction with the territories is guaranteed by the heritage of working relationships and knowledge of local economic dynamics that the branches oversee and enhance. The immediacy of the relationships and the preparation of the staff allow for a streamlined dialogue with counterparts, to the benefit of understanding their needs and the consequent provision of adequate products and services, backed by personalised and professional assistance. Prompt decision-making, ensured by a short decision-making chain, is a guarantee for timely interventions in favour of households, businesses and institutions in the served areas.

This goes hand in hand with the constant strengthening of multi-channeling, i.e. the implementation of tools for telematic access to banking services and products. It is up to the customer, on the basis of his or her own needs, knowledge and IT skills, to independently choose the most immedia-

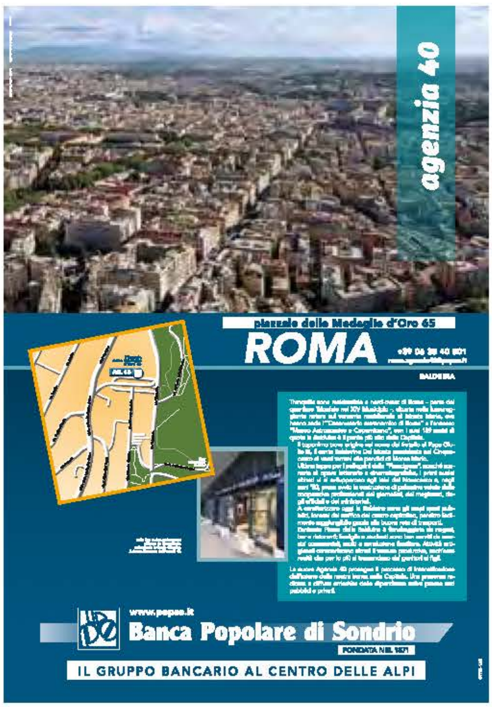
TERRITORIAL EXPANSION

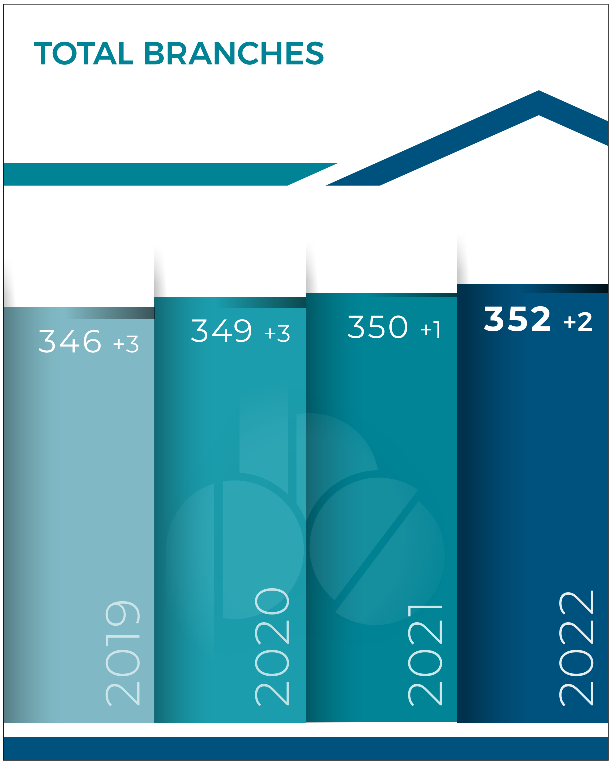
Agency of **NAPLES**

On 4 July 2022 was the opening of the Naples agency, located in the headquarters of the Azimut Group, in palazzo Mannajuolo, via Gaetano Filangieri 36. Unity gives continuity to our collaboration with Azimut Capital Management Sgr spa and Azimut Financial Insurance spa, expanding the offer of our services, in the common interest and with mutual satisfaction.

Agency No. 40 in **ROME**

On 24 October 2022 was the start-up of agency No. 40 in Rome, located in the Balduina area in Piazzale Medaglie d'Oro 65. With the new unit intensification has resumed of our presence in the capital, which shows in fact the focus of this Popular Bank with the economy and the community in the area.





te and easiest way of accessing the Bank for him or her, knowing that in any case - whether he or she walks through the front door of a branch or accesses our IT portal - he or she will get a response that lives up to expectations.

Two new units were launched in 2022: our first branch in Naples and agency No. 40 of Rome, which brought the total number of branches to 352, in addition to the 132 branches specialised above all in the provision of treasury services in favour of entities and institutions. The commercial structure also benefited from improvements, including the relocation of some branches to more suitable environments and in more commercially viable locations.

The new Neapolitan agency constitutes the Bank's first presence in the Campania region and was established inside the prestigious palazzo Mannajuolo, at the Azimut Group headquarters in Naples.

The initiative follows the start-up of the branches at the Azimut offices in Milan and Rome in September 2019, giving continuity to the collaboration with Azimut Capital Management Sgr spa and Azimut Financial Insurance spa.

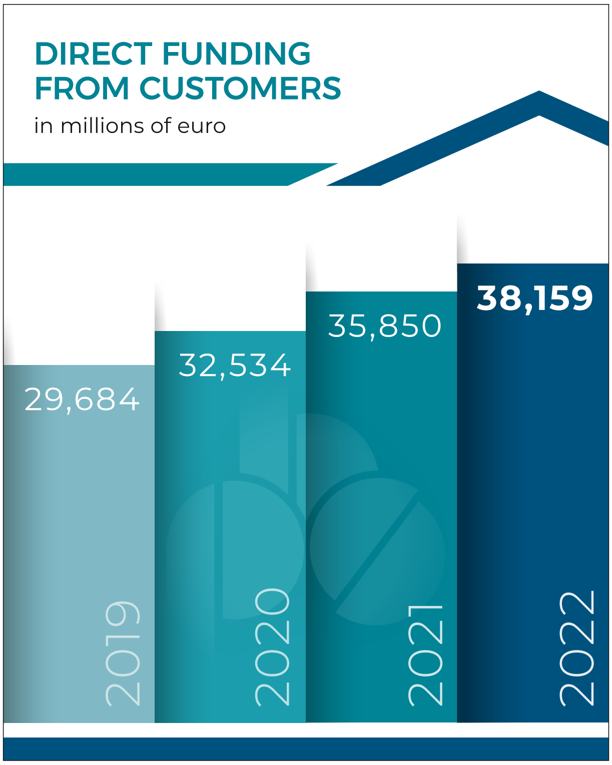
With agency No. 40, the intensification of our action in the capital has resumed, which has so far allowed us to establish a solid network covering a large part of the main city areas.

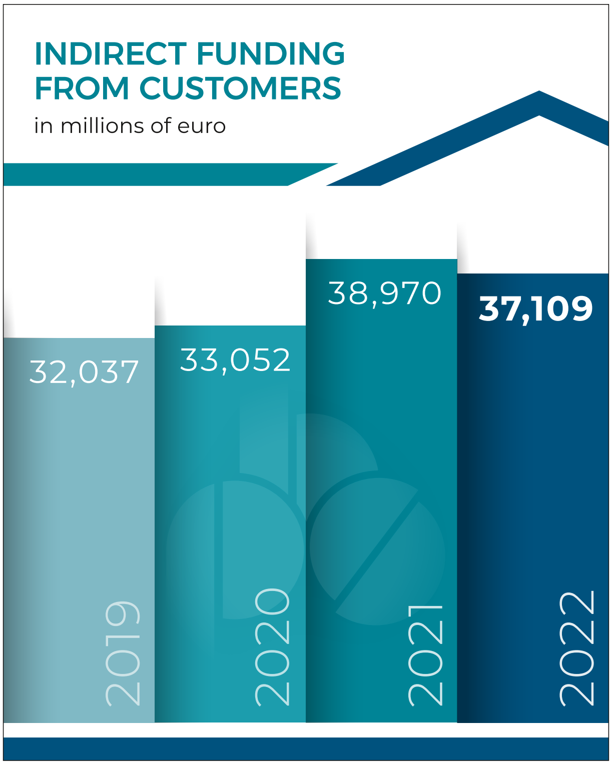
The new unit is located in Balduina, a quiet residential neighbourhood in the north-west of Rome with about forty thousand inhabitants, not far from St. Peter's and the city centre, which it «dominates», being located on the southern slope of Monte Mario, the highest point in Rome. The bustling Piazza della Balduina is lined with shops, bars and restaurants, while the Monte Mario nature reserve offers a vast green area. The district, which is home to historic villas and farmhouses, often flanked by religious buildings, has often been the backdrop for films and literary works.

Lastly, 547 ATMs contribute to our local presence, 4 more than the previous year.

FUNDING

After years of growth, bank deposits fell back slightly in December last year, a sign of a change that affected businesses in particular. In contrast, the amount of indirect deposits rose significantly. Opposing trends that naturally find in the dynamics of rates - determined by the change in monetary policies by the central banks, which have made repeated interventions to combat inflation - one of the main reasons.





DIRECT FUNDING FROM CUSTOMERS

(thousands of euro)	31/12/2022	Compos. %	31/12/2021	Compos. %	Change %
Current accounts and sight deposits	30,387,299	79.63	31,578,608	88.08	-3.77
Fixed-term deposits	2,362,448	6.19	352,795	1.00	569.64
Repo transactions	1,576,069	4.13	–	–	–
Lease liabilities	174,170	0.46	186,304	0.52	-6.51
Bonds	3,501,215	9.18	3,546,867	9.89	-1.29
Bank drafts and similar	116,749	0.31	126,836	0.35	-7.95
Other payables	41,023	0.10	58,795	0.16	-30.23
Total	**38,158,973**	**100.00**	**35,850,205**	**100.00**	**6.44**

TOTAL FUNDING

(thousands of euro)	31/12/2022	Compos. %	31/12/2021	Compos. %	Change %
Total direct funding from customers	38,158,973	39.60	35,850,205	37.62	6.44
Total direct funding from insurance premiums	1,957,819	2.03	1,909,353	2.00	2.54
Total indirect funding from customers	37,109,143	38.50	38,970,336	40.89	-4.78
- Asset management	5,774,727	15.56	6,113,341	15.69	-5.54
- Assets under administration	31,334,416	84.44	32,856,995	84.31	-4.63
Total	**77,225,935**	**80.13**	**76,729,894**	**80.51**	**0.65**
Due to banks	10,350,931	10.74	9,689,126	10.17	6.83
Indirect funding from banks	8,795,626	9.13	8,884,756	9.32	-1.00
Grand total	**96,372,492**	**100.00**	**95,303,776**	**100.00**	**1.12**

Indeed, a large number of players, from individual savers to professional traders, found themselves in the need to search for forms of financial resource allocation that - net of the risk/return correlation - were able to protect savings in a macroeconomic scenario in which inflation and the escalation of the war in Ukraine had disruptive effects. This immediately affected the markets, which experienced periods of great tension and volatility in 2022, with increasing pressure on the level of yields, which in the bond sphere saw extraordinary rises in magnitude and speed.

An extremely complex scenario, in which our bank rapidly adapted its commercial offer to the changed market context, further enhancing its existing relationships with customers and also leveraging its solidity attested by outstanding capital ratios. It was thus possible to give continuity to the collection policies that have always distinguished us in protecting household savings and that are reflected in the growth of the aggregate.

Direct funding, comprising balance sheet liability items 10b «customer deposits» and 10c «securities issued», stood at 38,159 million, +6.44%. This is a very positive trend and in contrast to the system.

Indirect funding from customers, at market values, totalled 37,109 million, -4.78%. The contraction can be attributed to the extremely negative performance of the markets during the year. Direct funding from insurance premiums reached 1,958 million, +2.54%.

Total funding from customers stood at 77,226 million, +0.65%.

Deposits from banks amounted to 10,351 million, compared with 9,689 million, +6.83%. This exposure is largely linked to longer-term refinancing operations with the European Central Bank for a total of 8,874 million, which are described in the chapter on securities and treasury activities. Securities under administration lodged by banks have decreased from 8,885 to 8,796 million, -1%.

Total funding from customers and banks therefore amounts to 96,372 million, +1.12%.

As for the individual components, current accounts and sight deposits, down 3.77% to 30,387 million, accounted for 79.63% of all direct funding. Bonds have decreased slightly by -1.29%, to 3,501 million. Term Deposits amounted to 2,362 million, +569.64%. Repos, which were not present as at 31 December 2021, amounted to 1,576 million. Bank drafts amounted to 117 million, -7.95%. The item represented by lease liabilities, deriving from the accounting method envisaged by IFRS 16, amounted to 174 million, -6.51%, while other forms of funding decreased from 59 to 41 million, -30.23%.

As regards asset management, please see the chapter on treasury and trading activities.

LOANS TO CUSTOMERS

Over the course of the year, the dynamics of bank lending were progressively affected on the one hand by the weakening of demand from businesses for investment purposes, and on the other by the decline in mortgage applications from households for the purchase of homes. This was also influenced by the rise in official rates that started in July and was gradually passed on to borrowers.

On the subject of loans to customers, we reiterate the significant support provided to households and businesses in the economic-financial crisis situation that began with the Covid-19 pandemic and continued with the geopolitical tensions in Ukraine and the concomitant inflationary spiral, originated in particular by increases in prices of raw materials and energy.

In relation to the Covid emergency, the Bank promptly activated, starting in March 2020, a series of measures to benefit customers and the territories it covers, both in compliance with the public and ABI-promoted measures, and on a voluntary basis. It is worth noting the regular resumption of instalment payments by customers who have benefited from moratoria, in respect of more than 24,000 concessions finalised. Significant loan origination also related first and foremost to the Liquidity Decree of April 2020, with total disbursements to companies amounting to around 3 billion (medium-term lines benefiting from state guarantees issued by the Fondo Centrale di Garanzia PMI or SACE).

Various surveys were also carried out to identify the economic sectors worst hit by the complex current macroeconomic situation, with in-depth analyses at the level of the loan portfolio of individual geographical areas, and assessments were performed on the quality of the Bank's portfolio and the ability of customers to meet their financial commitments. In particular, as a result of the contingent situation related to the Russian-Ukrainian conflict, and noting the marginal exposures to the countries involved and to sanctioned companies, which corroborate the excellent standing of the Bank's loan portfolio, critical assessments were made of the business segments (e.g. energy-intensive activities) and economic sectors most affected in connection with the increase in raw material and electricity prices. Initiatives were also promoted to monitor individual credit positions in order to check for any critical issues related to the conflict and the sudden rise in inflation, and in energy costs in particular. It is worth emphasising, in general terms, that the Bank continued to provide ordinary credit to support the financial needs of businesses and households, testifying to its confirmed proximity to the territories in which it operates, without forgetting the attention and reinforcement in the management of ESG issues aimed at fostering sustainable economic development.

Loans to customers, as shown in the table below, constitute a restatement of the balances reported in the balance sheet and consist solely of loans, with the exclusion of securities, except for those that do not constitute a financial investment because of their nature. They are equal to the sum of the loans included in line item «40. financial assets measured at amortised cost – b) loans and receivables with customers» and line item «20. financial assets measured at fair value through profit or loss – c) other financial assets mandatorily measured at fair value». Overall, loans to customers total 26,712 million, +6.68%.

LOANS TO CUSTOMERS

(thousands of euro)	31/12/2022	Compos. %	31/12/2021	Compos. %	Change %
Current accounts	3,605,369	13.50	3,132,933	12.51	15.08
Mortgage loans	15,188,591	56.86	14,420,552	57.59	5.33
Personal loans and assignments of one-fifth of salary or pension	253,068	0.95	240,452	0.96	5.25
Other loans	6,876,100	25.74	6,496,521	25.95	5.84
Fixed-yield securities	788,830	2.95	749,179	2.99	5.29
Total	**26,711,958**	**100.00**	**25,039,637**	**100.00**	**6.68**

The various types have contributed to total customer loans to a different extent.

The principal item consisted of mortgages that, following an increase of 5.33% to 15,189 million, now represent 56.86% of total lending. This item includes loans assigned but not derecognised in relation to the issue of covered bonds. These loans were not derecognised because the requirements of IAS 39 were not met. In turn, other loans added up to 6,876 million, +5.84%. Good growth in current accounts, which amounted to 3,605 million, +15.08%. Personal loans increased to 253 million, +5.25%. Fixed-yield securities amount to 789 million, +5.29%, and relate to customer loan securitisations carried out by Banca della Nuova Terra spa, a subsidiary, and by Alba Leasing spa, an affiliate, also including the securities issued, as part of the four sales of NPLs from the SPV Diana, POP NPLS 2020, POP NPLS 2021 and POP NPLS 2022 held by the Bank. The ratio of loans to direct funding from customers has thus reached 70%, from 69.85%.

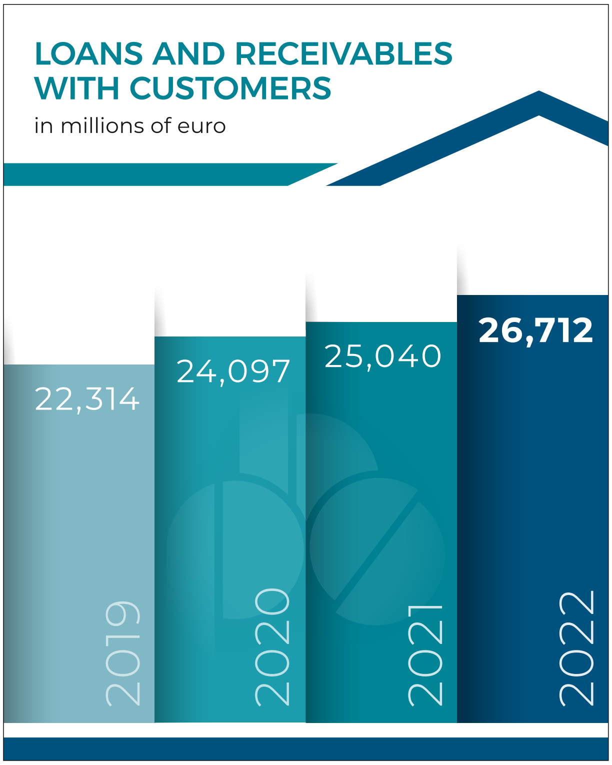
Aggregate net non-performing loans decreased to 554 million, compared to 776 million in 2021, a reduction of 28.58%, following the 24.78% reduction in the previous year. The aggregate is 2.07% (3.10%) of loans to customers. The contraction is largely due to the sale of NPL receivables completed during the year, but also reflects the positive effects of the policy of strengthening the company structures responsible for disbursing, managing and monitoring credit.

The total amount of adjustments relating to non-performing loans was 817 million, -18.02%, corresponding to 59.59% of the gross amount of the same, compared to 56.23% of the previous year and 52.77% in 2020, given the latter which reflects the physiological effect, if we can define it so, of the massive sale carried out. Adjustments for the period, including losses from disposals, were also up due to the critical situation at the global level, which called for prudent behaviour; gross non-performing loans fell from 1,773 million to 1,372 million, -22.64%. In turn, the NPL Ratio dropped from 6.78% to 4.96%. The table provides an overview of non-performing and performing loans, with the comparison to amounts at 31 December 2021.

Net bad loans, adjusted for write-downs, amounted to 118 million, -37.64% (-44.77% in the comparison period), corresponding to 0.44% of total loans to customers, compared to 0.75% at 31 December 2021. This is an important result that follows, in large part, the massive divestment operations carried out over the past three years. The adjustments to cover estimated losses on bad loans went from 376 million, -28.14%, representing 76.14% of the gross amount of such loans compared with 73.47% the previous year. This coverage remains among the highest in the banking system.

Considering the amounts written off against bad loans that are still tracked by the Bank, in view of possible future recoveries, the coverage of such loans amounts to 93.16%.

Unlikely to pay» fell, net of write-downs, to 411 million, -27.81%, corresponding to 1.54% of total loans to customers, compared to 2.28% in the previous year. The related adjustments amounted to 439 million, -7.02% on the comparison period, when they amounted to 472 million. The current coverage ratio of 51.61% is higher than the 45.30% last year. The reduction in provisions is linked both to the transfer to bad loans of positions that already had a high level of coverage and to the closure of sale transactions.



Non-performing past due loans, determined in accordance with supervisory regulations, amounted to 25 million, +43.55%, and represented 0.09% of total loans to customers, compared to 0.07% in the previous year.

NON-PERFORMING AND PERFORMING LOANS TO CUSTOMERS

(thousands of euro)		31/12/2022	31/12/2021	Absolute changes	Changes %
Non-performing loans	Gross exposure	1,371,750	1,773,228	-401,479	-22.64
	Value adjustments	817,382	997,021	-179,640	-18.02
	Net exposure	**554,368**	**776,207**	**-221,839**	**-28.58**
– Bad loans	Gross exposure	493,762	712,064	-218,302	-30.66
	Value adjustments	375,949	523,143	-147,194	-28.14
	Net exposure	**117,813**	**188,922**	**-71,108**	**-37.64**
– Unlikely-to-pay loans	Gross exposure	849,927	1,041,451	-191,524	-18.39
	Value adjustments	438,680	471,796	-33,116	-7.02
	Net exposure	**411,247**	**569,655**	**-158,408**	**-27.81**
– Non-performing past due exposures	Gross exposure	28,061	19,713	8,348	42.35
	Value adjustments	2,753	2,082	670	32.18
	Net exposure	**25,308**	**17,631**	**7,678**	**43.55**
– Performing loans	Gross exposure	26,290,323	24,368,921	1,921,402	7.88
	Value adjustments	132,734	105,491	27,242	25.82
	Net exposure	**26,157,590**	**24,263,430**	**1,894,159**	**7.81**
Total loans and receivables with customers	Gross exposure	27,662,073	26,142,149	1,519,923	5.81
	Value adjustments	950,115	1,102,513	-152,397	-13.82
	Net exposure	**26,711,958**	**25,039,637**	**1,672,321**	**6.68**

Provisions for performing loans totalled 133 million, up 28 million (+25.82%) on the previous year's figure, and amounted to 0.50% of the same, compared to 0.43%. This increase takes into account the worsening macroeconomic and geopolitical context and, in particular, the still high level of inflation, the consequent possible worsening of financial conditions and the uncertainties related to the Russian-Ukrainian conflict. Provisions on stage 2 positions of 100 million represent 75.01% of adjustments and increased in the year by 39 million.

Adjustments totalled 950 million overall, -13.82%.

TREASURY AND TRADING OPERATIONS

Stock markets

The year 2022 has been described by many analysts as one of the worst ever on the financial markets. Stock exchanges recorded exceptionally negative performances, in many cases in the double-digit range, the result of a geopolitical and macroeconomic scenario characterised by profound upheavals. The persistent threat of a pandemic in some areas, including China, was compounded by the war in Ukraine, which also had extraordinary repercussions on the world economy. On the one hand, difficulties in international trade supply chains have been exacerbated and commodity prices (gas and oil, first and foremost) have soared, with new multi-year records for inflation, necessitating restrictive monetary policies; on the other hand, the likelihood of an economic slowdown or even recession has increased. Consequently, the increasingly real prospects of a stagflation scenario translated into a surge of volatility and risk aversion in the financial markets, which severely penalised the stock markets.

In the United States, the stock market ended the year with a decline not seen since 2008 (-19.44% for the Standard&Poor's 500), with the technology sector, penalised by the crisis in the chip industry and the repeated interest rate hikes, performing particularly badly.

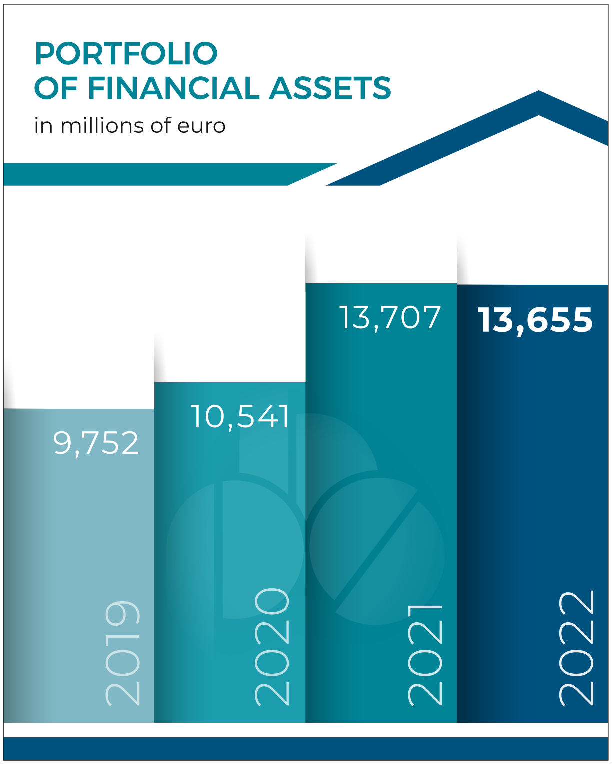
In Europe, established trade ties with Russia made markets particularly vulnerable to the new international framework. The Euro Stoxx 50 index ended the year with a correction of -11.74%. In Milan, Piazza Affari marked -13.31%.

The Japanese stock exchange was characterised by directionless and relatively better dynamics compared to other world stock markets (Nikkei at -9.37%). The market benefited from the weakness of the yen (in the 130 area against the dollar), which structurally represents an important stimulus for a strongly export-oriented economy such as Japan's, as well as from the central bank's ultra-accommodating conduct.

Emerging countries also suffered heavy losses, due to the prospects of a slowdown in global economic activity, rising interest rates and a stronger dollar, factors that affect the financial balance of the most indebted countries. In detail, it is worth noting the collapse of the Russian market by more than 50% from the highs of the year, before the trading halt, and the heavy downturn in China (in the order of 22%), which was affected by the resurgence of the pandemic, with the consequent repeated lockdowns, and the continuing crisis in the real estate sector. As a result, the MSCI Emerging Markets local index declined by 17.95% in 2022.

The year 2022 turned out to be an annus horribilis for the international bond markets. The dominant theme was inflation. In all major world regions, the pace of price acceleration reached multi-year highs.

Against this backdrop, the monetary authorities embarked on a markedly restrictive turn, resulting in repeated interest rate adjustments after years of stably ultra-expansive policies. In the US, the Fed Funds were adjusted over the course of the year gradually, but sharply, for a cumulative 425 cents increase (now in the 4.25-4.50% corridor); similarly, in the Eurozone, the main refinancing rate (MRO) was increased by 250 bps (now at 2.50%).



In Italy, the government crisis and the early elections were added to the background picture already fraught with uncertainties, generating uncertainties that have, however, gradually receded. In fact, Italy's country risk measure, the 10-year Btp-Bund spread, jumped to a high in the 300 bp area, then fell to around 215 bp, with the Italian Btp yield rising from 1.17% at the end of 2021 to 4.72% at the end of 2022.

At 31 December 2022, the Bank had three T-LTRO loans outstanding with the ECB for a total of 8,874 million. The first transaction was entered into for 4,368 million on 24 June 2020, with a maturity date of 28 June 2023 and an early repayment option from 29 September 2021. The second, for the amount of 806 million, was finalised on 24 March 2021, with maturity on 27 March 2024 and early repayment option from 30 March 2022. The third was granted on 29 September 2021 (at the same time as the early repayment of two tranches of, respectively, 1,600 million, maturing in December 2022, and 2,100 million, maturing in March 2023) for 3,700 million, maturing on 25 September 2024 and with the option of early repayment from 29 June 2022. Given the observance of the targets assigned by the ECB on net loans disbursed, all outstanding transactions envisage a financing rate indexed to the average of the Deposit Facility from the opening date until 22 November 2022 (for the period from 24/6/2020 to 23/6/2022, the rate is instead fixed at -1%). As of 23 November 2022, the interest rate on outstanding transactions is indexed to the interest rate of the Point Deposit Facility, subject to compliance with the requirements set out above.

Liquidity, although declining, remained abundant throughout the period under review. The exposure to this risk is monitored both in the short term, taking a 3-month view every day, and over the long term with a monthly check. The ratios required by Basel 3, being the short-term Liquidity Coverage

Ratio and the structural Net Stable Funding Ratio, are also calculated. Both are higher than the established minimums. The stock of high quality financial assets that can be refinanced with the ECB, net of the haircuts applied, remained substantial.

During the period under review, treasury operations still favoured, albeit to a lesser extent than in the previous year due to the gradual decrease in stocks, recourse to the Deposit Facility with the ECB, which is remunerated at 2% (figure as at 31 December). Part of the liquidity was raised on the electronic repo market with institutional counterparties (MMF Money Market Facility), through Cassa di Compensazione e Garanzia, and on the OTC market, through bilateral reverse repo transactions with leading financial counterparties.

At 31 December 2022, the portfolio of financial assets comprising financial instruments other than securitisations totalled 13,655 million, following a decrease of 0.38% compared to 31 December 2021.

FINANCIAL ASSETS (FIXED-YIELD SECURITIES, EQUITY SECURITIES, MUTUAL FUNDS AND DERIVATIVES) BY PORTFOLIO

(thousands of euro)	31/12/2022	31/12/2021	Change %
Financial assets held for trading	167,092	202,413	-17.45
of which, derivatives	50,788	27,399	85.36
Other financial assets mandatorily measured at fair value	710,545	822,687	-13.63
Financial assets measured at fair value through other comprehensive income	2,552,451	3,098,860	-17.63
Financial assets measured at amortised cost	10,225,277	9,582,964	6.70
Total	**13,655,365**	**13,706,924**	**-0.38**

The portfolio as a whole decreased slightly by -0.38% compared to the end of 2021, mainly due to sales of financial assets measured at fair value through other comprehensive income, -17.63% and securities held for trading, -17.45%. Financial assets mandatorily measured at fair value also decreased -13.63%, mainly as a result of lower valuations. By contrast, financial assets measured at amortised cost increased by 6.70%.

Operations continued to focus on the component at floating-rate of Italian government securities, in addition to foreign government securities and corporate bonds, mainly ESG (Environmental, Social, Governance).

The total amount of floating-rate and inflation-indexed government bonds was around 6.3 billion, up from 5.7 billion at the end of 2021.

The financial duration of the government bond portfolio, substantially in line with 31 December 2021, was just over 4 years (4.1), while the modified duration, down due to the high floating-rate component, stood at 1.56%.

Financial assets held for trading

The trading book, which represents an insignificant part of the total securities portfolio, amounted to 167 million, down 17.45% from 202 million at the end of 2021. Operations mainly focused on equities and mutual funds (ETFs), as well as Italian and US dollar government bonds. As at 31 December 2022, the balance of Italian government bonds and foreign government bonds in foreign currencies was zero, as the exposures are prudentially closed out at the end of the day.

(thousands of euro)	31/12/2022	31/12/2021	Change %
Fixed-rate Italian government securities	-	24,255	-100.00
Equity securities	50,856	65,378	-22.21
Mutual funds	65,448	85,381	-23.35
Net book value of derivative contracts	50,788	27,399	85.36
Total	**167,092**	**202,413**	**-17.45**

Other financial assets mandatorily measured at fair value

The financial assets mandatorily measured at fair value amounted to 711 million, down 13.63% from 823 million at the end of 2021.

The portfolio remains mainly concentrated on mutual funds in euro and, to a lesser extent, in foreign currencies. Units in bond ETF are predominant, even if decreasing in terms of derisking; there are also units in equity, real estate, balanced and flexible ETF.

(thousands of euro)	31/12/2022	31/12/2021	Change %
Bank bonds	6,246	–	100.00
Other bonds	1,259	3,159	-60.15
Mutual funds in euro	685,710	787,491	-12.92
Mutual funds in foreign currency (USD-CHF)	17,330	32,037	-45.91
Total	**710,545**	**822,687**	**-13.63**

Financial assets measured at fair value through other comprehensive income

The portfolio of financial assets measured at fair value through other comprehensive income (Held To Collect and Sell) has decreased significantly overall since the end of 2021, coming to 2,552 million, -17.63%. During the period, the segment was not particularly utilised due to the high volatility of the markets.

Overall, the exposure to floating-rate Italian government bonds was maintained, which, although decreasing compared to 31 December 2021, -16.69%, amounted to 1,493 million and accounted for 58.49% of the segment, while the fixed-rate component decreased further, especially with regard to Italian government bonds (-40.22%). The overall weight of Italian government bonds on the segment stands at 66.48%.

Bank bonds (-11.65%) and foreign government bonds (-9.15%) show variations in absolute terms that are not particularly high; corporate bonds also decreased (-19.90%). There was little change in equities.

(thousands of euro)	31/12/2022	31/12/2021	Change %
Floating-rate Italian government securities	1,492,991	1,792,012	-16.69
Fixed-rate Italian government securities	203,978	341,230	-40.22
Foreign government securities	338,768	372,902	-9.15
Bank bonds	295,117	334,019	-11.65
Other bonds	129,192	161,284	-19.90
Equity securities	92,405	97,413	-5.14
Total	**2,552,451**	**3,098,860**	**-17.63**

Financial assets measured at amortised cost

The securities measured at amortised cost that are classified among the financial assets measured at amortised cost (Held To Collect) amounted to 10,225 million, following a rise of 6.70% from 9,583 million at December 2021.

With regard to the composition of the portfolio, we highlight, compared to 31 December 2021, the further net increase in floating-rate Italian government bonds (+47.22%), the decrease in fixed-rate Italian government bonds (-44.97%), and the robust increase in foreign government securities (+24.76%), undertaken to decrease the concentration in domestic government securities gradually. Transactions during the period favoured the floating-rate government bond component to contain generalised increases in the yield curve. Furthermore, investments in bonds that meet ESG (environmental, social and governance) criteria continued to be favoured: green bonds, social bonds and sustainability bonds.

(thousands of euro)	31/12/2022	31/12/2021	Change %
LOANS AND RECEIVABLES WITH BANKS	**872,396**	**787,249**	**10.82**
Italian bank bonds	662,648	572,117	15.82
Foreign bank bonds	209,748	215,132	-2.50
LOANS AND RECEIVABLES WITH CUSTOMERS	**9,352,881**	**8,795,715**	**6.33**
Floating-rate Italian government securities	4,413,601	2,997,901	47.22
Fixed-rate Italian government securities	1,669,131	3,032,885	-44.97
Foreign government securities	2,329,482	1,867,113	24.76
Other public administration bonds	315,996	144,227	119.10
Other bonds	624,671	753,589	-17.11
Total	**10,225,277**	**9,582,964**	**6.70**

Asset management

In 2022, the asset management industry was heavily impacted by the negative market performance, characterised by the simultaneous decline in stocks and bonds. The countervalue of assets under management, based on the first available data, has dropped significantly from the historical record reached in 2021. In terms of sub-funds, the favourable performance of equity and balanced products was offset by the negative performance of bond and flexible products. Conversely, the scenario of rising bond yields attracted inflows to monetary assets. It is worth noting the growing interest in instruments characterised by an ESG footprint.

The aforementioned general dynamics affected the company's results. The assets managed in various forms by the Bank total 5,775 million, -5.54%, of which 4,430 million, -6%, relates to mutual funds and SICAV, including Popso (SUISSE) Investment Fund Sicav; assets managed by the Bank total 1,345 million, -3.98%.

EQUITY INVESTMENTS

The portfolio of equity investments was essentially unchanged during the year. In addition to the other members of the Banking group, these investments principally relate to the suppliers of products and services that functionally support the commercial activities of the Bank. The following comments relate to our subsidiaries.

At 31 December 2022, equity investments amounted to 696 million, +13.52%, following the acquisition of the entire capital of Factorit spa and Rent2Go srl.

Banca Popolare di Sondrio (SUISSE) SA (100%). This is a Swiss bank based in Lugano, set up in 1995.

In a general economic situation that was not easy, due to the international events mentioned several times, our Swiss subsidiary actually recorded a positive trend in loans to customers, which reached 5,371 million CHF (+6%), of which 4,781 million CHF (+6%) with mortgage guarantees almost entirely related to residential construction.

On the other hand, the trend in customer funding, which amounted to 5,422 million CHF (-3%), was more reflective. The new inflows only partly offset the effects of the exceptional fall in both equity and bond prices in the portfolios, as well as the appreciation of the Swiss franc for foreign currency deposits.

Net profit amounted to 16.4 million CHF, down 27%. The decrease is mainly due to the result (-30%) from trading activities and the negative balance sheet valuation of foreign exchange swap transactions, which became necessary due to the strong euro component of funding. In application of the mark-to-market criteria, the widening of the interest rate spread, in particular between the euro and the Swiss franc, led to a burden in the year under review for the benefit of the following year.

The subsidiary continued its efforts to consolidate its role as a local bank, ready to respond directly to the needs of its customers. The structure now has 21 operational branches: 20 located in eight Swiss cantons, plus the foreign branch in Monaco in the principality of the same name. They are joined by the virtual Direct Banking unit in Lugano and the representation in Verbier (Canton Valais).

Factorit spa (100%). The company operates in the factoring and confirming sectors; it finances and manages commercial, domestic and international receivables, also with collateral.

On 1 March 2022, the purchase of the minority shares in the subsidiary was completed, so that the interest held by Banca Popolare di Sondrio rose from 60.5% to 100%, against a consideration of 75 million euro.

In the problematic macro-economic context that characterised 2022, consistent with the objectives set and the approved development plan, the subsidiary's activities focused, first and foremost, on increasing business volume and loans, without losing sight of credit quality and profitability. From a commercial point of view, the action was conducted by targeting activities at corporate customers; expanding its presence in the area of trade receivables due from the Public Administration; and activating effective development actions in the area of supply chain credit, especially with regard to the agro-food sector. All this, taking into account the territorial presence of the Parent Company's network and the Affiliated Banks and concentrating commercial action in the most economically relevant areas (Lombardy, Northern Italy and Lazio). Commercial activities continue to benefit from the investments made in distribution capacity, specialisation of the offer and technology, with particular regard to the «Reverse Factoring» platform for corporate customers to guarantee their suppliers, deferring and postponing payment times.

Factorit ranks among the leading companies in the sector, being the 4th Italian operator (1st among its direct competitors, being the factors that belong to medium-sized banking groups), with a 6.49% share of turnover.

The year, the forty-fourth, closed with a profit of 23.9 million, up from 2021, thanks to increased volumes, increased lending and the quality of the credit provided.

Banca della Nuova Terra spa - BNT spa (100%). It constitutes the Group's «product factory» for the granting of loans secured by salary-backed loans (CQS), pension-backed loans (CQP) and delegation of payment (DEL).

The subsidiary's activities focus on increasing operations in the sector of salary-backed loans, a consumer credit segment which, in 2022, recorded a 5% growth in financed volumes at national level.

Against this backdrop, BNT, in marked improvement on the domestic market trend, continued its growth path, exceeding 86 million net disbursed with a 40% increase over the previous year.

Work on improving the processes and procedures underlying product placement continued unabated.

The investments dedicated to the digitalisation of processes were also important, which made it possible to activate advanced methods of distance selling, managing to control the market well even in a complicated context such as that of the year in question.

Alongside the traditional network, consisting of bank branches and territorial offices, BNT's third distribution channel took off in 2022, consisting of brokers and agents, including PrestiNuova srl - Agenzia in Attività Finanziaria, a wholly-owned subsidiary of BNT, which now employs 22 people. These operators are selected from among the best accredited to the OAM, distinguished by their skills and professional ethics.

BNT closed the year with a profit of 681 thousand euro.

Pirovano Stelvio spa (100%) operates in the hotel sector at the Stelvio

Pass and in Bormio and Valdidentro where it manages holiday homes.

Pirovano Stelvio spa, which has always been known as «The University of Skiing», is expanding its core business based on summer skiing with alternative proposals that embrace the Stelvio National Park, trekking, cycling and motorcycling, excellent food and wine, in short, the mountains in the round. This is to take into account the sudden climate changes that also affect high-altitude glaciers.

Due to the lack of snow and the high temperatures, the Stelvio ski area was closed from 20 July to 19 September inclusive, which had a negative effect on the results of our subsidiary. The difficult international situation related to the war in Ukraine also did not help. On the other hand, positive feedback was received on the management of holiday homes in Bormio and Valdidentro.

It becomes more strategic than ever to enhance and communicate Pirovano's new «look» in order to relaunch its role in the Upper Valley and Stelvio area in particular.

Sinergia Seconda srl (100%). Real estate company. The subsidiary mainly carried out functions related to the real estate needs of Banca Popolare di Sondrio and its Banking Group. In the year under review, activities continued both for the acquisition of real estate assets, also within the scope of the Parent Company's management of non-performing loans, and for the sale and leasing of other real estate deriving from similar transactions, finalised in past years, for which interested parties were found, also through proposals for the redevelopment of buildings or the preparation of projects for the conversion of their intended uses.

The banking buildings held by Sinergia Seconda Srl are rented, on market terms and conditions, to members of the Banking Group. Based on contractual agreements, Sinergia Seconda srl also manages and maintains the units rented for other purposes.

In the financial year 2022, the positive economic results are in line with those recorded in 2021. The investee companies Immobiliare Borgo Palazzo srl and Immobiliare San Paolo srl carry out activities aimed at facilitating the marketing of the properties they have acquired over the years.

Rent2Go srl (100%). Vehicle rental company. In April 2022, full control of the company, which until then had been equally owned with two other automotive companies, was acquired.

The subsidiary conducts medium- and long-term vehicle rental business, an area that plays an increasingly important role for the country's tourist, corporate and city mobility, as well as for the automotive industry, to which it guaranteed almost 30% of registrations during the year, mostly of low environmental impact vehicles.

In the year under review, which closed with negative financial results, the performance was also affected by the continuing scarcity of product on the market and the long delivery times, factors that slowed down the growth of leased vehicles, although there was a good recovery in the number of orders in the second half of the year.

Popso Covered Bond srl (60%). This company was formed in relation to the issue of covered bonds.

As part of the covered bond issuance programme implemented by the Bank in compliance with current regulations, the investee company, which plays the role of vehicle company (transferee), has as its object the purchase for valuable consideration of land and mortgage loans, also identifiable en bloc, which constitute assets separate for all purposes from those of the company itself. To the extent of its competence, it provides for the management of the relevant assets, as security for the subscribers of the securities. Its results should close around break even.

Rajna Immobiliare srl (50%). This real estate company is owned jointly with Crédit Agricole.

It is owner of a condominium portion in Sondrio, in a central area and with large areas on the ground floor. The entire property is leased to two tenants.

The company's results are positive.

Related-party transactions

Transactions with related parties are governed by the «Regulation for transactions with related parties» issued by Consob resolution No. 17221 dated 12 March 2010 and subsequent amendments. The information required by this Regulation is provided below. Also by the Supervisory Provisions for Banks, issued with Circular No. 285/2013 and subsequent amendments, third part, chapter 11, *Risk activities and conflicts of interest towards related parties*.

Among other things, both regulations provide for the approval and publication of internal Regulations, available on the company's website at https://istituzionale.popso.it/en/governance/corporate-governance-reports.

Transactions with related parties, identified in accordance with the provisions of IAS 24 and the aforementioned Consob Regulation, are part of the Bank's normal operations and are normally carried out at market conditions and in any case on the basis of assessments of mutual economic benefit. These transactions amount to 14.52% of total loans to customers and banks and financial assets and 0.42% of direct deposits from customers and banks and financial liabilities.

In compliance with disclosure obligations prescribed in article 5 of the Consob Regulation, during the period 1 January to 31 December 2022, the Bank's corporate bodies decided the following transactions of greatest significance:

– Factorit spa, subsidiary company; granted facility financial advances of 600,000,000 euro for revocation; resolution of 28/06/2022;
– Banca poplare di Sondrio (SUISSE) SA, subsidiary company subsidiary company; unsecured loan in currency of 900,000,000 euro, maturing on 27/05/2023; renewal of credit lines for a total of 2,220,922,000 euro repayable on demand; resolutions of 30/06/2022;
– Alba Leasing spa, associated company; renewal of credit lines totalling 420,348,500 euro repayable on demand; resolution of 11/10/2022;
– Banca della Nuova Terra spa, subsidiary; renewal of lines of credit for a total of 11,500 euro repayable on demand and 320,000,000 euro with maturity 25/09/2024; resolution of 08/11/2022;

– Banca Popolare di Sondrio (SUISSE) SA, a subsidiary; unsecured loan in currency of 900,000,000 euro, maturing on 17/10/2023; resolution of 24/11/2022;
– Factorit spa, subsidiary; revolving facility for guarantees in favour of residents of up to 130,000,000 euro repayable on demand; renewal of lines of credit totalling 3,920,101,500 euro repayable on demand; resolution of 06/12/2022.

We also inform you that on 22/12/2022, the Bank signed the renewal of the bancassurance agreements with Arca Vita spa, a company under significant influence, and with the subsidiary Arca Assicurazioni spa.

No transactions with related parties in the period under review, whether of greater or lesser significance, have had a significant impact on the financial position or results of the Bank. We would also point out that there have not been any developments or modifications that had or could have a significant effect on the Bank's 2022 balance sheet or results with regard to the related-party transactions carried out during 2021; in any case none were atypical, unusual or not on market terms.

In relation with the Consob Communication DEM/6064293 of 28 July 2006, note that transactions or balances with related parties, as defined by IAS 24 and the Consob Regulation, have a limited incidence on the balance sheet and financial position, as well as on the Bank's economic results and cash flows. The notes to the financial statements (Part H, «Transactions with related parties») a summary table also shows the credit facilities granted to and guarantees given on behalf of Directors, Statutory Auditors and the General Management, as required by article 136 of Legislative Decree no. 385 of 1 September 1993.

During 2022 and in the current year, no positions or transactions deriving from atypical or unusual operations have arisen. According to Consob Circular DEM/1025564 of 6 April 2001, atypical and/or unusual transactions are those – not arising in the ordinary course of business – that may raise doubts about the completeness of the disclosures in the financial statements, conflicts of interests, the protection of the corporate assets or the safeguarding of the shareholders, by virtue of their magnitude, the nature of the counterparties, the methods for determining the transfer price or the timing of the transaction.

With regard to the remuneration paid by the Bank and its subsidiaries and associates to Directors, Statutory Auditors, the General Manager and Managers with strategic responsibilities, and to their investments in the Bank and its subsidiaries, reference is made to the compensation report prepared pursuant to art. 84-quater of the Consob Regulation issued in Decision no. 1197 dated 14 May 1999 and subsequent amendments.

REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE

The «Report on Corporate Governance and Ownership Structure» required by art. 123-bis of Decree 58/98 (Consolidated Finance Act) is available (in Italian) on the Bank's website at the link https://istituzionale.popso.it/en/governance/corporate-governance-reports. In this document, among other things, it is noted that this bank does not currently adhere to the Corporate Governance Code promoted by the «Corporate Governance Committee». In this regard, we inform you that the possible adherence to the aforementioned Corporate Governance Code is being considered by the competent corporate bodies.

INTERNATIONAL SERVICE

After the pandemic, which had considerably affected the level of world trade, the war unleashed by Russia in Ukraine had, in addition to the immediate and tragic consequences for the populations involved, significant and pernicious effects on international relations as well.

On the other hand, the Covid-19 continued to weigh heavily in the year under review, especially in China, where the stringent containment measures imposed for a long time adversely affected economic performance. Partly as a result of this, the difficulties caused by bottlenecks in production chains continued, with repercussions extending to various areas of activity. We have said this, several times before, but we consider it useful to repeat ourselves in order to contextualise the activity of the international service in this case.

World trade, which had nonetheless performed well during the summer period, slowed down towards the end of the year, but still closed the year with an estimated growth of 5.5%.

Globally, the economic situation was strongly affected by the run-up in inflation, which reached heights not seen for decades. Triggered by the at times unrestrained rise in natural gas prices, the inflationary dynamic forced central banks to increasingly restrictive monetary policies, despite the feared impact on the dynamism of the economic cycle.

In the foreign exchange market, the euro was penalised against the dollar, also due to the faster rate hike implemented by the Federal Reserve. The Swiss franc, a safe haven asset par excellence, also strengthened against the single currency, crossing the parity wall.

In a difficult general context, characterised by significant elements of uncertainty and heightened riskiness, our bank, which has always paid constant attention to the development of services for the internationalisation of businesses, has continued its action aimed at training, information and assistance to customers. At the same time, support for the branches, which are the first and most immediate point of contact with the operators in the areas served, was strengthened.

As many as 35 events were organised during 2022, attended by an average of about 100 participants. These included meetings to support business development in the region; country presentations on the countries with the greatest business opportunities; and technical training courses on foreign trade methodologies.

Being able to count on professionals who combine specialised skills with an in-depth knowledge of international markets and their protagonists has enabled us to provide companies with valued assistance, which has also been able to avail itself of a comprehensive catalogue of products and services that meets the needs of even the most advanced customers.

This went hand in hand with an intense and innovative promotional activity, which focused in particular on the business world.

The valuable interaction with the Brussels-based European Economic Interest Grouping (EEIG) Coopération Bancaire pour l'Europe (CBE), which since 1992, has been supporting companies and economic operators in particular in taking advantage of financing opportunities made available by the European Union, continued.

The fundamental focus on the quality of the services provided was confirmed during the annual audit by Det Norske Veritas officials. The audits covered the conformity of the Quality Management System for six particularly relevant areas of activity. The results of these audits were fully satisfactory.

Equally positive was the outcome of the customer satisfaction survey, which in the year under review focused on the action taken by the Bank's branches in the provision of products and services by the International Service.

Relations with Italian banking counterparties who rely on us for all or some of their foreign transactions were further developed. We also had multi-divisional account relationships with 152 banks in 71 countries and 1,552 Swift key exchanges with as many banks in 162 countries. A global projection that we are able to effectively make available to our customers every day.

COMMERCIAL SERVICES AND PROJECTS

The year 2022 saw the realisation of the transformation of the Bank from a historical popular to a joint-stock company. This was experienced by some customers with a veiled sense of apprehension, fearing that the institution might change its business strategies. In actual fact, the change of company name has not distracted Popolare di Sondrio from its traditional mission aimed at fostering the creation of value over time, with the needs of households, small and medium-sized enterprises, and the territories it serves in mind. This has translated into constructive continuity, made up of many new building blocks aimed at offering a complete series of services and products fully responding to the diversified needs and expectations of our customers or, better, to use a more market language, of our shareholders and stakeholders.

The close link with the areas where the Bank is active is not a limitation to quality or openness to new products and services, but a connotation of seriousness and responsibility, to ensure that those who rely on us have a relationship approach aimed at offering added value, confidentiality and security.

We would now like to tell you about our main initiatives during the year.

The provision of banking services through different channels, both physical and digital, has been pursued with conviction for years. Depending on one's needs, the customer can make use of the digital bank, ATMs or use the branch. The development of various solutions is relentless and directly linked to technological evolution. In the last months of 2022, in particular, new self-banking stations were made available in some branches. These allow the customer to carry out the main banking transactions independently, without the need for staff, in line with the market trend whereby consumers often express a preference to do things themselves, both in banking and in other areas.

This is the proposition that, in presenting our Business Plan, we identified with Phygital, in order to give ample choice to the customer, who should not feel obliged to do only what the Bank imposes.

SCRIGNO*app*

SCRIGNO*app*, our mobile banking solution, is able to simplify many operations by allowing data to be captured for certain payments as easily as taking a photograph. This means improving the user experience and reducing the time to execute the transaction but, above all, eliminating the risk of incorrectly typed payment details. This option is available for payments via postal slips, pagoPA and M.Av.. The centrality of mobile is also attested by the introduction of two new services: the giro account, to transfer money between two current accounts in the name of the same person, and the information push notifications, which allow users to receive free and convenient alerts on their smartphones about transactions on their accounts, cards and SCRIGNO usage. Finally, in 2022, the SCRIGNO technology platform was set up to enable new opportunities that will open up in the current year.

SCRIGNO*Internet Banking*

SCRIGNO*Internet Banking* guarantees even more extensive operations than those offered by the smartphone application. We mention some of the distinctive services that are only provided through web access: F24 payment for tax, IMU, Tari, Tasi and excise payments, and the functionality to set up recurring transfers. Finally, let us recall SCRIGNO*budget*, the service aimed at private customers to automatically analyse and classify expenditure into typical household categories. All with the aim of easily keeping one's expenditure and income under control.

Also on the online security front, there have been innovations that have made authentication on the digital bank easier and more secure. Specifically, this is the SCRIGNO*IdentiTel* app's QR code utilisation mode, which, alongside the IdentiTel *Push* mode, allows transactions to be authenticated simply by framing the two-dimensional code (QR *IdentiTel*) that appears on SCRIGNO pages on the smartphone screen.

Arca Fondi Sgr

In the context of prolonged geopolitical uncertainty and financial volatility that marked 2022, Arca Fondi SGR expanded and enriched its offer to better meet investors' needs with the marketing of the new funds «Arca Cedola Attiva 2023 I-II-III», «Arca Reddito Valore Reale 2027 I-II-III», «Arca Allocazione Prudente 2027», «Arca Opportunità Green 2027 V-VI-VII-VIII» and «Arca Difesa Attiva 2027». The SGR's attention to environmental issues was confirmed, on the one hand, by the offer of the «Arca Blue Leaders» fund, which invests in sectors that benefit from the protection of marine and coastal resources, and, on the other, by the placement of the «Arca Oxygen Plus» fund, to which the Bank and the investee company have combined a concrete planting initiative, creating a «green oasis» resulting from the transformation of a disused area in the municipality of Seregno (Mb).

Sidera Funds SICAV

The range of innovative investment solutions offered by Sidera Funds SICAV has also been updated through changes to the investment policy of the «Euro Credit Alpha» and «Global Opportunities» sub-funds, which now qualify as products that promote environmental, social and governance (ESG) principles.

Etica Sgr

As for Etica Sgr, it is worth mentioning the launch of the placement of «Etica Obiettivo Sociale», the new fund in the «Responsible Futures» line that focuses on issues related to inclusion, equal opportunities, human rights of workers and social justice.

Arca Vita

Within the insurance investment products of Arca Vita and Arca Vita International, the placement of unit-linked (»AVI Take Care», «Private Selecta Plus», «Obiettivo 2.0» and «Obiettivo PUR 2.0») and multi-branch (»Cromìa 2.0» and «Ingegno») solutions continued. With regard to the latter, it should be noted that so-called investment portfolios are popular, i.e. portfolios made up of funds selected from leading management houses, which are periodically rebalanced by the companies in order to best seize market opportunities. The above-mentioned products were complemented by the revaluable «Piano Cassaforte Special» policy, which is linked to the Oscar 100% segregated fund; a fund that earned a gross return of 2.50% in 2022.

UniSalute

Thanks to the activation of the distribution agreement with UniSalute, a Unipol Group company and market leader in the health branch, the «UniSalute Acuore» health policy was made available to customers. The insurance solution expands the Elementary Lines product range, dedicated to the protection of home, family and health.

www.popso.it

The «popso.it» commercial website presents our services and products on the web and is flanked by the «institutional.popso.it» website, which contains corporate information, including the section for members and investors, as well as clear and immediate information on management aspects and the Bank's commitment to sustainability.

The ecosystem of sites offered by the Bank also includes other fronts such as «popsoimmobili.it», which presents properties for sale by the Bank and third parties, and the portal of cultural and recreational initiatives «nonsolobanca.popso.it».

Finally, we would like to remind you that there is a «nonsolobanca POPSO» account on the well-known social network Instagram, which aims to disseminate events, cultural and recreational initiatives promoted by the Bank itself.

RISK MANAGEMENT

A healthy risk culture is a central part of good corporate governance; it assumes an even more important role in the presence of rapid and significant changes in the context.

The long pandemic, the war on the borders of Europe, energy rationing, inflation higher than economic growth and the end of a long period of accommodative monetary policy - elements that were unforeseeable only three years ago - have exposed intermediaries to new risks and increased exposure to the already known facts. Said phenomena can normally be repeated, in the same form or in other guises.

In particular, Russia's decision to launch a large-scale military invasion of Ukraine resulted in a situation of profound uncertainty at the macroeconomic level, on rates, energy and commodity costs, trade, inflationary expectations, and the cost of debt. The impact was particularly evident in the natural gas and energy market due to the European Union's high dependence on imports from Russia to cover its energy needs.

In this difficult context, our Banking Group immediately took steps to initiate a holistic monitoring of the main risk cases, which pervaded various areas, as illustrated in more detail below.

The persistent framework of uncertainty has also not diverted the attention of public opinion, markets and regulatory authorities from economic, social and environmental (ESG) «sustainability» issues. Climate and environmental risks have increasingly entered the list of those to be effectively monitored, primarily by financial intermediaries. The magnitude of investments aimed at fostering the energy and ecological transition through serious policies to decarbonise production cycles has required and is still requiring a strong involvement of the credit industry, both to raise awareness of the risks associated with it and to ensure that no obstacles are put in the way of channelling adequate resources to finance those economic activities that contribute most to a vision of a sustainable future.

Ensuring the continued resilience of the banking system is an indispensable goal for the sector bodies. Overriding concerns are the possible deterioration in asset quality, linked to the gradual withdrawal of monetary and fiscal support measures, as well as potential corrections in asset prices traded in financial markets, which are exposed to increased volatility and increases in risk premiums.

Despite a complex framework, Popolare di Sondrio has shown, as usual in the face of adversity, remarkable resilience, facilitated by a business model with solid foundations, a close relationship with the community and reference customers, and thanks to the continuous refinement of procedural and organisational practices for managing the various types of risk, especially with regard to the ability to promptly identify, prospectively measure and mitigate impacts.

It will also be crucial to keep up with the development of new technologies applied to the financial sector and the increasing competitive pressure exerted by the so-called «digital natives», such as fintech and bigtech players. The thoughtful use of technological innovation, as well as a driver for the achievement of future strategic goals, will be a further shield to the resilience and sustainability of our business model.

Credit and counterparty risk

In the credit sector, particular attention has been paid over the past year to monitoring the potential risk dimensions arising first from the Russian-Ukrainian conflict and then from the economic consequences of rising energy prices.

With regard to the first aspect, the amount of direct exposures to residents of the countries (Russia, Belarus, Ukraine) most involved in the military confrontation remains minimal. On the set of indirect exposures, i.e., relative to companies characterised by significant commercial relations with those countries or operating in sectors considered more vulnerable to the economic effects of the military operation, also of limited amounts, specific credit review actions were carried out, following which the Group identified the positions at increased risk, for which critical elements could still exist. These exposures, which are included in specific monitoring watchlists, are subject to in-depth assessment on an analytical basis.

With the continuation of geo-political tensions and the worsening of the energy crisis, the analysis tools aimed at borrowing companies belonging to sectors whose production activities require a high use of electricity or gas (so-called energy- and gas-intensive sectors) and which, precisely because of this dependence, are more likely to find themselves in difficulty, have been strengthened. The analyses conducted, the result of careful screening of counterparties, led to the prudential identification of a set of companies characterised by a higher risk profile; these are subjected to the appropriate assessments in the calculation of provisions and adjustments.

Even in the current complex operational framework, the technical mechanisms for recognising the financial difficulties of counterparties as well as for the forward-looking monitoring of risk trends of individual borrowers as well as of the entire loan portfolio were expanded and strengthened. For example, the use of new qualitative indicators, so-called «early warning» indicators, was introduced to increase the incisiveness in identifying possible early signs of credit deterioration linked to the crisis context.

During the past year, there has also been no end to the monitoring of exposures to individuals who, during the most critical phases of the pandemic wave, benefited from payment moratoria and/or were assisted by public guarantees. Precise vigilance is placed on transactions of significant size and whose debtor has a rating below the average.

In terms of management, efforts continued to optimise the processes of granting and monitoring our loans according to a logic of progressive adoption of criteria marked by greater specialisation and objectivity, implementing the guidelines dictated by the European Banking Authority (»Guidelines on loan origination and monitoring»). When assessing a new credit line or reviewing loans already disbursed, the Bank promotes a rigorous preliminary investigation on the degree of solvency of the counterparty (whether it is a company, private individual or other financial intermediary) to which is added, for credit practices of greater size, a verification of the availability of allocable capital and an examination of the levels of concentration of portfolio risk from both a single name and sector perspective. A similar process pattern is followed for so-called «leverage transactions» in order to ascertain, through dedicated additional analysis, the adequacy of the prospective cash flows generated by a company already burdened with significant debt.

The procedural system of second-level controls on credit processes, aimed at examining the efficiency and quality of the monitoring action, the consistency of loan classification, the adequacy of coverage through provisions and write-downs and the effectiveness of the action to recover exposures that are no longer collectable was also the subject of some evolutionary interventions, which made it possible to increase the number of checks carried out as well as to make the methods of conducting them more efficient.

The derisking activity, carried out with firmness, has allowed the incidence of gross non-performing loans on loans to be significantly reduced; this is coupled with average coverage levels that remain among the highest in the system. We must not give up and continue resolutely along this path, bearing in mind that the current economic context could lead to future deterioration in the credit quality of customers. In implementing the strategic interventions planned by the Administration, the work of revising the organisational and operational procedures for the management of problem loans and the action of strengthening, in terms of both size and quality, the corporate structures dedicated to this purpose continued. Last December, the Bank also concluded, together with a pool of 14 other participating institutions, a new multi-originator securitisation of non-performing loans with a total gross book value of 545 million euro, thus freeing up space for the development of new, good-quality lending volumes.

With regard to the rating system, the ECB continued its supervisory actions aimed at obtaining regulatory validation for the update of the LGD and EAD Corporate models developed by the Bank. The audits ordered by the Supervisor, which were very thorough and stringent, were in particular aimed at ascertaining the correct degree of transposition of specific European Banking Authority (EBA) guidelines, as well as at verifying the adequate adoption of the corrective measures envisaged to address observations raised in previous inspections.

In this regard, we would like to inform you that the European Central Bank has been conducting an inspection visit on the Banca Popolare di Sondrio Group since 17 October of last year, focusing on credit and counterparty risk with reference to the Corporate&Large SME portfolios. The inspection is part of the ordinary processes that the European Supervisory Authority implements for the purpose of conducting an asset quality review of selected portfolios and assessing credit risk management processes and procedures, including the implementation of accounting standard IFRS 9 and any other ancillary aspects related to this purpose and subject matter. At the date of this report, inspection activities are still ongoing and are expected to be completed by the end of the first half of the year. At the end of the audits, the Supervisory Authority, through a pre-defined process that is expected to be completed by the end of the year through the so-called «Final Follow-up letter», will notify the Bank of the results.

Supervisory reviews contribute to the statistical performance of our internal models and act as a stimulus for the continuous optimisation of our management and control procedures: a task in which the Bank is engaged both «during», in order to provide timely feedback to the various requests of the inspection teams, and «after», in order to remedy the areas of improvement detected within prescriptive deadlines. All of this, it must be said, is adequately rewarded in the achievement of greater overall effectiveness of the measurement system, from which also derives a more accurate risk assessment capability. The above extraordinary activities were then combined with those, of a more physiological nature, of ordinary maintenance and updating of the AIRB system.

With respect to the procedures for calculating provisions on a collective basis, a number of prudential corrective measures were implemented (so-called «management overlay») to purely model-based estimates of impairment, to ensure a more adequate oversight of the final results of the models and to introduce greater responsiveness to the context in the systems of quantification of loan provisions. In this regard, it should be noted the determination of a specific «prudential add-on» related to the war between Russia and Ukraine and the consequences of the energy crisis, together with the reclassification to Stage 2 of exposures deemed potentially high risk (so-called «high risk positions») due to the aforementioned systemic factors.

Lastly, the appreciable advances made in the processes and techniques for the internal monitoring, quantification and analysis of counterparty risk, characterised by the development of management metrics and methodological approaches in line with industry best practices, in addition to the existing framework for regulatory purposes and periodic reporting to the Supervisory Authority, are significant.

Market risk

Daily market risk exposure monitoring activities continued, carried out separately, given the different characteristics of the investments in the portfolio, for all the securities held for trading purposes (»trading book«) and for the remaining types of financial assets held, not intended to be traded or sold for speculative purposes, included in the so-called banking book, in turn categorised on the basis of the accounting valuation criterion (fair value or amortised cost).

The picture of increased volatility observed compared to the previous year led to a general increase in risk magnitudes on securities owned at fair value, represented by daily statistical estimates of Value-at-Risk (VaR). Even though overall they remained positive, the results of the financial activity recorded in the income statement and the amount of the equity reserves from valuation were penalised by the situation of high market instability.

Share prices, especially those in the banking sector, fell in connection with the start of the war. Monetary policy decisions of the major central banks and expectations regarding these choices underwent an impressive and unexpected rise just a few quarters earlier. In Italy, the sovereign spread and the financing costs of companies and banking institutions also increased.

The above explains the increase in the overall risk profile of the financial instruments in the portfolio which, nonetheless, has always remained within the established tolerance levels; some episodic tensions in the system of early warning indicators were recorded above all starting from the second half of June, following the erosion of the risk ceilings by the growing capital losses connected also with the implementation of the decision of the European Central Bank to launch a policy rate hike, for the first time after a long period of stability.

The bank provided constant and reinforced monitoring of the situation that had arisen, flanking daily risk level measurements and periodic stress analyses with further investigations focused on estimating the potential medium-term impacts of the conflict.

Finally, fulfilled in the year were the periodic reporting obligations to the Supervisory Authority of the new alternative capital requirement for market risks according to the Alternative Standardised Approach envisaged by the European Capital Requirements Regulation (CRR 2), a more prudential and risk-sensitive capital absorption measure than the one still in force to date.

Interest-rate risk

In a context of gradual growth especially for medium and long-term interest rates, careful monitoring of the risk associated with potential fluctuations in market rate levels continued, implemented through monthly sensitivity analyses of the company's economic value to changes of the rates and sensitivity of the profits and interest income alone generated by the volumes of asset and liability transactions on the balance sheet, supplemented if necessary by targeted impact studies.

Internal activities related to the refinement of the so-called «behavioural models» in use for determining risk exposure continued during the past year. In particular, the statistical parameters on which the so-called models of «sight items» are based - models that quantify the persistence of asset and liability inventories with no maturity and their elasticity of adaptation to the movements of the market curves - were recalibrated in the second half-year, providing for the inclusion of more extensive samples of historical data. The parameters relating to the «pre-payment» model were also updated, aimed instead at simulating the repayment profile of medium-long term loans, taking into account the phenomena of early closure of credit relationships, partial pre-payment and modification of contractual conditions (nominal rate, spread on the base rate, optionality).

The adequacy of all the behavioural models present in the interest rate risk measurement systems is tested through regular retrospective verification processes of the effectiveness of the statistical models (so-called «backtesting»). Dedicated indicators are also quantified to signal the need to reassess the risk parameters for reasons other than the mere temporal obsolescence of the models or the failure of the «backtesting» tests.

Finally, further improvements in risk control concerned the extension of the range of disclosure reports produced by the monitoring offices, in particular addressed to senior bodies.

Liquidity risk

Even in a period characterised by the well-known systemic stresses, the Bank's liquidity provisioning remained at significant levels; constant monitoring, conducted in both the short and medium to long term, made it possible to promptly mitigate a potential tightening of risk measures, by activating appropriate management actions at an early stage.

Concerning the short-term (so-called «operational») liquidity position, dedicated surveys ensure daily monitoring of the cash flow dynamics typical of treasury operations, as well as the amount of cash reserves made up of funds deposited with central banks and the revenues potentially obtainable from the assets in the portfolio as they can be readily transferred on the market or can be transferred, if necessary, in the form of collateral in central refinancing operations.

Medium/long-term (»structural») liquidity is monitored every month to ensure that the harmonious matching of funding and lending is maintained; in particular, surveys are conducted on the structural balance of the financial statements, with a focus on aspects of risk such as, for example, the concentration profile of funding. In addition to intercompany lending, intra-day liquidity movements are also monitored constantly and the specific summary metrics defined by the Basel Committee for Banking Supervision are quantified at the end of every month.

With regard to the regulatory liquidity ratios, both short- and long-term - the Liquidity Coverage Ratio (LCR), quantified monthly, and the Net Stable Funding Ratio (NSFR), measured quarterly - no significant signs of tension were detected in 2022, recording values fully compliant with the minimum tolerance levels; a circumscribed drop in the indicators in question detected during the year was followed by specific optimisation measures that allowed them to rise above the average values for the year.

The impact of a range of stress test hypotheses on the Bank's general liquidity situation (operational, intraday and structural) is also determined each month, as measured by final management and regulatory parameters; these scenarios are subject to periodic review to verify the effectiveness and robustness of the simulations performed and update them where appropriate.

Operational and IT risk

Among the ominous consequences of the Russian Federation's invasion of Ukraine, the area of so-called «cyberspace» proved to be a particularly exposed target. Hackers on both sides have started a real parallel war, characterised by different forms of attack, with the aim of undermining relevant technological components and generating strong media tensions aimed at sowing uncertainty and weakening law enforcement initiatives, also against the banking and financial institutions of the sanctioning nations.

The situation has prompted international cyber-security agencies, operating in a climate of solid cooperation and information exchange regarding vulnerabilities and new types of emerging threats, to raise the state of alert to the highest levels and to promote the diversification of technologies adopted for cyber-security systems, especially when provided by third parties based in economies governed by anti-democratic political systems, in an attempt to mitigate the effects of potentially serious malicious compromises resulting from uncontrollable geo-political tensions.

The bank and the other components of the Group therefore acted promptly, including through the involvement of the main suppliers of critical ICT systems and services components, in order to reinforce internal levels of attention and thus ensure enhanced monitoring of the risks arising from potential cyber attacks aimed at the execution of fraudulent payment orders or for extortion purposes related to the possible threat of disclosure of confidential data. In accordance with the recommendations received from the government, a plan was also drawn up for the diversification and gradual replacement of in-house technology solutions falling into the above categories.

Also by virtue of the strengthened controls adopted, no real and direct criticalities were recorded during the financial year due to the Russian-Ukrainian conflict: the internal IT systems, also functional to digital operations and online customer transactions, were confirmed to be adequately manned and capable of supporting the growing loads of remote channel use, keeping constantly evolving fraud patterns under control, as well as responding to the work reorganisation needs that emerged during the pandemic emergency.

As far as the more general monitoring of operational risks is concerned, following a dedicated activity of reconnaissance of the insurance contracts in place to cover the various types of risk (including a new specific policy against «cyber risks»), a more structured operational process was defined to support the analysis of the effectiveness of the underwritten hedges with respect to risks that are already insured, as well as functional to the identification of new risk profiles that could potentially be insured. In addition, in order to ensure a more scientific assessment of the effects of climatic-environmental factors on exposure to the risks in question, a new analytical approach has been developed based on the use of empirical evidence collected by specialised bodies (e.g. Istituto Superiore per la Protezione e la Ricerca Ambientale) in relation to acute physical risk threats (e.g. floods, landslides), such as to facilitate the estimation of potential economic events attributable to damage/destruction of company property and the costs to be incurred for the possible restoration of business continuity.

With regard to the latter, the customary annual «comprehensive test» of the Business Continuity Plan was carried out in December, with positive results. The audit, which included both technical and organisational tests, covered the performance of the so-called «critical» processes at one of the alternative company sites, by conducting simulations of risk scenarios such as the destruction or inaccessibility of facilities and plants where essential operational units or equipment are located, or the unavailability of infrastructure, personnel and relevant documentation. Similar checks concerned specific IT resources to mitigate the risks associated with the non-availability of critical IT systems, as part of the disaster recovery plan. Several data and functionality restoration tests were completed successfully over the past twelve months, involving various components of our IT system.

Reputational and money laundering risk

The reality in which banks currently find themselves operating is marked by an important transition phase, the result of a complex geo-political conjuncture and a plurality of ongoing structural changes, including the constant aggregation drive that continues to characterise the financial sector, the increasing centrality of technological innovation and digitalisation objectives, as well as the rapid affirmation of environmental, social and governance (ESG) sustainability principles, both at the instigation of regulation and of markets and public opinion. In light of these significant challenges, and given the increased media and market exposure resulting from the transformation into a public limited company, our institute has strengthened its ongoing monitoring activities of corporate image perception. This control is embodied in the implementation of a process of identification and analysis of current and prospective risk events, potentially arising from the deteriorated perception of the reputation enjoyed by its main stakeholders, through the use of qualitative tools, supplemented, where possible, with quantitative surveys, on the whole functional to the activation of appropriate mitigation measures.

With this in mind, during the course of the year, dedicated in-depth analyses were launched to identify selected management indicators concerning potential reputational profiles connected with a lack of or inadequate adherence to «sustainability» principles and demands, integrating negative references intercepted in the mass media with opinions gathered through surveys conducted among various stakeholders or with evidence from the operational management process of customer complaints/claims. New IT tools were also developed to support the analysis of reputational risk profiles linked to the disbursement of significant loans to counterparties that present potentially controversial aspects from an ESG point of view.

With regard to the fight against money laundering and terrorist financing, the competent corporate function continued to monitor the risks under control, precisely verifying regulatory developments both with regard to the sanctions packages against the Russian Federation and Belarus and with regard to new significant legislative measures issued at national and EU level.

During the month of October, the Italian components of the Banking Group, under the coordination of the parent company, were involved in a sample survey proposed by the Bank of Italy through a collation exercise of a wide range of data and information. This survey, which was successfully completed and sent to the Supervisory Authority within the agreed deadline, stems from the changed European regulatory and institutional frameworks for combating money laundering and supporting terrorist activities. In this context, it is worth noting that in June, a new Anti-Money Laundering Supervision and Regulation Unit (»SNA») was set up at national level to coordinate with EU authorities and supervise the Italian banking system.

Also in June of last year, the European Banking Authority issued new Guidelines EBA/GL/2022/05 «Guidelines on policies and procedures in relation to compliance management and the role and responsibilities of the AML/CFT Compliance Officer under Article 8 and Chapter VI of Directive (EU) 2015/849». The Guidelines introduce reform provisions mainly in the arrangements for the conduct of AML/CFT supervision by parent entities of banking groups. The Bank of Italy has declared its intention to comply with these guidelines by 30 April 2023, at the same time revising part of the regulatory and supervisory framework. The Parent Company and the rest of the Banking Group are already engaged in activities to revise corporate policies, while awaiting the necessary implementation measures.

Finally, the Anti-Money Laundering Function successfully completed an experiment on the use of artificial intelligence models (Machine Learning) to optimise and streamline its controls. The new instrumentation makes it possible to prioritise the anomalous behavioural practices detected on a monthly basis by the reference procedures, enabling the Department to focus its analysis on those with a higher probability of potentially suspicious conduct. Building on the positive experience, further implementations in the sensitive area of cash will be planned.

Non compliance risk

During 2022, the central role of the Compliance unit was consolidated in relation to the need to promote the enhancement of a corporate culture based on the basic principles of honesty, correctness and compliance with the rules within a complex regulatory framework and in constant evolution. The Function traditionally operates according to the so-called «widespread compliance» model, implemented with the collaboration of specialist supervisors and qualified contacts appointed to govern particular regulatory spheres not directly supervised by the Function itself. The last financial year was also marked by the progressive and constant strengthening of the aforementioned operational model in terms of assessing, managing and monitoring non-compliance risks. This, above all, in relation to the increased size and greater complexity and operational specificity achieved by the Group in its various components.

The Compliance Function acts with the aim of identifying and assessing potential risks *ex ante* through monitoring and examination of regulatory changes with specific impacts on corporate organisational procedures, in order to facilitate their correct internal implementation. In the year under review, there was an intense consultancy activity, which demonstrates the increasingly significant need for the achievement and consolidation of adequate levels of operational compliance in the development of systems and the adoption of organisational measures. Also relevant are the verification activities preparatory to the development of innovative projects, including the launch of new products and services.

Particular attention was also paid to the ex post control activities carried out to assess the existence and adequacy of the organisational controls adopted to detect and then amend aspects of non-compliance with hetero- and self-regulatory provisions. Important topics such as the provision of investment services, insurance mediation, transparency conduct in the execution of transactions and the provision of banking and financial services, the processing of personal data (privacy), usury, outsourcing of services, and the regulation of Market Abuse were the main areas of focus.

The overall compliance activity was able to rely on refined analysis methodologies and the support of digital technologies to make certain monitoring and risk management procedures for regulatory non-compliance more efficient, optimising and automating the different stages of control.

ESG risks (Environmental, Social & Governance)

These risks, specifically climate and environmental risks, are one of the priorities of banking supervisory authorities. This is evidenced by the issuance of guidelines and expectations regarding the assimilation of these factors into risk governance strategies and systems, as well as the organisation in 2022 of a first EU-wide stress exercise dedicated to climate risk (a test in which our institution also took part), convened by the ECB to assess on a large scale the preparedness of the EU's most significant banks to deal with the potential economic and financial effects of climate change.

The Group is deeply committed to the integration of ESG elements in all the typical contexts of its business: strategies and risk appetite schemes, organisational and corporate governance systems, lending and investment processes, the general risk management framework, internal reporting and external communication mechanisms. New organisational and procedural safeguards are being prepared and innovative practices and methodologies are being developed to identify, measure and mitigate the possible materialisation of these sources of risk, with the intention of assisting companies engaged in the long and tortuous process of «green transition» through the disbursement of new finance and the offer of adequate financial and consultancy services, selecting the most deserving projects and the most virtuous counterparties on the basis of risk.

Limiting ourselves here to the area of risk management, techniques for identifying and mapping the effects of climate and environmental risks on corporate business are gradually being refined to assess their impacts on the various «traditional» risk profiles. The results of these analyses, which are more analytical and granular than in previous years, form the basis for the introduction of sustainability risks into the Risk Appetite Framework (RAF) and into the Capital Adequacy Self-Assessment Processes (ICAAP): in the first case, through specific risk indicators; in the second case, through dedicated analyses of the impacts of long-term climate scenarios. In this regard, project work is underway to strengthen the simulation and forecasting tools for the potential effects of the «green transition» of our counterparties.

As a fundamental step towards the goal of the proper measurement, management and representation of ESG risks, we report on the development of an internal quantitative scoring system, initially defined at the sector level, now calibrated at the individual borrower level, with the intention of quantifying borrowers' individual exposure to sources of risk related to environmental and climate factors, both physical and transitional. The synthetic score is assigned automatically by retrieving information from external databases but can be supplemented by data retrieval through direct contact with the customer. Sectoral classification scoring has already been implemented among the parameters of credit policies and in the electronic procedures for granting credit, laying the groundwork for orienting risk-taking choices in the various sectors of economic activity according to a greater or lesser exposure to ESG dimensions; the new individual assessment of counterparties' vulnerability to environmental and climate risks is also being progressively integrated into the processes of loan approval and disbursement, with the consequent redefinition of the escalation logics of the bodies/authorised parties, of the related delegated powers, and of the lending pricing models applied to credit transactions with companies.

The monitoring of ESG risks associated with portfolios of credit risk exposures and investments in financial instruments, in addition to relying on internal systems and methodologies that are being continuously refined, is supported by external tools and information services (e.g., non-proprietary ESG rating systems for evaluating the issuers of financial assets acquired in the portfolio) useful for ensuring a systematic determination of the degree of exposure to sustainability-related risk factors through the adoption of tools, metrics and algorithms for measuring risk levels that can feed the monitoring and reporting processes.

While considerable progress has been made, the action plan to ensure full ESG risk management is not yet complete. Further lines of action are being implemented as part of a medium-term path for the gradual alignment of corporate practices with the principles established by the sector authorities.

Other relevant risks

The main controls include those relating to strategic and business risks, as well as the risks of conflicts of interest that could arise from transactions with so-called «related parties» and to risks connected with investments in corporate equity investments, implemented by verifying aggregate exposure levels in relation to current internal and regulatory limits.

These controls are implemented by checking the aggregate exposures in relation to the internal and regulatory limits. With regard to the former and in application of the provisions of the 9th update to Circular 263 dated 27 December 2006 «*New prudential supervisory instructions for banks*», published by the Bank of Italy on 12 December 2011, which updated Title V – Chapter 5 on «*Risk activities and conflicts of interest with related parties*», now in Part Three – Chapter 11 of Circular No. 285 of 17 December 2013 «Prudential supervisory instructions for banks», the checks carried out are covered by the «*General regulation of the risks deriving from related-party transactions*», which describes policies and processes that mitigate the risks accepted at Banking Group level in relation to related parties. In accordance with the regulatory requirements, the policy is reviewed when necessary, every three years, and is made available for inspection by the Authorities upon request.

The updated Regulation is made available to the Shareholders' Meeting and is published on the company website at the address https://istituzionale.popso.it/en/investor-relations/shareholders-meeting.

The system of internal controls

So-called third-level controls are aimed at monitoring organisational functionality and adequacy, including information systems. The task of performing them remains entrusted to the Internal Audit Department, a structure that stands at the apex of the system of corporate control functions. This is an autonomous organisational unit which, as such, is not involved in the performance of any operational task, even on the basis of complete separation from the other functions assigned to control activities, operating under the direct authority of the board to guarantee independence of its mandate.

The internal audit activity takes the form, first of all, of the definition of a multi-year plan of inspections and is developed through a structured process of checks, concluding with a regular monitoring of the findings made, to which is added an increasingly intense involvement in relevant corporate projects. A broad mandate has therefore taken shape, which over time has increasingly extended to innovative and growing specialisation areas, to which the Internal Audit Function has contributed through organisational strengthening measures which now see in the work of dedicated specialist units the methods by which the itself is being pursued.

These tasks are carried out at the Banking Group level, since the product companies Factorit and Banca della Nuova Terra have outsourced their internal audit activities to the parent company; the subsidiary BPS (SUISSE), operating in a foreign jurisdiction, instead has an independent third-level structure, in any case a connection exists with the homologous function of the parent company from an information and methodological point of view. Such a set-up ensures on a consolidated basis a deeper and more effective supervision of the parent company's control Function.

Also in 2022, the Internal Audit Function's actions included a direct focus on examining the processes most affected by the geo-political and energy crisis; having overcome the difficult Covid-19 pandemic, the Function took steps to analyse the business processes most impacted by the Russian-Ukrainian conflict and the current inflationary dynamics, redefining action priorities to take into account the emergency phase currently underway, or in light of a changing context subject to further possible variations. It then notes how, in full continuity with what has been developed over the last few years, the Internal Audit unit has continued along the path of streamlining its organisational processes and the methodologies adopted within the scope of its audits. In the same way are to be interpreted both the continuation of the training course aimed at keeping the professional skills of the Function constantly updated, and the internal enhancement of specialised teams of auditors, focused on the main areas of intervention.

The audits carried out during the period uniformly involved the parent company and the Group's subsidiary entities, in adherence to the programmatic lines of the 2022-2024 Multi-Year Audit Plan, taking full account of a scenario characterised by the need to guard against certain emerging risk cases while promoting a «risk culture».

In terms of the areas covered by the audit action, the following in particular are highlighted: the credit monitoring chain, risk management controls, the promotion of corporate risk culture, AIRB rating models, and strategic planning processes. This is coupled with the heterogeneous projects and different work sites in which Internal Audit is constantly called upon, demonstrating a contribution increasingly required from the third-level function, and not only for the ex-post execution of audits in the strict sense, as mentioned above.

There has also been no less attention to corporate information systems, also by virtue of the other companies of the Banking Group, even more so in the presence of a contingent situation that leads to special surveillance being reserved for aspects such as information security, cybercrime and the effectiveness/efficiency of outsourced ICT processes.

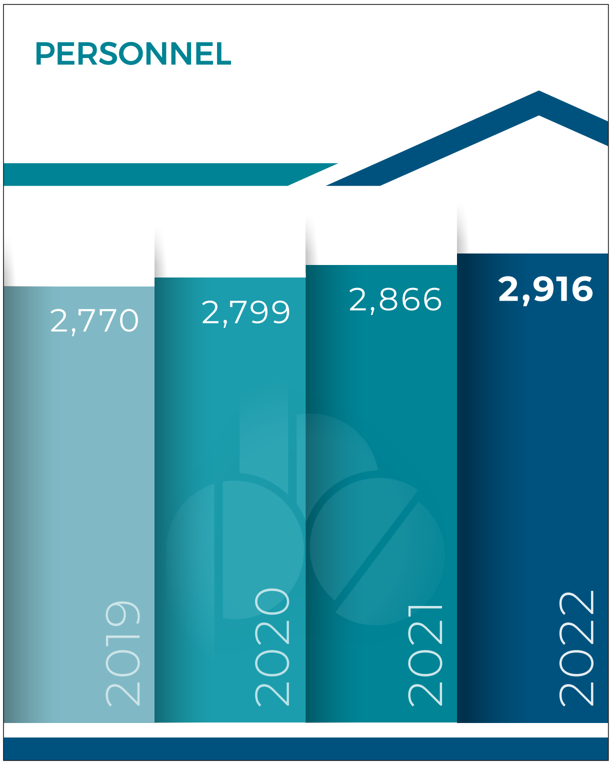
The issues of internal control play a central role also pursuant to Legislative Decree No. 231/2001, which is why a specific characteristic of the Internal Audit Function concerns direct participation in the work of the Supervisory Body set up to implement the aforementioned Decree, of which the Function Manager is also a stable member. Discussions with representatives of the control and supervisory authorities also continued.

Lastly, to the above must be added the traditional controls regarding the correct operation of the commercial network and central units, which, although conditioned by the impossibility of conducting on-site access for most of the year, were always aimed at checking the regularity operational management and compliance with corporate directives by business units.

HUMAN RESOURCES

The year 2022 followed two pandemic years that deeply marked the social and economic fabric and forced us to come to terms with very strong issues. The acceleration in the adoption of distance working and training modalities (e.g. smart-working, virtual classrooms, selection of job applicants in virtual rooms, etc.), while on the one hand has allowed for the continuity of the functioning of the operational machine, on the other hand, has affected, perhaps not entirely consciously, a significant component of work processes: from the way work is carried out to management and control styles. In this context, our Personnel showed a great sense of responsibility and cohesion, also confirming, as distinctive elements, the style in relations and the ability to understand and satisfy customer needs.

Cohesion and strong motivation that our Personnel, at all levels, also showed in embracing the objectives of the Business Plan. Among the many initiatives, those aimed at introducing specialised figures into the territory - in the bancassurance, credit and corporate sectors - and increasing existing ones dedicated to asset management were also seized as an opportunity to enable new professional growth paths. In this respect, the personnel management structure also operates with the aim of offering employees more opportunities to expand their skills. To this end, human capital development activities were enriched, updating and integrating the contents of training courses and also dedicating specific initiatives to management, aimed at disseminating values and effective management behaviour.



The monitoring and development of professional skills went hand in hand with the management of the workforce in terms of size, in order to ensure balanced and consistent growth.

At the end of 2022, the Bank employed 2,916 persons, up by 50, +2.34%; 75% of them work in the branch network and the other 25% at the central offices. The average age of employees, 42 years and 3 months, and the average length of service, 17 years and 10 months, increased by 4 months and 3 months, respectively.

With regard to staff training, in-person participation was partially reintroduced during the year, alongside the «synchronous» virtual classroom mode: a total of 2,329 staff members were involved, for a total of 44,443 man-hours. Training through multimedia tools covered 2,241 employees, totalling 67,696 man-hours.

As for the topics to which particular attention was dedicated, courses on industry regulations such as anti-money laundering, MiFID II and IVASS should be highlighted, as well as training on financial investment advice and insurance mediation, the credit sector, sustainability and ESG factors, personal data processing, usury, market abuse, the consumer code and the provision of treasury services.

Multimedia courses mainly covered regulatory aspects such as banking transparency, privacy, anti-money laundering, administrative liability of banks (Legislative Decree 231/2001), as well as cybersecurity, ESG, IVASS and MiFID. 262 new hires followed a dedicated training course, which dealt with diversified topics such as the discipline of the employment relationship, branch operations, corporate security, banking regulations and techniques, the commercial offer, introduction to credits, securities markets and foreign transactions.

Internships organised in collaboration with technical institutes and universities in areas covered by the bank have unfortunately still remained suspended due to the pandemic.

Relations with the Trade Unions continue to be based on attention and reciprocal respect.

PROMOTIONAL AND CULTURAL ACTIVITIES

It flows directly from our nature as a local bank that we are committed to enhancing and promoting the identity, beauty and traditions of the places where we are present. This gives incisiveness and strength to our action, which has its raison d'être in the mutually beneficial relationship with the areas served.

The bank's cultural activities covered many initiatives. First of all, let us mention the Newsletter, a four-monthly publication whose 50th anniversary falls this year. We intend to mark the occasion by continuing the traditional dissemination of contributions of general interest on several topics. We would like to mention, among others, the column in the four-monthly magazine *Il Pianeta che cambia* (The Changing Planet), which has been enriched with further interesting articles, with the aim of keeping attention constantly focused on the ongoing ecological transition. With the same intention, a number of essays on the subject were collected in the publication *Habitat, una Terra per l'uomo* (Earth for Man), which we produced and donated to the participants of the XXXVI edition of the Sondrio Festival, International Exhibition on Parks, held at the end of October/beginning of November.

Successful meetings were held during the year under review, starting with the one held on 28 February in our headquarters conference room - organised by the Sondrio Territorial School Office, with the active collaboration of this Popolare and its subsidiary Arca SGR - where renowned economist Professor Carlo Cottarelli discussed the topic of social and economic relaunch.

On 5 March, with the participation of the Bormio Culture Department, we promoted the presentation, in the Magnifica Terra, of Gabriel Garcìa Màrquez's *One Hundred Years of Solitude*, a timeless masterpiece for which the author received the Nobel Prize for Literature in 1982.

On 1 April was the inauguration of the exhibition «Paolo Punzo. Mountains of Lombardy» set up in Lecco. The artist, who lived in the last century, knew the mountains and their habitat very well, having lived for a long time in Alta Valtellina, skilfully painting its landscapes and picturesque corners. This Popolare, which owns 20 paintings by the painter from Bergamo, 5 of which were lent and placed in the Lecco exhibition, participated in the prestigious event as main partner.

The conference *Development and the Banking System*, held on 2 December in our Sala Fabio Besta in Sondrio, and conceived by Professor Marco Vitale, attracted widespread attention and triggered numerous high-level debates. The qualified audience listened with great interest to the elocutions of the distinguished speakers, coordinated in the role of moderator by Professor Gianfranco Fabi. Professors Stefano Zamagni and Marco Onado, Professor Rosa Cocozza, Engineer Alfonso Scarano, Professor Andrea

Calamanti and dr. Giacomo Pedranzini spoke. Our CEO and General Manager closed the conference, recalling, among other things, the thought and work of the late President Emeritus Knight of Labour Piero Melazzini. A contribution, ours, aimed at developing critical thinking and dialectic on the role of banks - specifically community banks - in growing the work and welfare of the communities they serve.

Initiatives in favour of young people include the theatrical performance, organised on 19 November 2022 in cooperation with the school world at the city's Teatro Sociale, to honour the memory of General Carlo Alberto Dalla Chiesa, who was barbarously murdered in 1982, a pride of the glorious Carabinieri Corps. He was a great example of a stalwart defender of legality, of constituted freedom.

On Saturday 1 October, as part of the 21st edition of the ABI-promoted initiative *Invito a palazzo* (Invitation to the palace), in Sondrio we opened the doors of the head office and the Luigi Credaro library, allowing the public to enjoy guided tours to admire the many artistic and literary works housed within the two structures. The day was a success.

The 2022 Annual Report, financial year 2021, of the subsidiary Banca Popolare di Sondrio (SUISSE) SA, in the space reserved for culture, featured a monograph on Dimitri, a well-known Swiss clown, a travelling showman, who knew how to convey joy, a desire to communicate, to be together in harmony.

As in the past, this bank has made donations for social purposes and to help some cases of serious human hardship. Moreover, as a result of the Solidarity Current Account, it allocated sums to AISLA, UNICEF, AVIS, AIRC and ADMO.

EQUITY

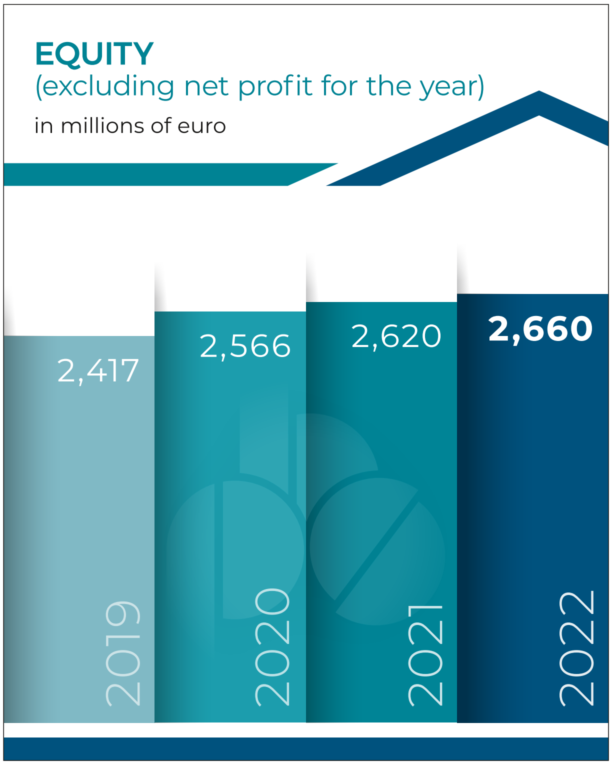
Shareholders' equity at 31 December 2022, inclusive of valuation reserves and the profit for the year, amounts to 2,872.857 million. Compared with the total at 31 December 2021 of 2,831.987 million, this represents an increase of 40.870 million, +1.44%. The change resulted mainly from the recognition of the profit for the year under review, as well as, on the negative side, from the decrease in valuation reserves and the distribution of a portion of the profit for the year 2021.

The share capital, which consists of 453,385,777 ordinary shares without par value, amounts to 1,360.157 million, unchanged with respect to the comparative period.

There was a slight change in issue premiums, amounting to 78.978 million, -27,000 euro, due to negative differences between the discharge price and the corresponding book value of the shares sold.

Equity reserves rose to 1,276.171 million, +10.59%; the increase of 122.212 million derives from the allocation of part of the profit for the year 2021 and from the inclusion of capital gains/losses on equity securities sold which were already, in part, in the valuation reserves.

In this regard, it is recalled that the Shareholders' Meeting held on 30



April 2022, called to approve the financial statements for the year 2021 and the allocation of profit, resolved to distribute a dividend paid from 25 May 2022 of 0.20 euro for each of the 453,385,777 shares outstanding as of 31 December 2021.

Valuation reserves, represented by the balance between capital gains and losses recognised on financial assets designated at fair value through comprehensive income (FVOCI), on properties designated at fair value and between actuarial gains and losses on defined benefit plans for employees, presented a negative balance of 30.086 million, significantly worsening compared to the end of 2021, when it was positive for 52.088 million; effect to be connected to the negative trend of the financial markets. Treasury shares in portfolio decreased slightly, amounting to 25.264 million.

With regard to capital adequacy, the harmonised legislation for banks and investment firms is contained in Regulation (EU) No. 575/2013 (CRR) and in Directive 2013/36/EU (CRD IV), which define the general limits on capital ratios: 7% for the CET1 Ratio, 8.50% for the Tier1 Capital Ratio and 10.50% for the Total Capital Ratio.

The European Central Bank, which by virtue of its powers, based on the evidence gathered as part of the supervisory review and evaluation process, has the authority to set customised capital and/or liquidity ratios for each intermediary subject to Community supervision, with communication dated 3 February 2022 at the conclusion of the annual Supervisory Review and Evaluation Process (SREP) conducted in 2021, sent the Bank the decision of the Supervisory Board regarding the minimum coefficients to be respected on a consolidated basis with effect 1 March 2022.

The minimum capital levels required of our banking Group are:

– a minimum requirement of Common Equity Tier 1 Ratio of 8.56%, calculated as the sum of the Pillar 1 regulatory minimum requirement (4.50%), the Capital Conservation Buffer (2.50%), and an additional Pillar 2 requirement (1.56%);

– a minimum requirement of Tier 1 Capital Ratio of 10.58%, calculated as the sum of the Pillar 1 regulatory minimum requirement (6%), the Capital Conservation Buffer (2.50%) and an additional Pillar 2 requirement (2.08%);

– a minimum requirement of Total Capital Ratio of 13.27%, calculated as the sum of the Pillar 1 regulatory minimum requirement (8%), the Capital Conservation Buffer (2.50%) and an additional Pillar 2 requirement (2.77%).

While the first two additions are specified by the prudential regulations and are identical for all banks in a given country, the third is determined by the ECB based on the actual degree of risk faced by the individual bank.

On 15 December 2022, at the conclusion of the annual SREP conducted in 2022, notification was received from the European Central Bank of the new decision of prudential requirements to be met on a consolidated basis, effective as of 1 January 2023. The additional Pillar 2 Requirement or «P2R» is 2.66%, down from the previous 2.77%. The new ratio, to be held in the form of primary Tier 1 (CET 1) capital for at least 56.25% and Tier 1 capital for at least 75%, includes a quota of 0.01% as an increase in the second pillar requirement for non-performing exposures. Consequently, the minimum required Common Equity Tier 1 Ratio is 8.50%, the minimum required Tier 1 Capital Ratio is 10.50%, and the minimum required Total Capital Ratio is 13.16%.

Since 2017, the ECB has been providing the Bank with «Pillar 2 Guidance», which acts a guide to the future evolution of the Group's capital. This parameter is confidential, by contrast with the two minimum requirements, and – based on guidelines issued by the ECB – is not deemed relevant for the determination of distributable dividends.

Consolidated own funds for Supervisory reporting purposes, including a portion of the profit as at 31 December 2022, amounted to 3,779.302 million (Phased-in) and 3,759.569 million (Fully Phased), while risk-weighted assets amounted to 21,049.013 million.

In the interests of full disclosure, the Group decided to take advantage of EU Regulation 2017/2395, which granted supervised intermediaries the possibility to include, temporarily, in the calculation of their Tier 1 capital an additional amount aimed at «neutralising» the effects the higher accounting provisions caused by immediate adoption of IFRS 9, which came into force on 1 January 2018. With Regulation (EU) 2020/873 of 24 June 2020, changes were made to these transitional provisions, both with regard to the time frame and the computability percentages. The additional adjustments related to the entry into force of IFRS 9 will continue to be calculated on the basis of the percentages already provided (i.e. percentages of computability decreasing over time, from 95% in 2018 to 25% in 2022, up to its total zeroing in 2023), while for those related to the Covid-19 emergency, they will be applied to the value of CET 1 assets taking into account a percentage of declining computability over time, from 100% in 2020 and 2021, to 75% in 2022, 50% in 2023, 25% in 2024, until it reaches zero in 2025.

The following are the requirements referring to the Group as at 31 December 2022:

Group's capital ratios	Phased-in	Fully phased
CET1 Ratio	15.39%	15.30%
Tier1 Capital ratio	15.39%	15.30%
Total Capital Ratio	17.95%	17.86%

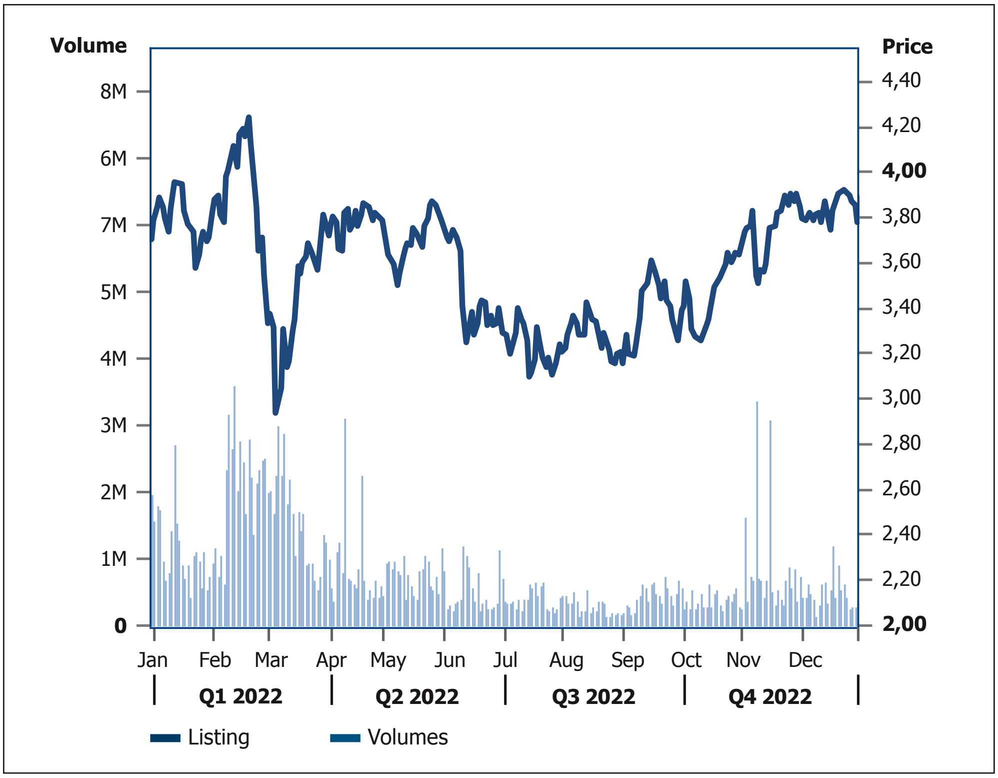
The following ratios of capital (and reserves, including profit for the period) to the principal balance sheet aggregates are shown with comparative figures at 31 December 2021:

– *capital/direct funding from customers*
7.53% v. 7.90%
– *capital/customer loans*
10.75% v. 11.31%
– *capital/financial assets*
21.04% v. 20.66%
– *capital/total assets*
5.47% v. 5.70%
– *Net bad loans/capital*
4.10% v. 6.67%

BANCA POPOLARE DI SONDRIO STOCK

The Banca Popolare di Sondrio share, traded on the Euronext Milan market of Borsa Italiana, part of the FTSE Italia All-Share index, closed the year 2022 with a positive performance of 2.22%, marking a reference price on 30 December 2022 of 3.78 euro, compared to 3.698 euro at the end of 2021. The general index Ftse Italia All-Share in the same period recorded a decrease equal to 14.10%, while the sectoral index Ftse Italia All-Share Banks had a contraction of 4.55%.

BANCA POPOLARE DI SONDRIO Stock – Euronext Milan market of Borsa Italiana



Source REFINITIV EIKON

The average daily volume of securities traded on the Euronext Milan market of Borsa Italiana in 2022 was equal to 0.813 million, a decrease compared with 1.574 million in 2021.

As regards the treasury shares held in ownership, the balance as at 31 December 2022 was equal to 3,641,718 shares, down by 8,282 shares compared to the end of 2021 as a result of the assignments carried out in implementation of the remuneration policies of the Banca Popolare di Sondrio Banking Group for the year 2021. The book value is 25.261 million.

The shareholder structure as at 31 December 2022 consisted of 158,400 shareholders.

RATINGS

The solvency of the Banca Popolare di Sondrio Banking Group, according to assessments by the rating agencies Fitch Ratings, DBRS Morningstar and Scope Ratings, is shown in detail in the tables below.

The ratings shown here refer to Fitch Ratings' decision of 27 July 2022, as well as the assessments expressed by DBRS Morningstar and Scope Ratings on 14 November 2022 and 23 March 2022, respectively.

FITCH RATINGS – issued on 27/07/2022

	RATING
LONG–TERM It is a measure of the probability of default and expresses the Bank's ability to repay medium to long-term financial obligations. It is expressed on a scale from AAA to D, for a total of 11 levels.	**BB+**
SHORT – TERM It measures the ability of the organisation to which the rating is assigned to meet payments due in the short term, i.e. within 13 months. The measurement scale includes seven levels (F1, F2, F3, B, C, RD and D).	**B**
VIABILITY RATING It evaluates what the Bank's situation would be if it were completely independent and could not rely on external support. It is expressed on a scale from AAA to D, for a total of 11 levels.	**bb+**
GOVERNMENT SUPPORT It expresses Fitch's assessment of the possibility of state intervention to support the issuer in a state of crisis. In the case of eurozone banks, the EU Directive on Bank Recovery and Resolution and the Single Resolution Mechanism provide a framework for resolution that envisages, if necessary, the participation of senior creditors in losses instead of/before a bank receives state support.	**No Support**
LONG-TERM DEPOSIT RATING It is a measure that expresses the vulnerability to default of uninsured deposits. It is expressed on a scale similar to that used for the long-term rating (from AAA to D).	**BBB-**
SHORT-TERM DEPOSIT RATING It is a measure that expresses the vulnerability to default of uninsured deposits maturing in the short term. It is expressed on a scale similar to that used for the short-term rating (F1, F2, F3, B, C, RD and D).	**F3**
SENIOR PREFERRED DEBT It is a measure of the probability of default of Senior Preferred bonds which is expressed using a scale from AAA to D.	**BB+**

SUBORDINATED DEBT It is a measure of the probability of default of subordinated bonds that is expressed using a scale from AAA to D.	**BB-**
OUTLOOK It is a prospective assessment of the possible evolution of the issuer's ratings over a period of 1 to 2 years.	**Stabile**

DBRS Morningstar – issued on 14/11/2022

	RATING
LONG–TERM It is a measure of the probability of default and expresses the Bank's ability to repay medium to long-term financial obligations. It is expressed on a scale from AAA to D.	**BBB (low)**
SHORT–TERM It measures the ability of the organization to which the rating is assigned to meet payments due in the short term. The measurement scale includes six levels (R-1; R-2; R-3; R-4; R-5 and D).	**R-2 (middle)**
INTRINSIC ASSESSMENT It reflects the opinion of DBRS on the intrinsic fundamentals of the Bank assessed on the basis of quantitative and qualitative elements. It is expressed on a scale from AAA to CCC.	**BBB (low)**
SUPPORT ASSESSMENT It reflects DBRS's view on the likelihood and predictability of timely external support for the Bank in case of need. The measurement scale includes four levels from SA1 (best) to SA4 (worst).	**SA3**
LONG-TERM DEPOSIT RATING It is a measure that expresses the vulnerability to default of medium/long-term uninsured deposits. It is expressed on a scale similar to that used for the long-term rating (from AAA to D).	**BBB**
SHORT-TERM DEPOSIT RATING It is a measure that expresses the vulnerability to default of short-term uninsured deposits. It is expressed on a scale similar to that used for the short-term rating (R-1; R-2; R-3; R-4; R-5 and D).	**R-2 (high)**
LONG-TERM SENIOR DEBT It is a measure of the probability of default of Senior Preferred bonds which is expressed using a scale from AAA to D.	**BBB (low)**
SHORT-TERM DEBT It is a measure of the probability of default of short-dated bonds that is expressed using a scale from R-1 to D.	**R-2 (middle)**
SUBORDINATED DEBT It is a measure of the probability of default of subordinated bonds that is expressed using a scale from AAA to D.	**BB**
TREND (outlook) It is a prospective assessment of the possible evolution of the long-term rating assigned over a period of 1-2 years.	**Stabile**

Scope Ratings – issued on 23/03/2022

	RATING
ISSUER RATING It is a rating on the Bank's ability to meet its contractual financial commitments in a timely and complete manner. It is expressed on a scale from AAA to D.	**BBB-**

OUTLOOK It is a prospective assessment of the possible evolution of the issuer rating assigned over a period of 12-18 months.	**Positive**

INCOME STATEMENT

The general landscape in which our bank found itself operating was undoubtedly difficult and articulated. The growth that the Italian economy has nevertheless been able to express has had to come to terms with the sharp rise in inflation, the energy crisis and the serious uncertainties linked to the Russian-Ukrainian conflict.

In this extremely complicated context, our bank achieved an excellent result by increasing, albeit slightly, its profit for the year 2021, which had been the best in the Bank's 150-year history. The year 2022 closed with a profit of 212.902 million, an increase of 0.38% compared with 212.099 million the previous year.

The good result was primarily the result of the dynamic core business, driven by the strong increase in net interest income and the positive performance of commissions, which offset a negative overall result from the securities and other financial assets portfolio and an increase in loan adjustments.

The comments on the various items refer to the data shown in the «Summary income statement» below. Note that they have been reclassified with respect to those shown in the tables foreseen in Bank of Italy provision No. 262/2005.

Net interest income

Net interest income increased by 30.29%, coming in at 582.209 million compared to 446.843 million. The restrictive monetary policy and inflationary expectations drove up government bond rates, as well as interbank indices, thus significantly impacting variable-rate customer loans and new loans. The overall differential between lending and borrowing rates increased compared to the comparison period.

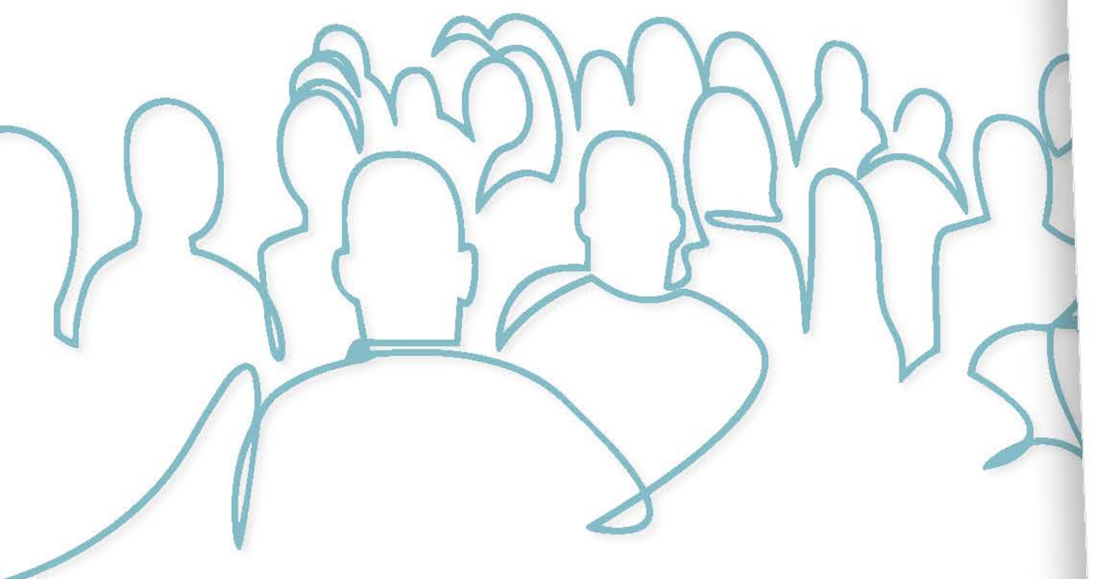
Interest income showed good growth: from 554.081 to 726.504 million, +31.12%. The increase was primarily attributable to income from the securities portfolio, particularly indexed government bonds, driven by inflationary winds and the ECB's restrictive monetary policies; this was followed by a sharp increase in income related to tax credits acquired in connection with Decree-Laws «Cura Italia» and «Relaunch» for 39.982 million compared to 5.585 million. Growth in income from customers was also good. On the other hand, negative interest on the outstanding T-LTRO III refinancing operations with the ECB declined, following the end of the negative interest rate season. Interest expense amounted to 144.295 million, +34.56%. The increase was a consequence of interest rate trends and involved both short-term funding from customers and bond issues; interest paid to banks decreased.

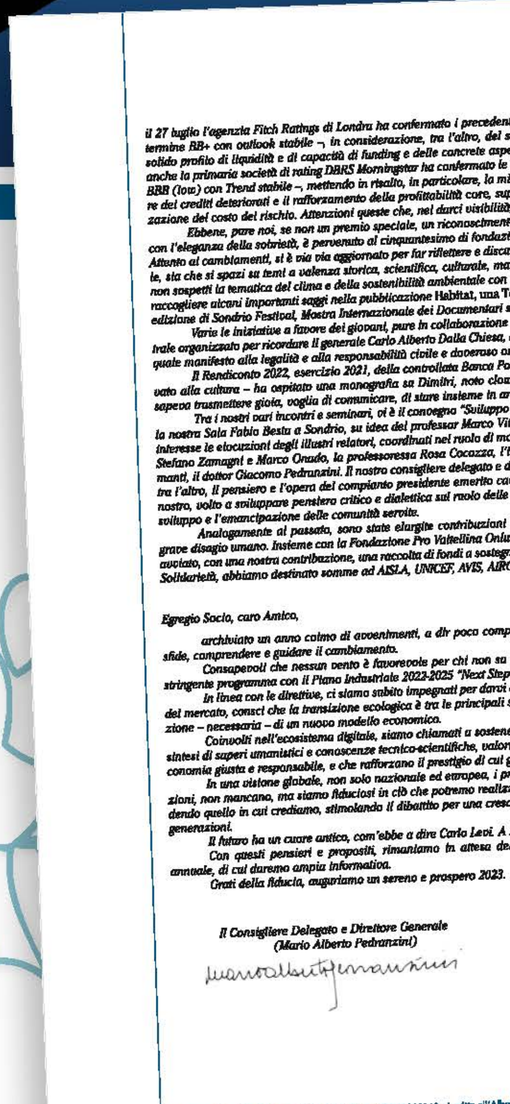
Net fee and commission income showed a good trend, amounting to 331.191 million, +6.90%. While those related to securities and financial products business were essentially stable, those for guarantees given, loans and current accounts, as well as collections and payments, rose well.

158,400

2022

OUR **SHAREHOLDERS**





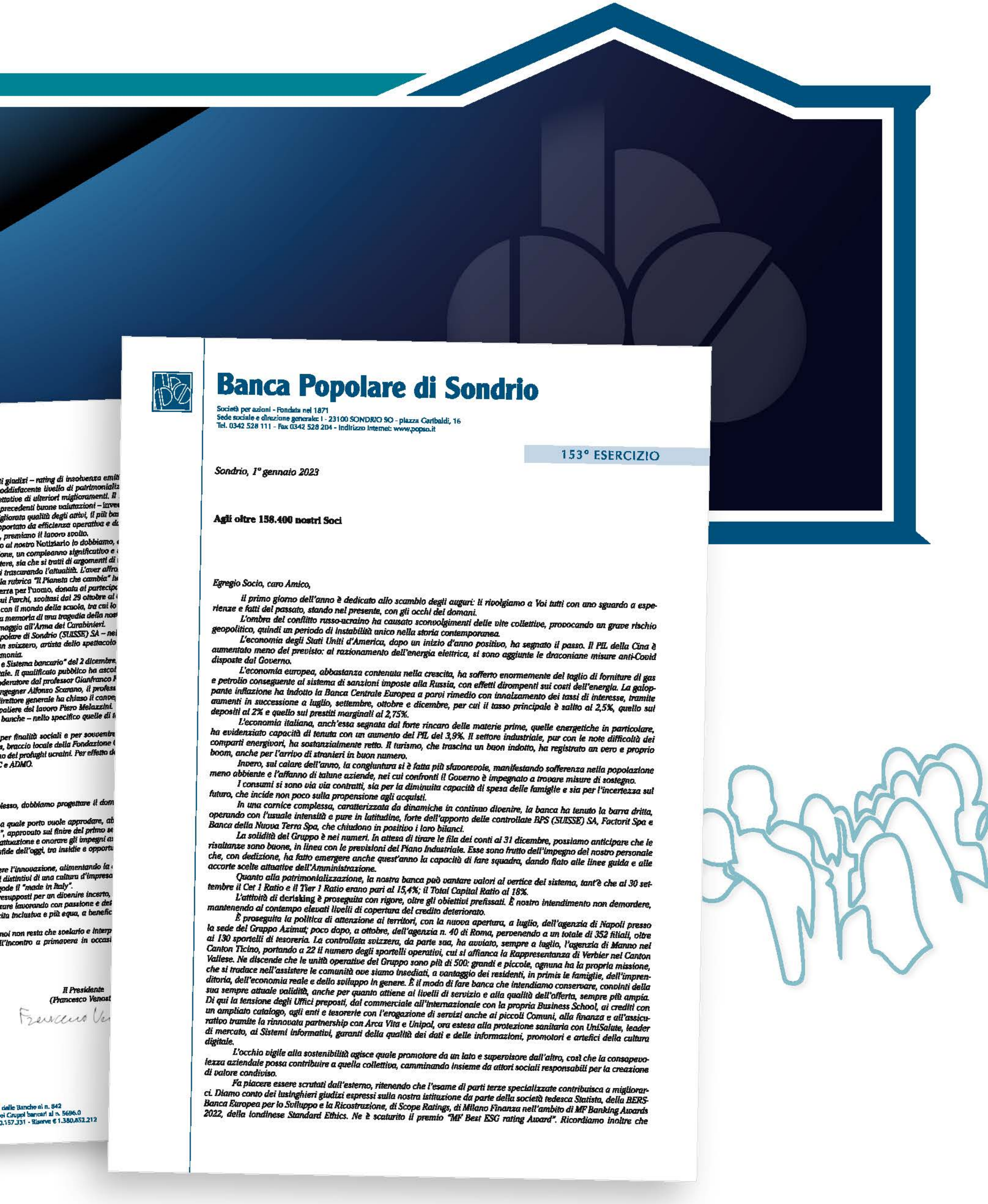
il 27 luglio l'agenzia Fitch Ratings di Londra ha confermato i precedent
termine BB+ con outlook stabile –, in considerazione, tra l'altro, del s
solido profilo di liquidità e di capacità di funding e delle concrete aspe
anche la primaria società di rating DBRS Morningstar ha confermato le
BBB (low) con Trend stabile –, mettendo in risalto, in particolare, la mi
re dei crediti deteriorati e il rafforzamento della profittabilità core, su
zazione del costo del rischio. Attenzioni queste che, nel darci visibilità
Ebbene, pure noi, se non un premio speciale, un riconoscimen
con l'eleganza della sobrietà, è pervenuto al cinquantesimo di fondaz
Attento ai cambiamenti, si è via via aggiornato per far riflettere e disc
le, sia che si spazi su temi a valenza storica, scientifica, culturale, ma
non sospetti la tematica del clima e della sostenibilità ambientale con
raccogliere alcuni importanti saggi nella pubblicazione Habitat, una T
edizione di Sondrio Festival, Mostra Internazionale dei Documentari
Varie le iniziative a favore dei giovani, pure in collaborazione
trale organizzato per ricordare il generale Carlo Alberto Dalla Chiesa,
quale manifesto alla legalità e alla responsabilità civile e doveroso o
Il Rendiconto 2022, esercizio 2021, della controllata Banca Po
vato alla cultura – ha ospitato una monografia su Dimitri, noto clo
sapeva trasmettere gioia, voglia di comunicare, di stare insieme in a
Tra i nostri vari incontri e seminari, vi è il convegno "Sviluppo
la nostra Sala Fabio Besta a Sondrio, su idea del professor Marco Vi
interesse le elocuzioni degli illustri relatori, coordinati nel ruolo di m
Stefano Zamagni e Marco Onado, la professoressa Rosa Cocozza, l'
manti, il dottor Giacomo Pedranzini. Il nostro consigliere delegato e d
tra l'altro, il pensiero e l'opera del compianto presidente emerito ca
nostro, volto a sviluppare pensiero critico e dialettica sul ruolo delle
sviluppo e l'emancipazione delle comunità servite.
Analogamente al passato, sono state elargite contribuzioni
grave disagio umano. Insieme con la Fondazione Pro Valtellina Onlu
avviato, con una nostra contribuzione, una raccolta di fondi a sosteg
Solidarietà, abbiamo destinato somme ad AISLA, UNICEF, AVIS, AIR

Egregio Socio, caro Amico,

archiviato un anno colmo di avvenimenti, a dir poco comp
sfide, comprendere e guidare il cambiamento.
Consapevoli che nessun vento è favorevole per chi non sa
stringente programma con il Piano Industriale 2022-2025 "Next Step
In linea con le direttive, ci siamo subito impegnati per darvi
del mercato, consci che la transizione ecologica è tra le principali
zione – necessaria – di un nuovo modello economico.
Coinvolti nell'ecosistema digitale, siamo chiamati a sostene
sintesi di saperi umanistici e conoscenze tecnico-scientifiche, valor
conomia giusta e responsabile, e che rafforzano il prestigio di cui
In una visione globale, non solo nazionale ed europea, i p
zioni, non mancano, ma siamo fiduciosi in ciò che potremo realiz
dendo quello in cui crediamo, stimolando il dibattito per una cresc
generazioni.
Il futuro ha un cuore antico, com'ebbe a dire Carlo Levi. A
Con questi pensieri e propositi, rimaniamo in attesa de
annuale, di cui daremo ampia informativa.
Grati della fiducia, auguriamo un sereno e prospero 2023.

Il Consigliere Delegato e Direttore Generale
(Mario Alberto Pedranzini)

Iscritta al Registro delle Imprese di Sondrio al n. 00053810149 - Iscritta all'Albo
Capogruppo del Gruppo bancario Banca Popolare di Sondrio, Iscritto all'Albo d
Aderente al Fondo Interbancario di Tutela dei Depositi - Capitale sociale € 1.36



Banca Popolare di Sondrio

Società per azioni - Fondata nel 1871
Sede sociale e direzione generale: I - 23100 SONDRIO SO - piazza Garibaldi, 16
Tel. 0342 528 111 - Fax 0342 528 204 - Indirizzo Internet: www.popso.it

153° ESERCIZIO

Sondrio, 1° gennaio 2023

Agli oltre 158.400 nostri Soci

Egregio Socio, caro Amico,

il primo giorno dell'anno è dedicato allo scambio degli auguri: li rivolgiamo a Voi tutti con uno sguardo a esperienze e fatti del passato, stando nel presente, con gli occhi del domani.

L'ombra del conflitto russo-ucraino ha causato sconvolgimenti delle vite collettive, provocando un grave rischio geopolitico, quindi un periodo di instabilità unico nella storia contemporanea.

L'economia degli Stati Uniti d'America, dopo un inizio d'anno positivo, ha segnato il passo. Il PIL della Cina è aumentato meno del previsto: al razionamento dell'energia elettrica, si sono aggiunte le draconiane misure anti-Covid disposte dal Governo.

L'economia europea, abbastanza contenuta nella crescita, ha sofferto enormemente del taglio di forniture di gas e petrolio conseguente al sistema di sanzioni imposte alla Russia, con effetti dirompenti sui costi dell'energia. La galoppante inflazione ha indotto la Banca Centrale Europea a porvi rimedio con innalzamento dei tassi di interesse, tramite aumenti in successione a luglio, settembre, ottobre e dicembre, per cui il tasso principale è salito al 2,5%, quello sui depositi al 2% e quello sui prestiti marginali al 2,75%.

L'economia italiana, anch'essa segnata dal forte rincaro delle materie prime, quelle energetiche in particolare, ha evidenziato capacità di tenuta con un aumento del PIL del 3,9%. Il settore industriale, pur con le note difficoltà dei comparti energivori, ha sostanzialmente retto. Il turismo, che trascina un buon indotto, ha registrato un vero e proprio boom, anche per l'arrivo di stranieri in buon numero.

Invero, sul calare dell'anno, la congiuntura si è fatta più sfavorevole, manifestando sofferenza nella popolazione meno abbiente e l'affanno di talune aziende, nei cui confronti il Governo è impegnato a trovare misure di sostegno.

I consumi si sono via via contratti, sia per la diminuita capacità di spesa delle famiglie e sia per l'incertezza sul futuro, che incide non poco sulla propensione agli acquisti.

In una cornice complessa, caratterizzata da dinamiche in continuo divenire, la banca ha tenuto la barra dritta, operando con l'usuale intensità e pure in latitudine, forte dell'apporto delle controllate BPS (SUISSE) SA, Factorit Spa e Banca della Nuova Terra Spa, che chiudono in positivo i loro bilanci.

La solidità del Gruppo è nei numeri. In attesa di tirare le fila dei conti al 31 dicembre, possiamo anticipare che le risultanze sono buone, in linea con le previsioni del Piano Industriale. Esse sono frutto dell'impegno del nostro personale che, con dedizione, ha fatto emergere anche quest'anno la capacità di fare squadra, dando fiato alle linee guida e alle accorte scelte attuative dell'Amministrazione.

Quanto alla patrimonializzazione, la nostra banca può vantare valori al vertice del sistema, tant'è che al 30 settembre il Cet 1 Ratio e il Tier 1 Ratio erano pari al 15,4%; il Total Capital Ratio al 18%.

L'attività di derisking è proseguita con rigore, oltre gli obiettivi prefissati. È nostro intendimento non demordere, mantenendo al contempo elevati livelli di copertura del credito deteriorato.

È proseguita la politica di attenzione ai territori, con la nuova apertura, a luglio, dell'agenzia di Napoli presso la sede del Gruppo Azimut; poco dopo, a ottobre, dell'agenzia n. 40 di Roma, pervenendo a un totale di 352 filiali, oltre ai 130 sportelli di tesoreria. La controllata svizzera, da parte sua, ha avviato, sempre a luglio, l'agenzia di Manno nel Canton Ticino, portando a 22 il numero degli sportelli operativi, cui si affianca la Rappresentanza di Verbier nel Canton Vallese. Ne discende che le unità operative del Gruppo sono più di 500: grandi e piccole, ognuna ha la propria missione, che si traduce nell'assistere le comunità ove siamo insediati, a vantaggio dei residenti, in primis le famiglie, dell'imprenditoria, dell'economia reale e dello sviluppo in genere. È il modo di fare banca che intendiamo conservare, convinti della sua sempre attuale validità, anche per quanto attiene ai livelli di servizio e alla qualità dell'offerta, sempre più ampia. Di qui la tensione degli Uffici preposti, dal commerciale all'internazionale con la propria Business School, ai crediti con un ampliato catalogo, agli enti e tesorerie con l'erogazione di servizi anche ai piccoli Comuni, alla finanza e all'assicurativo tramite la rinnovata partnership con Arca Vita e Unipol, ora estesa alla protezione sanitaria con UniSalute, leader di mercato, ai Sistemi informativi, garanti della qualità dei dati e delle informazioni, promotori e artefici della cultura digitale.

L'occhio vigile alla sostenibilità agisce quale promotore da un lato e supervisore dall'altro, così che la consapevolezza aziendale possa contribuire a quella collettiva, camminando insieme da attori sociali responsabili per la creazione di valore condiviso.

Fa piacere essere scrutati dall'esterno, ritenendo che l'esame di parti terze specializzate contribuisca a migliorarci. Diamo conto dei lusinghieri giudizi espressi sulla nostra istituzione da parte della società tedesca Statista, della BERS-Banca Europea per lo Sviluppo e la Ricostruzione, di Scope Ratings, di Milano Finanza nell'ambito di MF Banking Awards 2022, della londinese Standard Ethics. Ne è scaturito il premio "MF Best ESG rating Award". Ricordiamo inoltre che

Dividends received amounted to 35.543 million compared to 22.263 million, +59.65%; the distribution of dividends by Factorit SpA, Banca Popolare di Sondrio (SUISSE) SA, Arca Holding spa and Arca Vita spa during the year is significant.

The result from financial activities, the sum of items 80-90-100 in the income statement, was a positive 59.823 million compared to 99.907 million. Financial markets were highly volatile during the year due to the restrictive monetary policies of central authorities, rising inflation, and critical issues related to the Russian-Ukrainian conflict and the energy crisis; the result suffered.

The portfolio of assets held for trading (item 80) generated a positive result of 18.514 million, down 63.40% compared with 50.590 million. Against profits from trading in securities of 11.485 million in the previous year, there were profits of 2.653 million, while exchange gains rose from 24.826 million to 30.049 million, +5.19%. The net difference between capital gains and losses on securities was negative for 17.630 million, compared with +8.517 million the previous year. The result of the derivatives business was negative for 0.844 million, compared with +5.815 million. Exchange rate differences, which were negative by 53 thousand euro in the comparison period, were positive and increased significantly to 4.286 million due to the rate trend.

Item 90 - net result of hedging activities was a negative 32 thousand euro and relates to fixed-rate hedging transactions on loans to customers.

The profit/loss on sale/repurchase (line item 100), reclassified, was positive for 41.341 million compared with 49.318 million. This amount of the year does not include 0.517 million of net losses from the sale of NPL loans, which were reclassified to adjustments to loans and financial assets. In its breakdown, envisaged by IFRS 9, it is made up as follows: result from financial assets measured at amortised cost 29.488 million; financial assets measured at fair value with an impact on comprehensive income 11.848 million; financial liabilities +0.005 million.

The net result of other assets and liabilities at fair value through profit or loss (item 110) was a negative 66.300 million, compared to a positive 23.753 million; 55.840 million of this result is attributable to securities, mostly funds, and 10.460 million to loans to customers.

Income from banking activities

Net banking income amounted to 942.466 million, +4.42%, reflecting the good performance of the «core» business - net interest income and commissions - while registering a setback in the securities business. Within this aggregate, the weighting of net interest income was 61.77% compared with 49.51%.

Despite the economy's performance during the year, which exceeded expectations, the deterioration in the forecasts for the general macroeconomic context and the inflationary dynamics associated with supply shocks, with particular reference to the energy crisis, affected the methodological and modelling framework for calculating adjustments on a lump-sum basis, which was also associated with the increase in a prudential component. It all resulted in an increase in the adjustments/write-backs for credit risk on the exposures to customers, banks and securities, of 175.228 million, compared with 135.154 million, +29.65%. During the year, a massive sale of NPL loans called POP

NPLS 2022 and a number of Single Name disposals were finalised, with a reclassification of net losses on disposals of 0.517 million, and provisions for guarantees and commitments of 19.868 million were recognised, compared to a release of 15.397 million in the comparative period. The finalisation of the NPL loan disposal transactions is in line with the Bank's policy on the reduction of NPL loans and responds to the ECB's recommendations.

In its components, the sub-item «adjustments to financial assets measured at amortised cost», which come from exposures to customers and banks in the form of loans and securities, reclassified for the above losses from the sale, amounted to 158.565 million, +9.01% compared with 145.462 million; net of provisions and net write-backs on securities and banks for

KEY FIGURES OF THE INCOME STATEMENT

(thousands of euro)	31/12/2022	31/12/2021	Absolute changes	Changes %
Net interest income	582,209	446,843	135,366	30.29
Dividends	35,543	22,263	13,280	59.65
Net fee and commission income	331,191	309,828	21,363	6.90
Result of financial activities [a]	59,823	99,907	(40,084)	-40.12
Result of other financial assets and liabilities measured at FVTPL [b]	(66,300)	23,753	(90,052)	n.s.
of which LOANS	(10,460)	4,198	(14,658)	n.s.
of which OTHER	(55,840)	19,554	(75,394)	n.s.
Total income	**942,466**	**902,594**	**39,872**	**4.42**
Net adjustments [c]	(175,228)	(135,154)	(40,074)	29.65
Net financial income	**767,238**	**767,440**	**(202)**	**-0.03**
Personnel expenses [d]	(202,358)	(197,376)	(4,982)	2.52
Other administrative expenses [e]	(222,876)	(219,968)	(2,909)	1.32
Other operating income/expense [d]	59,451	57,909	1,542	2.66
Net accruals to provisions for risks and charges [f]	(10,660)	(15,857)	5,198	-32.78
Adjustments to property, equipment and investment property and intangible assets	(47,046)	(46,648)	(398)	0.85
Operating costs	**(423,489)**	**(421,940)**	**(1,549)**	**0.37**
Operating profit (loss)	**343,749**	**345,500**	**(1,751)**	**-0.51**
Charges for stabilising the banking system [e]	(45,878)	(43,066)	(2,812)	6.53
Net gains (losses) on equity investments and other investments	1,149	(1,054)	2,202	n.s.
Profit (loss) before tax	**299,020**	**301,380**	**(2,360)**	**-0.78**
Income taxes	(86,118)	(89,281)	3,163	-3.54
Profit (loss)	**212,902**	**212,099**	**803**	**0.38**

Notes:
[a] The result of financial activities is made up of the sum of items 80 - 90 - 100 in the income statement.
[b] The result of other financial assets measured at FVTPL is comprised in item 110 of the income statement.
[c] Net adjustments consist of the sum of items 130 - 140 - 170 a) in the income statement inclusive of losses on disposals of 0.517 million euro;
[d] Personnel expenses and other operating income have been stated net of the income generated by the post-employment benefits fund of 3.185 million euro;
[e] Charges for stabilising the banking system have been separated from other administrative expenses and presented separately.
[f] Net allocations to provisions for risks and charges refer to item 170 b).
The results as at 31/12/2021 have been made consistent.

modest amounts refers to loans to customers. There was a slowdown in the dynamics of non-performing loans and, albeit slight, also in the default rate to be linked also to the various initiatives that the Bank has implemented both to improve credit quality and to refine the processes for assessing the loans themselves, in particular those entered under bad debts, unlikely to pay, past due receivables, determined according to supervisory regulations, in addition to those relating to performing positions.

Sub-item 130b relating to financial assets measured at fair value through comprehensive income was negative by 0.360 million against a positive figure of 1.009 million.

Line item 140, comprising the gains/losses on contractual amendments to cash flows not resulting in derecognition, shows gains for the period of 3.565 million compared with losses of 6.099 million.

As already reported, a provision for commitments and guarantees given of 19.868 million was recognised, compared to the release of provisions for 15.397 million in the comparison period.

The ratio of net adjustments to customer loans/total customer loans, which is defined as the cost of credit, increased from 0.54% to 0.65%.

Financial income has therefore decreased slightly to 767.238 million, -0.03%.

Although efforts dedicated to improving the efficiency of structures and containing expenses continued, operating costs increased slightly to 423.489 million compared to 421.940 million, +0.37%.

The ratio of operating costs to income from banking activities, otherwise known as the cost/income ratio, has fallen to 44.93%, from 46.75% in the prior year, while the ratio of operating costs to total assets eased to 0.81% from 0.85%. Looking at costs in more detail, administrative expenses – normalised after excluding the deferral of the proceeds from the post-employment benefits fund, which have a contra-entry of the same amount under operating income/expense – amounted to 425.234 million, +1.89%; of these, personnel costs went from 197.376 to 202.358 million, +2.52%, mainly for new hires, while other administrative expenses rose from 219.968 to 222.876 million, +1.32%. Of note were increases in expenditure for the rental and maintenance of hardware and software, for the use of interbank networks, IT costs, maintenance of tangible assets, security, information and searches; decreases in legal fees, energy and heating costs, and services rendered by third parties.

The item «net provisions for risks and charges» reflect releases of 10.660 million compared with an allocation of 15.857 million.

The depreciation of property, equipment and investment property and the amortisation of software amounted to 47.046 million compared with 46.648 million.

Other income, stated after the above mentioned reclassification and net of other operating expenses, amounted to 59.451 million, +2.66%. Charges for stabilising the banking system, shown separately, amounted to 45.878 million, compared to 43.066 million, +6.53%.

The aggregate of gains/losses on equity investments and other investments was a positive 1.149 million compared with losses of 1.054 million the previous year; difference between write-down of Pirovano Stelvio spa for 0.383 million, gain from the sale of the equity investment in Cossi Costruzioni spa for 1.402 million, positive result of the fair value measurement of tangible assets for 0.118 million, and a positive amount for 0.012 million for the sale of assets.

Profit for the year

Profit before income taxes therefore totalled 299.020 million, -0.78%. After deducting income taxes of 86.118 million, down 3.54% on the previous year, the profit for the year was 212.902 million, +0.38%.

The tax rate, understood as the simple ratio between income taxes and pre-tax result, stood at 28.80% compared to 29.62%.

2022 NON-FINANCIAL REPORT PURSUANT TO LEGISLATIVE DECREE 254/16

The «Non-Financial Report» for financial year 2022, prepared pursuant to Legislative Decree 254/2016, is made available to the Shareholders' Meeting of 29 April 2023 and is available on the company website at the address istituzionale.popso.it/en/investor-relations/shareholders-meeting.

SIGNIFICANT SUBSEQUENT EVENTS

The following information on significant events that have taken place subsequent to year end is provided in accordance with regulatory requirements.

On 14 March 2023, the rating agency Scope Ratings, at the conclusion of its annual rating review process, upgraded the issuer rating assigned to the Bank to investment grade «BBB» from the previous investment grade «BBB-», consequently the outlook was revised to «stable» from «positive».

With regard to the recent turmoil in the financial markets, there is no exposure whatsoever to US credit institutions involved in resolution processes. Positions, both direct and indirect, against Credit Suisse are negligible.

In the period between 31 December 2022 and the date of approval of this report, no significant events have taken place that might have a material impact on the figures presented here.

OUTLOOK FOR OPERATIONS

The general economic context continues to be affected by uncertainties related to the Russian-Ukrainian conflict, inflationary pressures, albeit on a downward trend, and a growth forecast that is expected to decline, also due to restrictive monetary policies. The economic slowdown could affect credit quality.

Despite these dynamics, the Bank's profitability should reasonably improve and remain no lower than the business plan approved in June last year, thanks to further growth in net interest income and commissions and careful cost containment. All this, in the presence of high levels of credit coverage.

* * *

Shareholders,

The 2022 financial statements, comprising the balance sheet, the income statement and the attachments forming an integral part of these documents, are presented for your examination and approval. These financial statements, which show a profit for the year of 212,901,668 euro, have been audited by EY SpA.

BALANCE SHEET

Total assets			€	52,519,296,217
Liabilities	€	49,646,438,755		
Valuation reserves	€	- 30,086,242		
Share capital	€	1,360,157,331		
Share premium accounts	€	78,977,670		
Treasury shares	€	-25,264,093		
Reserves	€	1,276,171,128		
Total liabilities and shareholders' equity excluding net profit for the year			€	52,306,394,549
Profit for the year			€	212,901,668

ALLOCATION OF PROFIT FOR THE YEAR

In line with legal requirements and the articles of association, we propose the following allocation of profit for the year:

– to shareholders € 0.28 per share	€	126,948,017.56
– to the reserve for donations	€	300,000.00
– to the unavailable reserve under Legislative Decree 38/2005 (Art. 6(1)(a))	€	11,741,126.51
– to the extraordinary reserve	€	73,912,523.93
Total	€	**212,901,668.00**

EQUITY

If you concur with our proposals, equity will be made up as follows:

– Valuation reserves	€	-30,086,242
– Capital – 453,385,777 shares	€	1,360,157,331
– Share premium accounts	€	78,977,670
– Treasury shares	€	-25,264,093
– Reserves	€	1,361,824,778
Total	€	**2,745,609,444**

Shareholders,

After noting that in the financial year 2022, which we are examining and commenting on today, our bank achieved positive results – despite the unfavourable economic situation in which the institution itself had to operate – we feel obliged to express our heartfelt gratitude to those who, in various capacities, made their active contribution.

First of all, we would like to thank our customers, whose trust has enabled us to work well and strengthen the company's solidity. In turn, we have made every effort to offer them state-of-the-art services at competitive conditions.

We are grateful to our Shareholders, many of whom are also Customers. They paid particular attention to the operational choices of our/their bank, thereby demonstrating responsible proximity.

We express our gratitude to the members of the Board of Statutory Auditors for having carried out their delicate functions with skill and thoughtfulness.

We are grateful to our subsidiaries for conveniently acting on behalf of the Group. Gratitude is extended to their corporate bodies and employees for their diligent efforts.

We extend our thanks to the corporate bodies and staff at the Italian Banking Association (ABI), the National Association of Cooperative Banks, and our correspondent banks in Italy and abroad.

A thought of heartfelt gratitude and esteem is for the representatives of the European Central Bank, for the talented banker Christine Lagarde, who, in order to combat the high inflation that was spiralling out of control, made unpopular but necessary choices, with several reference interest rate rises, to the benefit of the solidity of the entire Eurozone, and for the President of the SSM, Andrea Enria, who supervises the significant European banks.

We wish to thank the management of the Bank of Italy, from the Governor, Ignazio Visco, to the Members of the Directorate, to the Chief of Supervision and his staff, to the general officers and the managers of the main branches and of offices located in the provinces where we are present.

We extend similar thanks, for the attention received, to the Executives and Personnel of Consob and Borsa Italiana, which supervises the Electronic Stock Market, on which our stock is traded.

We thank the FINMA – Swiss Federal Supervisory Authority on the Financial Markets of Bern, which with professionalism, combined with a spirit of cooperation, carefully supervised the work of our subsidiary BPS (SUISSE) SA of Lugano. Equal gratitude goes to the supervisory body of Banque de France, which supervises the foreign branch of Monaco, located in the homonymous Principality, of SUISSE itself.

We would like to express our gratitude to our employees for their good work in 2022, who, among other things, often provided extra attention to customers who are less familiar with the use of IT.

Special thanks go to our employees who have retired. They are Mrs Cinzia Arminio and Messrs Massimo Matteo Cimbro, Nino Pasquino Delussu, Ferruccio Ghiggi, Giovanni Grottola, Carmelo Iannizzotto, Enrico

Mazzoleni, Fulvio Menini, Pierangelo Moleri, Renzo Pedruzzi, Giovanni Giuseppe Perego, Giovanni Poli, Maurizio Sironi, Giampaolo Tessarolo, Carlo Filippo Trabattoni, Andrea Viganò.

We hope they will always keep a good memory of Popolare di Sondrio, the Bank where they worked and spent a significant part of their lives. With renewed gratitude, we extend to each of them our best wishes for a long and happy retirement in good health.

If we have omitted, even if unintentionally, to mention someone who, in the reference period, has been close to us with information, proposals or other, we apologise. To them, too, of course, goes our heartfelt thanks.

Shareholders,

in submitting the financial statements for the year 2022 to your judgment - referred to in point 1) of the agenda of today's Ordinary Shareholders' Meeting - the directors invite the Shareholders' Meeting to assume - having read the report of the Board of Statutory Auditors and that of the review - the following resolutions:

Point 1) on the agenda: Financial Statements at 31 December 2022:

letter a) Presentation of the financial statements at 31 December 2022: Directors' report on operations; report of the Board of Statutory Auditors; related and consequent resolutions; presentation of the consolidated financial statements at 31 December 2022.

«The Ordinary Shareholders' Meeting of Banca Popolare di Sondrio, held today, having heard the directors' report on operations during 2022; having noted the report of the Board of Statutory Auditors and that of the Independent Auditors; having taken as read the balance sheet, the income statement, the explanatory notes and, in addition, the financial statements of the subsidiary and associated companies,

approves:

– the directors' report on operations;
– the financial statements at 31 December 2022 in the results shown in the balance sheet and income statement and the related notes; financial statements that show a profit for the year of € 212,901,668;

acknowledges:

– the consolidated financial statements at 31 December 2022».

letter b) Allocation of the profit for the financial year 2022 and distribution of the dividend; related and consequent resolutions.

Shareholders,

In submitting the allocation of profit for the financial year 2022 and the distribution of the dividend for your consideration, we hereby state that the Bank has earned, on an individual basis, a net profit of € 212,901,668 for the financial year 2022, which we propose to allocate as follows:

a) to Shareholders a dividend per share of € 0.28 for each of the shares outstanding as at 31/12/2022 and with dividend rights as at 1/1/2022,	€	126,948,017.56
b) to allocate the residual profit:		
– to the charity fund	€	300,000.00
– to the unavailable reserve pursuant to Legislative Decree 38/2005 (Art. 6.1.a)	€	11,741,126.51
– to the extraordinary reserve	€	73,912,523.93

In this regard, it should be noted that the Bank, pursuant to Article 2430 of the Italian Civil Code, has not deemed it necessary to make allocations to the legal reserve, as the latter has reached a consistency of more than one-fifth of the share capital.

The administration therefore invites the Shareholders' Meeting to adopt the following resolutions - having read the report of the Board of Statutory Auditors and that of the Independent Auditors:

«The Ordinary Shareholders' Meeting of Banca Popolare di Sondrio, convened today, having recalled the resolutions taken at the time of approval of the financial statements at 31 December 2022, having heard the report on the proposed allocation of the profit for the year; having acknowledged the report of the Board of Statutory Auditors and that of the Independent Auditors,

approves:

the allocation of the profit for the year of € 212,901,668, as proposed by the Board of Directors in accordance with the provisions of the Law and the Articles of Association, and more specifically resolves:

a) to pay a dividend of € 0.28 to each of the 453,385,777 shares in circulation at 31/12/2022 with dividend rights as from 01/01/2022, transferring to the extraordinary reserve the amount of the dividends due to any treasury shares held by the Bank on the working day prior to going ex-coupon, for a total amount	€	126,948,017.56
b) to allocate the residual profit:		
– to the charity fund	€	300,000.00
– to the unavailable reserve pursuant to Legislative Decree 38/2005 (Art. 6.1.a)	€	11,741,126.51
– to the extraordinary reserve	€	73,912,523.93»

In accordance with the Stock Exchange calendar, the dividend will be paid from 24 May 2023, going ex-coupon No. 45 on 22 May 2023.

Point 2) on the agenda: Resolutions on remuneration matters:

a) Annual report on remuneration policy and compensation paid:
   - a1) Approval of the 2023 Remuneration Policies of the Banca Popolare di Sondrio Banking Group;
   - a2) Approval by non-binding resolution of the remuneration paid in the financial year 2022;

b) Approval of the 2023 Share-based Remuneration Plan, pursuant to art. 114-bis of Legislative Decree 58/98 (Consolidated Finance Act);

c) Approval of the Long-term Share-based Remuneration Plan, pursuant to art. 114-bis of Legislative Decree 58/98 (Consolidated Finance Act);

letter a) Annual report on remuneration policy and compensation paid:
   - a1) Approval of the 2023 Remuneration Policies of the Banca Popolare di Sondrio Banking Group;
   - a2) approval by non-binding resolution of the remuneration paid in the financial year 2022.

Shareholders,

the Board of Directors, in compliance with the provisions of Bank of Italy Circular No. 285 of 17 December 2013 on «Remuneration and Incentive Policies and Practices» (Part One, Title IV, Chapter 2), Article 123-ter of Legislative Decree 24 February 1998 No. 58, Consolidated Law on Finance, and article 16 of the Articles of Association, submits for your approval the «Annual report on the remuneration policy and compensation paid», which has been made available in accordance with the law, in particular by means of publication on the corporate website at the address *https://istituzionale.popso.it/en/investor-relations/shareholders-meeting* and is annexed to the file containing the draft of the Annual Financial Report.

The Annual report on remuneration policy and compensation paid is composed as follows:

- the first section contains an illustration of the 2023 Remuneration Policies of the Banca Popolare di Sondrio Banking Group and the procedures used for the adoption and implementation of such policies. The first section is submitted to the Meeting for approval with a binding vote;
- the second section illustrates with charts and tables, in the form required and with reference to the positions involved by the regulations, the compensation paid during the year concerned. This second section is submitted to the Meeting for approval by a non-binding vote.

In the context of this agenda item, the Shareholders' Meeting will therefore proceed to two separate votes on items a1) and a2), the first of a binding nature and the second of a non-binding nature.

Without prejudice to the reference to the «Annual report on remuneration policy and compensation paid», it should be noted that the Remuneration Policies of the Banca Popolare di Sondrio Banking Group, insisting in the wake of the meritocratic and strongly collaborative culture that has always been present in the institution, contribute to incentivising behaviour consistent with the guidelines defined in the Business Plan, strengthening the existing mechanisms of management accountability and transparency towards Investors and the markets.

The Policies introduce some novelties aimed at ensuring full consistency with the evolving regulatory context and the expectations of the Supervisory Authorities and shareholders. The main ones concern:

1. the strengthening of the link between the sustainable success of the Group, individual management performance measurement and remuneration, in particular through:
   a. broadening the scope of the quantitative and objective metrics considered in the determination of variable remuneration (excluding Heads of Control Functions);
   b. selection of both short-term and long-term performance metrics, consistent with the objectives set out in the 2022-2025 Business Plan (expected results and timelines);
   c. strengthening of metrics to support the Group's commitment to ESG issues;
2. the introduction - in addition to the entry gates and regulatory malus and claw-back clauses already envisaged - of further risk corrective measures aimed at discouraging an increase in performance obtained through excessive risk-taking, severely limiting or preventing the payment of variable components upon the occurrence of dynamics and outcomes that are not fully consistent with the risk appetite defined by the Board of Directors (in particular in the Risk Appetite Framework) and with the objectives, which the Group sets itself from time to time, of strengthening its capital structure, liquidity and governance;
3. an increase in the relative weight of variable remuneration components compared to fixed ones, with the limit of the ratio increased, for the General Manager and other top management figures, to 100% and, for the rest of the staff, to 50%, from 35% in the previous Policies, while ensuring that an increasing focus on variable remuneration does not lead to an aggravation of the overall cost structure;
4. within the limits of the Policies, the *ex ante* definition of the levels at which the variable components of top management remuneration will be set as a function of performance (reward), in particular in the event of reaching or exceeding the Business Plan targets (overperformance);
5. an increasing use of financial instruments in the payment of variable, immediate and deferred remuneration, thus further aligning the Group's medium to long-term interests with those of management;
6. a greater degree of disclosure of the mechanisms of the policies and the remuneration paid, to the benefit of management accountability and

transparency towards investors and the markets;

7. a more precise definition of the roles of the Group Bodies and structures in relation to the definition and implementation of the Policies; of the remuneration and/or indemnity mechanisms in the event of early termination of employment of senior management.

The interventions described were carried out in such a way as not to add to the Group's current overall cost structure, even in order to preserve one of the Bank's main competitive advantages, namely the very high levels of staff productivity, referred to in the Business Plan. In particular, the revision of reward limits and parameters was defined so as not to significantly increase personnel costs, while introducing more pronounced incentive mechanisms.

Shareholders,

The supervisory instructions on compensation policies and practices require the information provided to the Shareholders' Meeting about the compensation and incentive systems and practices adopted to be consistent with that supplied to the public on the website.

This Disclosure is attached to the Annual report on remuneration policy and compensation paid and contains the information and data required by the current Supervisory Provisions for Banks, Title IV, Chapter 2, Section VI.

Shareholders,

On its part, the Remuneration Committee has fulfilled the tasks entrusted to it by legislation and the specific Regulations approved by the Board of Directors. In carrying out its work the Committee met 9 times in 2022 and has, in particular, served in an advisory role, making proposals to the Board of Directors. It has monitored correct application of the rules relating to the remuneration of those in charge of internal control functions.

The Remuneration Committee has implemented the following activities:

– positively assessed and then submitted to the Board of Directors for approval the «Regulation of the process for the identification and/or exclusion of the key Personnel of Banca Popolare di Sondrio and its Banking Group» and the «Regulation of the process for the definition of the Remuneration Policies of the Banca Popolare di Sondrio Banking Group»;
– explained its activities to the Board of Directors and the Shareholders' Meeting in the report approved at the meeting held on 16 March 2022;
– recommended the adoption of the Remuneration Policies for the BPS Banking group that, following approval by the Board of Directors, were then authorised at the Shareholders' Meeting held on 30 April 2022;
– examined and explored the analysis prepared by the competent corporate functions on the gender neutrality of the remuneration policies and audited the gender pay gap and its evolution over time. This analysis was then submitted to the Board of Directors for approval;
– recommended adoption by the Board of Directors of the Report on remuneration policy and compensation paid required by art. 123-ter of

Legislative Decree 58/98 (»Consolidated Finance Act»), which was then approved at the Shareholders' Meeting, as the public disclosure on remuneration and incentive policies and practices required by the supervisory regulations and as Information Document on the 2022 Compensation Plan based on financial instruments, which was also approved by the Shareholders' Meeting;

– assisted the Board of Directors in preparing the shareholders' resolution on the annual remuneration of the Board of Directors;
– made proposals regarding the remuneration of those persons whose compensation and incentive systems are decided by the Board of Directors. For this purpose, it checked that the established quantitative, qualitative and functional objectives have been met;
– subsequent to approval of the Remuneration Policies by the Shareholders' Meeting, the Remuneration Committee also presented proposals for the remuneration of directors with specific responsibilities;
– proposed criteria and parameters to the Board of Directors for the recognition to key employees of variable remuneration linked to the economic-financial, qualitative and functional objectives specified in the Remuneration Policies;
– formulated proposals concerning the remuneration of the key staff and, moreover, of the heads of the main business lines and corporate functions, of the most senior staff in control functions, of those who report directly to the Board of Directors and the Board of Statutory Auditors;
– availing itself of the competent corporate functions and external consultants, carried out an analysis of the Remuneration Policies of the Banca Popolare di Sondrio Banking Group aimed at reviewing its structure with a view to strengthening it overall and aligning it to the best market practices. The analysis made it possible to identify areas for improvement and to strengthen certain fundamental aspects of the Remuneration Policies, including the link between sustainable success, the measurement of individual management performance and remuneration, thus contributing to an increasing alignment of top management to the Group's short- and long-term objectives, in line with the provisions of the Business Plan, without prejudice to the management prudence that characterises the Banking Group.

The Remuneration Committee has found no anomalies in the application of the Remuneration Policies during the exercise of its functions.

Shareholders,

Having regard for the above, the Board of Directors invites the Shareholders' Meeting to adopt the following resolutions:

on point 2 a1) on the agenda:

«The Ordinary Shareholders' Meeting of Banca Popolare di Sondrio, convened today, having examined the «Annual report on remuneration policy and compensation paid» and, in particular, the first section on the 2023 Remuneration Policies of the Banca Popolare di Sondrio Banking Group:

hereby resolves:

to approve, with a binding vote, the 2023 Remuneration Policies of the Banca Popolare di Sondrio Banking Group contained in the first section of the Annual report on remuneration policy and compensation paid

and takes note

of the Report to the public required by the supervisory regulations on remuneration and incentive Policies and practices contained in the annex to the Annual report on remuneration policy and compensation paid, as well as the information received on the activity carried out by the Remuneration Committee».

on point 2 a2) on the agenda:
«The Ordinary Shareholders' Meeting of Banca Popolare di Sondrio, met today and examined the «Annual report on remuneration policy and compensation paid» and, in particular, the second section on compensation paid in the year 2022:

hereby resolves

to approve, by non-binding vote, the second section of the Annual report on remuneration policy and compensation paid for 2022».

letter b) Approval of the 2023 Compensation Plan based on financial instruments, pursuant to article 114-bis of Legislative Decree No. 58/98 (Consolidated Finance Act).

Shareholders,
We submit for your approval the 2023 Share-based Remuneration Plan, pursuant to article 114-bis of Legislative Decree 58/98 (Consolidated Finance Act).
Said Plan is set out in the Information Document relating to the 2023 Share-based Remuneration Plan, which has been made available in the manner required by law, in particular by publication on the Company's website at https://istituzionale.popso.it/en/investor-relations/shareholders-meeting and is attached to the file containing the draft Annual Financial Report.
As indicated in the Information Document, the Plan identifies as beneficiaries the Chief Executive Officer and General Manager, the executives with strategic responsibilities of Banca Popolare di Sondrio, as well as other employees of the Banca Popolare di Sondrio Banking Group identified as «key personnel».
The implementation period of the Plan is between 2023 and 2029 (period of the last deferred remuneration payment).

Shareholders,

Having regard for the above, the Board of Directors invites the Shareholders' Meeting to adopt the following resolution:

«The Ordinary Shareholders' Meeting of Banca Popolare di Sondrio, met today, having examined the explanatory report and the Information Document relating to the 2023 Share-based Remuneration Plan:

hereby resolves:

– to approve the 2023 Share-based Remuneration Plan, pursuant to article 114-bis of Legislative Decree 58/98 (Consolidated Finance Act), as described in the aforesaid Information Document on the 2023 Share-based Remuneration Plan;
– to attribute to the Board of Directors, with the right to sub-delegate, all the powers necessary for the concrete implementation of the aforesaid Plan, to be exercised in compliance with the relevant Information Document».

letter c) Approval of the Long-term Share-based Remuneration Plan, pursuant to art. 114-bis of Legislative Decree 58/98 (Consolidated Finance Act.

Shareholders,

We submit for your approval the Long-term Share-based Remuneration Plan, pursuant to article 114-bis of Legislative Decree No. 58/98 (Consolidated Finance Act).

Said Plan is set out in the Information Document relating to the Long-term Share-based Remuneration Plan, which has been made available in the manner required by law, in particular by publication on the Company's website at https://istituzionale.popso.it/en/investor-relations/shareholders-meeting and is attached to the file containing the draft Annual Financial Report.

As indicated in the Information Document, the Plan identifies as beneficiaries the Chief Executive Officer and General Manager, the executives with strategic responsibilities of Banca Popolare di Sondrio, with the exclusion of the heads of control functions.

The implementation period of the Plan is between 2025 and 2031 (period of the last deferred remuneration payment).

Shareholders,

Having regard for the above, the Board of Directors invites the Shareholders' Meeting to adopt the following resolution:

«The Ordinary Shareholders' Meeting of Banca Popolare di Sondrio met today and examined the explanatory report and the Information Document on the Long-term Share-based Remuneration Plan:

hereby resolves:

– to approve the Long-term Share-based Remuneration Plan, pursuant to

Article 114-bis of Legislative Decree No. 58/98 (Consolidated Finance Act), as described in the aforementioned Information Document on the Long-term Share-based Remuneration Plan;
– to attribute to the Board of Directors, with the right to sub-delegate, all the powers necessary for the concrete implementation of the aforesaid Plan, to be exercised in compliance with the relevant Information Document».

Point 3) on the agenda: Resolutions concerning treasury shares:
a) Authorisation to purchase and sell treasury shares pursuant to art. 8 of the Articles of Association and articles 2357 and 2357-ter of the Italian Civil Code, art. 132 of Legislative Decree 58/98 (Consolidated Finance Act), and Article 144-bis of Regulation No. 11971 approved by Consob resolution of 14 May 1999;
b) Authorisation for the use of treasury shares already held in service of the 2023 Share-based Remuneration Plan, pursuant to article 114-bis of Legislative Decree 58/98 (Consolidated Finance Act), and/or to service the Long-term Share-based Remuneration Plan, pursuant to article 114-bis of Legislative Decree 58/98 (Consolidated Finance Act;

letter a) Authorisation to purchase and sell treasury shares pursuant to art. 8 of the Articles of Association and articles 2357 and 2357-ter of the Italian Civil Code, art. 132 of Legislative Decree 58/98 (Consolidated Finance Act), and article 144-bis of Regulation No. 11971 approved by Consob resolution of 14 May 1999.

Shareholders,
Art. 8 of the Articles of Association provides that: «The Company may, within the limits and in the forms provided for by the provisions in force, purchase and sell treasury shares».

This matter is governed by the Italian Civil Code, in particular articles 2357 et seq., article 132 of Legislative Decree 58/98 (Consolidated Finance Act) and Regulation No. 11971 approved by Consob resolution of 14 May 1999, as amended (»Issuers' Regulation»), as well as articles 77 and 78 of EU Regulation No. 575/2013, as amended. In particular, articles 73, 144-bis and 144-bis.2 of the Issuers' Regulation establish how information should be communicated to the General Meeting and the procedures for carrying out purchases and sales. The instructions contained in Regulation (EU) 596/2014 (the Market Abuse Regulation or MAR) are also applicable. Finally, it is recalled that on the basis of the provisions of IAS 32 «Financial instruments: presentation in the financial statements and additional information», paragraph 33, the shares purchased must be deducted from shareholders' equity.
The proposal is to renew the authorisation granted by the Shareholders' Meeting of 30 April 2022 to purchase and sell treasury shares, which expired today.

Reasons for requesting authorisation to purchase and/or sell treasury shares

The purchase, trading and sale of treasury shares are intended, and are therefore appropriate and useful, to create in advance a package of shares available for special transactions designed to establish forms of partnership or collaboration with other industrial or financial operators, also active in the core business addressed by the Bank, as well as for small operations in the market designed to ensure liquidity and stable volumes for trading in the interests of the shareholders and the Bank, thus avoiding uncertainties and unjustified fluctuations in the share price. In addition, treasury shares may be purchased as a medium/long-term investment or, in any case, to take advantage of market opportunities whenever appropriate, both in the market and (solely with regard to disposals) over the counter, or even off market, on condition that reference is always made to the official listed price. With a view to optimising the capital structure, treasury shares may also be purchased with a view to capital reductions by cancellation of the treasury shares acquired, which may be arranged whenever deemed to be in the interests of the Bank.

Maximum number, category and value of the shares for which authorisation is requested

Today, share capital comprises 453,385,777 ordinary shares, all of which carry normal dividend rights.

In compliance with the limits established by current legislation, the authorisation relates to the purchase, on one or more occasions, of treasury shares totalling a maximum of 30,000,000 (thirty million) euro drawn from the available reserves that amount to 1,276,171,128 euro, as reported in the Reserves line item of the financial statements, on condition in all cases that the number of treasury shares held shall not exceed 2% of the issued share capital.

The request for authorisation grants the Board of Directors the right to carry out repeated purchases and sales (or other forms of assignment) of treasury shares, on multiple occasions and on a revolving basis, including transactions that only involve a fraction of the maximum authorised quantity, so that – in all cases and at any time – the sum of the shares to be purchased and those already held by the Bank does not exceed the limits envisaged by law or by the Shareholders' authorisation.

Information for checking compliance with the limits referred to in art. 2357 of the Italian Civil Code

Purchases cannot be made for amounts that exceed the available reserves reported in the latest-approved financial statements of the Bank.

In this regard, it is noted that the draft financial statements at 31 December 2022, submitted for approval at the same Shareholders' Meeting called to approve this requested authorisation and assuming such approval is given, report available reserves totalling 1,276,171,128 euro.

At the time of preparing this report, 17 March 2023, the Bank holds 3,641,718 treasury shares, representing 0.80% of the share capital, with a carrying amount in terms of reserves committed of 25,264,093 euro. The subsidiaries hold 59,558 shares in the Company, equal to 0.013% of its share capital.

Given that the treasury shares held cannot, under the proposal made, exceed 2% of the shares comprising the share capital of the Bank, it is clear that the maximum limit allowed by art. 2357, para.3, of the Italian Civil Code, being 20% of share capital, is not exceeded.

If the shares purchased are sold, it is understood that the proceeds may be used to make additional purchases until expiry of the Shareholders' authorisation granted, without prejudice to the limits and conditions established at the Shareholders' Meeting.

Duration of the authorisation

The authorisation to purchase and dispose of treasury shares is requested for the period between the date of this Shareholders' Meeting called to approve the 2022 financial statements and the date of the Shareholders' Meeting called to approve the 2023 financial statements.

The Board of Directors may make the authorised purchases on one or more occasions at any time during the period indicated above.

Minimum and maximum consideration

Purchases must be made at a price that is not more than 20% greater than the closing price posted at the end of the market day immediately prior to each transaction and with a further limit that, depending on the trades carried out, the number of shares owned must not exceed 2% of the total shares representing share capital. Sales must be made at a price that is not more than 20% lower than the closing price posted at the end of the market day immediately prior to each transaction.

We also recommend granting authorisation, from the date of this Shareholders' Meeting called to approve the 2022 financial statements until the date of the Shareholders' Meeting called to approve the 2023 financial statements, for the disposal pursuant to art. 2357-ter of the Italian Civil Code, at any time, in whole or in part, on one or more occasions, of the treasury shares purchased in accordance with this proposed resolution or on the basis of previous authorisations, for the purposes described above and understood for all intents and purposes to be repeated here, as well as granting authorisation for the further use of all the treasury shares purchased in the context of and for the above purposes, in all cases on the terms and conditions determined by the Board of Directors.

With regard to any disposals of treasury shares arranged off market, the Board of Directors will establish criteria for determining the related price and/or the basis, timing and conditions for the use of the treasury shares held, having regard for the actual disposal procedures followed, the changes in the listed share price in the period prior to the transaction and the best interests of the Bank.

Any cancellations of the treasury shares purchased pursuant to this proposed resolution or previous authorisation must comply with the law and the articles of association, using the reserve for treasury shares held to cover any differences between their cancellation value and their purchase price.

Method for purchasing and selling shares

Pursuant to art. 132 of Legislative Decree No. 58/1998 and articles 144-bis and 144-bis.2 of the Issuers' Regulation, the purchase of treasury shares will be carried out, also in more than one occasion, according to one or more of the following methods: i) public offer to purchase or exchange (article 144-bis, paragraph 1, letter a, Issuers' Regulation); ii) in regulated markets following the operating procedures established in compliance with regulations governing the organisation and management of those markets, which do not allow proposed purchase trades to be matched directly with specific proposed sale trades (art. 144-bis, para.1.b, Issuers' Regulation); iii) by purchasing and selling derivative instruments traded in regulated markets that envisage physical delivery of the underlying shares, on condition that the regulations governing the organisation and management of the market establish procedures for the purchase and sale of the above instruments that do not allow proposed purchase trades to be matched directly with specific proposed sale trades and that guarantee ready participation by investors in the trading of the above derivative instruments used for the purchase of treasury shares (art. 144-bis, para.1.c, Issuers' Regulation); iv) in the context of systematic internalisation activities that are non-discriminatory and envisage the automated and non-discretionary execution of trades on the basis of predetermined parameters (art. 144-bis, para.1.d-bis, Issuers' Regulation); v) with the methods established by market practices accepted by Consob pursuant to art. 13 MAR (art. 144-bis, para.1.d-ter, Issuers' Regulation); vi) under the conditions indicated in art. 5 MAR (art. 144-bis, para. 1-bis, Issuers' Regulation).

With regard to the volume of shares, purchases and sales - the latter if carried out on the market - shall not exceed 25% of the daily average volume of shares traded on Borsa Italiana S.p.A.. The average volume is calculated based on the average daily trading volume over the 20 trading days prior to the date of each purchase.

The treasury shares will be sold, on one or more occasions, even before having purchased the maximum quantity, on the basis and with the timing deemed most appropriate in the interests of the Bank, using any means considered suitable in relation to the objectives pursued, including off-market sales, sales of blocks of shares and/or assignments consistent with the objectives identified above, without prejudice in all cases to compliance with the duration of the Shareholders' authorisation, the requirements established for the minimum and maximum prices and all applicable regulations.

Capital reductions by cancellation of the treasury shares acquired or held

Any cancellations of treasury shares will have to take place in compliance with the law and the articles of association, using the reserve for treasury shares to cover any differences between their cancellation value and purchase price.

* * *

In implementation of above articles of association and in compliance with the relevant regulations, the Board of Directors recommends that the Shareholders' Meeting adopt the following resolution:

«The Ordinary Shareholders' Meeting of Banca Popolare di Sondrio, held today,
– taking note of the recommendation of the Board of Directors;
– taking note of the current legal requirements and the provisions of the Articles of Association;
– acknowledging that, today, the Bank holds 3,641,718 treasury shares, representing 0.80% of share capital, with a carrying amount in terms of reserves committed of 25,264,093 euro, while subsidiaries hold 59,558 shares representing 0.013% of the share capital of the Bank

hereby resolves:

– to authorise the Board of Directors to purchase and/or dispose of ordinary treasury shares and/or to cancel them, pursuant to current legislation and the Articles of Association, for the period of time between today's date and the date of the Shareholders' Meeting called to approve the 2023 financial statements, on the basis specified below, on condition that the start of the purchase programme, or its suspension and/or its termination is authorised by the Board of Directors, with the right to delegate to the Executive Committee, which will therefore publish the information required pursuant to art. 144-bis, para.3, of the Issuers' Regulation on the programme start date;

Purchases of treasury shares

o purchases may be made up to a maximum amount of 30,000,000 (thirty million) euro without exceeding the available reserves, on condition in all cases that the number of shares held never exceeds 2% of the shares representing share capital;
o purchase transactions may be made at any time until the date of the Shareholders' Meeting called to approve the 2023 financial statements;
o the purchase price of the shares must not be more than 20% greater than the official price for Banca Popolare di Sondrio shares posted by Borsa Italiana S.p.A. at the end of the market day immediately prior to each transaction;

- o purchases must be made in one of the ways specified in para.1, letters a), b), c), d-*bis*), d-*ter*), or in para.1-*bis* of art. 144-*bis* of Regulation No. 11971 approved by Consob on 14 May 1999, as subsequently amended.

Trading and sale of treasury shares

- o the treasury shares purchased in execution of this Shareholders' resolution, as well as those purchased pursuant to previous Shareholders' resolutions, may be traded and disposed of and, therefore, assigned even prior to making the maximum purchase covered by this requested authorisation, on one or more occasions, in the manner deemed most appropriate for the reasons expressed in the directors' report and in the interests of the Bank;
- o the disposals or dispositions may be made at any time prior to the Shareholders' Meeting called to approve the 2023 financial statements;
- o the treasury shares purchased may be disposed of, on one or more occasions, even prior to making the maximum authorised purchase of treasury shares;
- o the disposals may be made on the basis and with the timing deemed most appropriate in the interests of the Bank, in any manner considered suitable in relation to the objectives pursued, without prejudice in all cases to compliance with the authorisation conditions and the applicable regulations;
- o the selling price of the shares – if sold in the market – must not be more than 20% lower than the official price for Banca Popolare di Sondrio shares posted by Borsa Italiana S.p.A. at the end of the market day immediately prior to each transaction.

Maximum volumes

- o the purchases and sales – in the latter case if made in the market – must not exceed 25% of the average daily volume of the shares traded on the market run by Borsa Italiana S.p.A., calculated with reference to the average daily volume of trades in the 20 trading days prior to the date of each transaction.

Cancellation of treasury shares

- o the treasury shares purchased in execution of this Shareholders' resolution, as well as those purchased pursuant to previous Shareholders' resolutions, may be cancelled on one or more occasions, in the manner deemed most appropriate for the reasons expressed in the directors' report and in the interests of the Bank, without prejudice to compliance with the regulatory requirements and the Articles of Association, using the reserve for treasury shares held to cover any differences between their cancellation value and their purchase price.

– to grant the Board of Directors, and the Managing Director, on its behalf, all powers needed to implement this resolution, as well as to make any changes to it that might be needed or suggested by the Supervisory Authorities or those that manage the market».

letter b) Authorisation for the use of treasury shares already held in service of the 2023 Share-based Remuneration Plan, pursuant to article 114-*bis* of Legislative Decree 58/98 (Consolidated Finance Act), and/or to service the Long-term Share-based Remuneration Plan, pursuant to article 114-*bis* of Legislative Decree 58/98 (Consolidated Finance Act.

Shareholders,

the Bank has updated the Remuneration Policies for 2023, which are submitted to the approval of the Shareholders' Meeting, to which the 2023 Share-based Remuneration Plan, pursuant to article 114-bis of Legislative Decree 58 /98 (Consolidated Finance Act), and the Long-term Share-based Remuneration Plan pursuant to article 114-bis of Legislative Decree 58/98 (Consolidated Finance Act).

These Plans are respectively illustrated in the Information Document relating to the 2023 Share-based Remuneration Plan and in the Information Document relating to the Long-Term Share-based Remuneration Plan, which have been made available in accordance with the law, in particular through publication on the corporate website at the address *https://istituzionale.popso.it/en/investor-relations/shareholders-meeting* and are annexed to the file containing the draft of the Annual Financial Report.

The aforesaid Plans provide for the recognition of all or part of the variable remuneration to the persons identified in them through Banca Popolare di Sondrio shares.

In consideration of the theoretical estimates of the needs of the aforementioned Plans to cover the variable portion of remuneration to be paid through Banca Popolare di Sondrio shares, equal to a maximum of 1,715,000 euro, the granting of an authorisation is submitted to today's Shareholders' Meeting for approval to the Board of Directors to use Banca Popolare di Sondrio ordinary shares already held at the date of this resolution up to a maximum total value of 1,715,000 euro to service the 2023 Share-based Remuneration Plan and/or to service the Long-term Share-based Remuneration Plan. The number of shares used to service the above Plans shall be determined with reference to the closing price struck on the date on which the Board of Directors resolves to assign the variable remuneration.

In this regard, we note that at 31 December 2022 and at today's date, the Bank holds 3,641,718 treasury shares with a book value of 25.264 million euro.

Given the above and in compliance with the relevant laws and provisions of the articles of association, the Shareholders' Meeting is invited to adopt the following resolution:

«The Ordinary Meeting of the Shareholders of Banca Popolare di Sondrio, met today, having heard the proposal made by the Board of Directors:

hereby resolves:

to authorize the Board of Directors to use, to service the 2023 share-based remuneration plan based and/or to service the long-term share-based remuneration plan and within the limits of their terms, Banca Popolare di Sondrio ordinary shares already held by the Bank up to a total value maximum of 1,715,000 euro. The number of shares used to service the above Plans shall be determined with reference to the closing price struck on the date on which the Board of Directors resolves to assign the variable remuneration.

The Board of Directors, and the Managing Director, on its behalf, is also granted all powers needed to implement this resolution, as well as to make any changes to it that might be needed or suggested by the Supervisory Authorities or those that manage the market».

Point 4) on the agenda: Determination of directors' emoluments.

Shareholders,

Pursuant to art. 30 of the Articles of Association, it is up to the Shareholders' Meeting to set the annual remuneration of the Board of Directors. Pursuant to the Remuneration Policies of the Banca Popolare di Sondrio Banking Group, this remuneration is always set as a fixed amount without impact on the financial statements, given that the amount involved is small. Forms of incentive pay based on financial instruments or linked to the company's performance are not foreseen for directors.

At its meeting of 17 March, the Board of Directors approved the proposal for the annual remuneration of the directors. It is now submitted to the General Meeting.

In determining the proposal, consideration was given to the increasing commitment required of the administrative body to perform its important and delicate functions, as well as to the significant workload on the Board Committees, which are increasingly engaged in crucial preparatory work in support of the Board. The results of a remuneration benchmarking analysis of the remuneration of the Board of Directors and its Committees performed by a qualified consultant were also considered. In this regard, it must be said that approaching the average salaries practised by our competitors could allow the Bank, in the future, to continue to have suitably qualified directors capable of making an effective contribution to the governing body.

On the basis of these elements, and in light of the general economic and social context and the Bank's financial and economic situation, the following proposal on directors' remuneration was therefore prepared, which reconciles the requirements outlined above with the prudential approach contained in the Remuneration Policies.

Shareholders,

Having regard for the above, the Board of Directors invites the Shareholders' Meeting to adopt the following resolution:

«The Ordinary Shareholders' Meeting of Banca Popolare di Sondrio, held today, having examined the directors' report on setting the annual compensation of the directors,

hereby resolves

– directors' emoluments: 65,000 euro for each director, giving a total of 975,000 euro;
– remuneration to the members of the Board Committees:
  – for each of the members of the Remuneration Committee, the Appointments Committee and the Related Party and Affiliated Party Transactions Committee: – 10,000 euro; for the Chairpersons of the Remuneration Committee, the Appointments Committee and the Related Party and Affiliated Party Transactions Committee: additional 10,000 euro;
  – for each of the members of the Control and Risk Committee 20,000 euro; for the chair of the Control and Risk Committee an additional 10,000 euro;
  – for the members of the Executive Committee appointed pursuant to Article 34(3) of the Articles of Associations in addition to the Deputy Chair, the Managing Director and the Director referred to in Article 26(3) of the Articles of Association: 10,000 euro;
– a remuneration of up to a maximum of 40,000 euro to be divided among the members of further advisory committees that may be set up in the course of the year pursuant to Article 35(3) of the Articles of Association, to be determined and allocated taking into account the commitment required by the office and its duration;
– individual attendance fees:
  600 euro for attending meetings of the Board of Directors and for attending meetings of the Executive Committee and other committees established within the Board of Directors;
– personal flat-rate reimbursements for the travel expenses incurred in order to attend meetings of the Board of Directors, the Executive Committee, the other Board committees:
  – for residents in the province: 100 euro;
  – for residents outside the province: 200 euro».

Point 5) on the agenda: Appointment of five directors for the three-year period 2023-2025.

Shareholders,

In accordance with the articles of association, the Shareholders' Meeting is called upon to renew the appointment of directors. The term of office expires of directors Prof. Paolo Biglioli, Cecilia Corradini, Mario Alberto Pedranzini, Annalisa Rainoldi, and Lino Enrico Stoppani expires.

The provision of art. 20(2) of the Articles of Association applies, pursuant to which:

«The composition of the Board of Directors shall ensure collegial adequacy, as well as the presence of the minimum number of independent directors and gender balance in accordance with the legislation in force from time to time.»

The requirements of the directors and the causes of ineligibility are governed by Article 21 of the Articles of Association, as follows:

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Article 21
Requisites – Reasons for ineligibility

1. Members of the Board of Directors shall be eligible to serve, in accordance with the provisions of the laws in force from time to time and these Articles of Association. In particular, they must meet the requirements of professionalism and integrity and comply with the criteria of competence, fairness and dedication of time and the specific limits on the accumulation of offices prescribed by law for the performance of the office of director of a bank issuing shares listed on regulated markets.
2. Without prejudice to the fact that the activities of all Directors must be characterised by independence of judgement, with regard to the minimum number of Directors required by the legislation in force from time to time, the specific requirements for the qualification of independent director set out in art. 147-ter, fourth paragraph, of Legislative Decree No. 58/1998 and in the implementing legislation of art. 26 of Legislative Decree No. 385/1993 must be met. If an independent director no longer meets the specific independence requirements, the term of office does not expire if the remaining number of independent directors is sufficient to ensure compliance with the minimum number required by the legislation in force from time to time. However, the loss of the specific independence requirements determines the termination of the director's appointment to those positions for which the status of independent director is required by the Articles of Association or the legislation in force from time to time.
3. Without prejudice to compliance with the limits and prohibitions prescribed by the legislation in force from time to time, including, in any case, those provided for by the European Directive No. 36 of 26 June 2013, by means of specific regulations approved by the Board of Directors, the limits to the accumulation of offices in other companies by the Directors may be established.

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Still on the subject of directors' requisites, mention should also be made of the regulations dictated by Decree No. 169 of 23 November 2020 of the Ministry for the Economy and Finance on the subject of requisites and eligibility criteria for the performance of the offices of corporate officers of banks, as well as the criteria published by the European Central Bank for the performance of the suitability assessment to be carried out as part of the fit and proper procedure to which the directors who are elected will be subject (Guide to the verification of the suitability requirements - December 2021).

The presentation of the lists of candidates is governed by article 23 of the Articles of Association, as follows:
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Article 23
Presentation of lists of candidates

1. The directors are appointed on the basis of lists containing up to the maximum number of Directors to be elected, in which the candidates are listed with progressive numbering.
2. The lists containing a number of candidates equal to or higher than three must be composed so as to ensure the minimum number of independent directors and gender balance required by the law in force from time to time in the composition of the Board of Directors resulting from the vote, taking into account - in the assignment of the sequential number to the candidates - the election mechanism set out in article 24 below.
3. Each candidate may appear on only one list under penalty of ineligibility.
4. The Board of Directors and shareholders who, alone or jointly, represent at least 1% of the share capital may submit a list, unless the law and regulations in force from time to time establish a lower percentage, to be indicated in the notice of call of the Meeting.
5. Each shareholder may take part in the submission of a list by signing at the bottom of it. A shareholder may not submit for more than one list, even through a third party or through trust companies. Shareholders belonging to the same group - i.e. the parent company, the subsidiaries and the companies subject to joint control - and shareholders who signed a shareholders' agreement pursuant to art. 122 of Legislative Decree No. 58/1998 concerning the issuer's shares, may not submit more than one list, even through a third party or trust company. In case of non-compliance, the stipulation will not be counted for any list.
6. The lists shall be filed at the registered office - also by means of distance communication - according to the methods notified in the notice of call, which allow to identify the persons who filed them, by the twenty-fifth day prior to the date set for the Meeting, or within any other term set out by the law in force from time to time.
7. The lists shall be accompanied by the information related to the identity of the shareholders who have submitted them, with an indication of the number of shares and of the corresponding total percentage held by the submitting shareholders and - within the terms set out by the law in force from time to time - by a notice proving the ownership of the equity investment, as well as by any other information required by said law.

Shareholders who submit a list and who are different from shareholders holding a controlling stake or a relative majority shall also submit a statement certifying the absence of any relationship with said shareholders, which can be qualified as significant according to the law in force from time to time.

8. The ownership of the number of shares necessary to submit the lists is determined by taking into account the shares that are registered in favour of the individual legitimated person or group of legitimated persons submitting the list, on the day when the lists are filed at the registered office. In order to prove the ownership of the number of shares suitable for the submission of lists, the persons entitled to do so shall file - together with the list - the notice issued by an intermediary authorised by law, showing the ownership of the related number of shares. The communication required in order to prove the ownership of shares may be made even after the filing of the list, provided that it is made at least twenty-one days before the date of the Meeting and according to the methods set out by the law in force from time to time.
9. Together with each list, detailed information on the personal and professional characteristics of the candidates and the list of offices held in other companies shall be filed at the registered office, as well as the declarations in which the candidates accept the candidature and, under their own responsibility, state that they are suitable for the office, by certifying, in particular, the non-existence of any reasons for ineligibility and incompatibility and the possession of the requirements set out by current legislation and by these Articles of Association for holding the office of director. Candidates shall state whether they comply with the specific independence requirements set out in the legislation in force from time to time for the position of independent director, and this quality shall be indicated in the lists.
10. Lists for which the above requirements are not observed shall be considered as not submitted. However, any irregularities in lists concerning single candidates shall not automatically imply the exclusion of the whole list, but only of the candidates to whom the irregularities refer.

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Only shareholders who, on the date of submission of the list, own - alone or together with others - voting shares representing a total of at least 1% of the share capital are entitled to submit a list.

Lists of candidates for the office of director must be filed at the registered office by the twenty-fifth day prior to the date of the Meeting, i.e. by 4 April 2023.

Submitting shareholders have to prove the ownership of the required number of shares by means of specific documents issued by an authorised intermediary in compliance with current legislation, with regard to the shares registered in their favour on the day on which the lists are filed with the Bank; if not available at the time of filing the lists, such documents shall be received by the Bank by the twenty-first day before the date set for the Shareholders'

Meeting, i.e. by 8 April 2023.

Lists for the election of the Board of Directors can also be filed electronically by certified e-mail to segreteria@postacertificata.popso.it.

Pursuant to the current «Supervisory Regulations for Banks», Circular No. 285 of 17 December 2013, the Board of Directors carried out a preliminary analysis to determine the optimal quali-quantitative composition of the Board and the profile of suitable candidate directors.

The results of this analysis are reported in the document entitled «Optimal qualitative and quantitative composition of the Board of Directors of Banca Popolare di Sondrio», published on the Bank's website https://istituzionale.popso.it/en/investor-relations/shareholders-meeting.

This document has been made known to the Bank's shareholders, so that the choice of candidates to be submitted for the renewal of the Board of Directors can take into account the professional skills required to perform the tasks entrusted to the Board.

The Board of Directors, availing itself of the provisions of art. 23(4) of the above-mentioned Articles of Association, reserves the right to submit its own list of candidates, which will be made public in due advance of the deadline for the filing of the lists by the shareholders.

The election of directors is governed by art. 24 of the Articles of Association. The text currently in force is reproduced below:

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Article 24
Election of directors

1. A shareholder may not vote for more than one list, even if through an intermediary or trust company. Shareholders belonging to the same group - i.e. the parent company, the subsidiaries and the companies subject to joint control - and shareholders who signed a shareholders' agreement pursuant to art. 122 of Legislative Decree No. 58/1998 concerning the issuer's shares, may not vote for more than one list, even through a third party or trust company.
2. Except as provided in paragraph 10 of this article below, the election of directors shall be conducted as follows:
   a) from the list that obtained the highest number of votes are taken, in the progressive order in which they are listed in the list, all of the Directors to be elected, except the last one;
   b) the candidate in first place is taken from the list that obtained the second highest number of votes and that was not submitted or voted by shareholders connected with the shareholders who submitted or voted the list that obtained the highest number of votes, according to the legislation in force from time to time.
3. If it is not possible to complete the Board's composition, due to a possible lack of candidates on the list that obtained the highest number of votes,

this shall be carried out by taking from the list that obtained the second highest number of votes - in the order in which they are listed - any candidate that was not yet elected, so as to comply with the provisions in force from time to time concerning the minimum number of independent directors and gender balance.

4. Lists that have not obtained at the Shareholders' Meeting a number of votes equal to at least half of the percentage of capital necessary for the submission of the lists will not be taken into consideration.
5. If only one list exceeds this limit, and the same applies to the submission of a single list, all the directors shall be taken from that list, subject to compliance with the legislation in force from time to time concerning the minimum number of independent Directors and gender balance.
6. If two or more lists among those from which the candidates are to be drawn have obtained the same number of votes, the same shall be subject to a second ballot until the number of votes obtained ceases to be equal.
7. If the composition of the Board of Directors resulting from the vote does not ensure the appointment of the minimum number of independent directors required by the law in force from time to time, the non-independent candidate elected in the list that obtained the highest number of votes and that is marked by the highest sequential number is replaced by the next candidate of the same list who complies with the specific independence requirements set out by the law in force from time to time for the position of independent director. If this does not identify suitable substitutes, the director appointed from the list that obtained the second highest number of votes also gets substituted. If no suitable replacements can be found, or if it is impossible to apply the mechanism, the Meeting shall resolve by relative majority among single candidates who comply with the specific independence requirements set out by the law in force from time to time for the position of independent director, upon proposal of the persons who have the right to vote, and replacements shall be carried out in the above-mentioned order.
8. Furthermore, in the event that the composition of the Board of Directors resulting from the outcome of the vote does not comply with the principle of gender balance, the director, without the requisite required, is elected from the list that obtained the highest number of votes and characterised by the highest progressive number, it is replaced by the next candidate on the same list belonging to the less represented gender. If this does not identify suitable substitutes, the director appointed from the list that obtained the second highest number of votes also gets substituted. Even if suitable substitutes are not identified, or if the mechanism cannot be applied, the Shareholders' Meeting resolves on the spot by a relative majority between individual candidates belonging to the less represented gender, on the proposal of the persons present who have the right to vote, proceeding with replacement in the order indicated above.
9. If no list is validly submitted, the election shall be carried out by means of a relative majority of the candidates submitted to the meeting together with the filing of the required documentation, provided that the

independence requirements are met in the number required by these Articles of Association and that the rules on gender balance in force from time to time are complied with.

10. For all partial renewals of the Board, also according to what is provided for by art. 22(2) above, as long as the director taken from a list that in a previous election obtained the second highest number of votes is in office (and therefore it is not necessary to appoint for the first time or due to expiry of the term of office or other cause for termination of said director), all the candidates of the list that obtained the highest number of votes shall be elected.

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It should be noted, however, that the Shareholders' Meeting of 29 April next will be called upon, in extraordinary session, to pronounce on a proposal to amend Article 24 of the Articles of Association formulated by the Board of Directors, which, if approved, would also apply to the election of directors on which the Shareholders' Meeting, in ordinary session, is called upon to pronounce immediately thereafter. In particular, it will be proposed that Article 24(10) of the Articles of Association be repealed and that the reference to it in Article 24(2) be removed. Below is the text of Article 24 as it would result if the proposed amendment were to be passed by the Extraordinary Shareholders' Meeting.

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Article 24
Election of directors

1. A shareholder may not vote for more than one list, even if through an intermediary or trust company. Shareholders belonging to the same group - i.e. the parent company, the subsidiaries and the companies subject to joint control - and shareholders who signed a shareholders' agreement pursuant to art. 122 of Legislative Decree No. 58/1998 concerning the issuer's shares, may not vote for more than one list, even through a third party or trust company.
2. The election of directors is conducted as follows:
   a) from the list that obtained the highest number of votes are taken, in the progressive order in which they are listed in the list, all of the Directors to be elected, except the last one;
   b) the candidate in first place is taken from the list that obtained the second highest number of votes and that was not submitted or voted by shareholders connected with the shareholders who submitted or voted the list that obtained the highest number of votes, according to the legislation in force from time to time.
3. If it is not possible to complete the Board's composition, due to a possible lack of candidates on the list that obtained the highest number of votes, this shall be carried out by taking from the list that obtained the second highest number of votes - in the order in which they are listed - any

candidate that was not yet elected, so as to comply with the provisions in force from time to time concerning the minimum number of independent directors and gender balance.

4. Lists that have not obtained at the Shareholders' Meeting a number of votes equal to at least half of the percentage of capital necessary for the submission of the lists will not be taken into consideration.
5. If only one list exceeds this limit, and the same applies to the submission of a single list, all the directors shall be taken from that list, subject to compliance with the legislation in force from time to time concerning the minimum number of independent Directors and gender balance.
6. If two or more lists among those from which the candidates are to be drawn have obtained the same number of votes, the same shall be subject to a second ballot until the number of votes obtained ceases to be equal.
7. If the composition of the Board of Directors resulting from the vote does not ensure the appointment of the minimum number of independent directors required by the law in force from time to time, the non-independent candidate elected in the list that obtained the highest number of votes and that is marked by the highest sequential number is replaced by the next candidate of the same list who complies with the specific independence requirements set out by the law in force from time to time for the position of independent director. If this does not identify suitable substitutes, the director appointed from the list that obtained the second highest number of votes also gets substituted. If no suitable replacements can be found, or if it is impossible to apply the mechanism, the Meeting shall resolve by relative majority among single candidates who comply with the specific independence requirements set out by the law in force from time to time for the position of independent director, upon proposal of the persons who have the right to vote, and replacements shall be carried out in the above-mentioned order.
8. Furthermore, in the event that the composition of the Board of Directors resulting from the outcome of the vote does not comply with the principle of gender balance, the director, without the requisite required, is elected from the list that obtained the highest number of votes and characterised by the highest progressive number, it is replaced by the next candidate on the same list belonging to the less represented gender. If this does not identify suitable substitutes, the director appointed from the list that obtained the second highest number of votes also gets substituted. Even if suitable substitutes are not identified, or if the mechanism cannot be applied, the Shareholders' Meeting resolves on the spot by a relative majority between individual candidates belonging to the less represented gender, on the proposal of the persons present who have the right to vote, proceeding with replacement in the order indicated above.
9. If no list is validly submitted, the election shall be carried out by means of a relative majority of the candidates submitted to the meeting together with the filing of the required documentation, provided that the independence requirements are met in the number required by these

Articles of Association and that the rules on gender balance in force from time to time are complied with.

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As a result of this amendment, the mechanism provided for in Article 24(2) of the Articles of Association would apply to each annual renewal of one-third of the members of the Board of Directors and, consequently, on each of these occasions, subject to the general provisions, a member taken from the list that obtained the second highest number of votes would be appointed as a director of the Bank (so-called «minority director»).

It should be noted, in this regard, that the Board of Directors has assessed the full legitimacy of proceeding simultaneously, in a single Shareholders' Meeting, to amend the Articles of Association and the consequent renewal of the corporate bodies on the basis of the rules that are the subject of the proposed amendment, with effectiveness subject to the registration of the resolution to amend the Articles of Association in the competent Company Registry.

Should the proposal to amend the Articles of Association be approved, therefore, without prejudice to the need to proceed with the registration of the resolution to amend the Articles of Association in the competent Company Registry for the purpose of the effectiveness of the resolution to appoint the directors, for the three-year period 2023-2025, the following would be taken from the list that has obtained the highest number of votes, in the progressive order in which the first four candidates indicated are listed, while the candidate indicated in first place would be taken from the list that obtained the second highest number of votes (and that was not submitted or voted by shareholders connected, according to the laws in force at the time, with the shareholders that submitted or voted for the list that obtained the highest number of votes), provided that the provisions of Art. 24(4) of the Articles of Association are complied with.

Should the proposal to amend the Articles of Association not be approved, on the other hand, the current Articles of Association would continue to apply and for the three-year period 2023-2025, the directors would be drawn solely from the list that obtained the highest number of votes, with the first five candidates being elected, in the progressive order in which they are listed, provided that the provisions of Article 24(4), of the Articles of Association are complied with.

Lastly, reference should be made to the recommendations made by Consob in Notice No. DEM/9017893 of 26 February 2009 with regard to the relations between lists pursuant to art. 147-ter, paragraph 3 of Legislative Decree 58/98 (Consolidated Finance Act), and Article 144-quinquies of Regulation No. 11971 approved by Consob resolution of 14 May 1999, to which reference should be made.

The Board of Directors therefore invites you to appoint five directors through the voting list to replace the ones whose mandate has expired.

Point 6) on the agenda: Appointment of a director for the remainder of the three-year period 2021-2023 pursuant to Article 25(3) of the Articles of Association to replace a director who left office early.

Shareholders,

The Shareholders' Meeting is called upon to appoint for the remainder of the three-year period 2021-2023 a director to replace an early departing director. This followed the resignation of Professor Adriano Propersi (see Press Release issued by the Bank on 28 July 2022 and published on the corporate website).

Adriano Propersi was last appointed as a director by the Shareholders' Meeting of 11 May 2021 and taken from the majority list «List No. 1» of candidates for the election of five directors for the three-year period 2021/2023 and, therefore, his replacement is governed by Article 25(3) of the Articles of Association. His three-year term of office would end on the date of the Shareholders' Meeting convened for the approval of the 2023 financial statements.

The Board of Directors, in compliance with current legislation, initiated the co-option procedure to replace the outgoing director. In implementation of the provisions of Article 25(1) of the Articles of Association, the Board of Directors, by resolution approved by the Board of Statutory Auditors, co-opted Attilio Piero Ferrari, the only non-elected candidate on the list to which the director who had left office early belonged.

Pursuant to the law and the Articles of Association, the Board appointment of Mr. Attilio Piero Ferrari expires at the first Shareholders' Meeting and, therefore, it is necessary for the Ordinary Shareholders' Meeting to pass an appointment resolution to replace the director who left office early, to be taken in accordance with the provisions of Article 25 of the Articles of Association, which is reproduced below:

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Article 25
Replacement of directors

1. If, for any reason, one or more directors leave office during the year, the others shall replace them, by resolution approved by the Board of Statutory Auditors, selecting them, where possible, from among the unelected candidates on the lists to which the outgoing directors belong, in accordance with the provisions of Article 20(2), in compliance with the laws in force from time to time on the minimum number of independent directors and gender balance. The directors thus appointed shall remain in office until the next Meeting.
2. If the majority of the directors appointed by the Meeting are no longer in

office, those remaining in office must convene the Meeting to replace the missing ones.

3. If the Shareholders' Meeting has to replace directors taken from the only list presented or, in the event of several lists, taken from the list obtaining the highest number of votes, or otherwise elected pursuant to Article 24(3), or by relative majority, the election shall take place by relative majority vote of individual candidates without list obligation.
4. If the Shareholders' Meeting is required to replace a director drawn from another list pursuant to Article 24(2), letter b) above, the election shall be conducted by a relative majority vote of individual candidates, selecting them, where possible, from among the unelected candidates on the list to which the outgoing director belonged, or, alternatively, from among the candidates placed on any additional minority lists, or always by relative majority vote, but without taking into account the vote of the shareholders who submitted the majority list in the last election of the Board of Directors or who, according to the communications made pursuant to the regulations in force from time to time, hold, even indirectly, the relative majority of the votes that can be exercised at the Shareholders' Meeting and the votes of shareholders connected to them, as defined by the regulations in force from time to time.
5. In any case, the replacement of directors must take place in compliance with Article 20(2) of these Articles of Association, without prejudice to compliance with the legislation in force from time to time on the minimum number of independent directors and gender balance.
6. At least fifteen days before the date set for the ordinary Meeting, detailed information on the personal and professional characteristics of the candidates and the list of offices held in other companies shall be filed at the registered office, as well as the declarations in which the candidates accept the candidature and attest, under their own responsibility, the non-existence of any reasons for ineligibility and incompatibility and the possession of the requirements set out by current legislation and by these Articles of Association for the office of director.
7. Candidates shall state whether they comply with the specific independence requirements set out in the legislation in force from time to time for the position of independent director.
8. The directors elected by the Meeting shall take the place and, for the purposes of the rotation referred to in Article 22(2), the seniority in office of those they replaced. In the case of simultaneous appointments to posts of different lengths of term, those of the longest term shall be held by those elected with the most votes, seniority prevailing in the event of a tie.

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In this case, according to the provisions of Article 25(3), the election of the substitute director must take place by a relative majority vote of individual candidates, with no list requirement.

In any case, pursuant to Article 25(5) of the Articles of Association, the replacement of directors must ensure the presence of the minimum number of independent directors on the board and must ensure gender balance as well as the adequate collective composition of the board.

The requirements and grounds for ineligibility of directors are governed by Article 21 of the Articles of Association, the text of which is set out in the Directors' Report to the Shareholders' Meeting with reference to item 5) on the agenda above: appointment of five directors for the three-year period 2023-2025, to which reference is made.

Also recalled are the regulations dictated by Decree No. 169 of 23 November 2020 of the Ministry for the Economy and Finance on the subject of requisites and eligibility criteria for the performance of the offices of corporate officers of banks, as well as the criteria published by the European Central Bank for the performance of the suitability assessment to be carried out as part of the fit and proper procedure to which the directors who are elected will be subject (Guide to the verification of the suitability requirements - December 2021).

Pursuant to the current «Supervisory Regulations for Banks», Circular No. 285 of 17 December 2013, the Board of Directors carried out a preliminary analysis to determine the optimal quali-quantitative composition of the Board and the profile of suitable candidate directors.

The results of this analysis are reported in the document entitled «Optimal qualitative and quantitative composition of the Board of Directors of Banca Popolare di Sondrio», published on the Bank's website *https://istituzionale.popso.it/en/investor-relations/shareholders-meeting.*

It is made known so that the submission of nominations for the appointment of a director for the remainder of the three-year period 2021-2023 may take into account the professionalism required to perform the tasks entrusted to the Board of Directors.

The submission of candidacies and the filing of the relevant documents governed by Article 25(6) of the Articles of Association, cited above, may also be made by electronic notification to the certified e-mail *address segreteria@postacertificata.popso.it.*

The Bank will publicise the nominations submitted in compliance with the statutory regulations.

Sondrio, 17 March 2023

THE BOARD OF DIRECTORS

BANCA POPOLARE DI SONDRIO S.P.A. REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING CONVENED TO APPROVE THE FINANCIAL STATEMENTS AT 31 DECEMBER 2022

Shareholders,

Pursuant to Article 153 of Legislative Decree No. 58/1988 (Consolidated Finance Act, or «TUF»), in accordance with the provisions of Article 2429, paragraph 2, of the Italian Civil Code, in compliance with the provisions of the Articles of Association and the provisions issued by the National and European Supervisory and Control Authorities, with this Report, the Board of Statutory Auditors (hereinafter also the «Board») of Banca Popolare di Sondrio S.p.A. (hereinafter also referred to as the «Bank» or «Parent Company») outlines its activities in 2022.

Supervisory activities

In compliance with the provisions of the Italian Civil Code and article 149 of the TUF - complying, among other things, with the principles of conduct of the Board of Statutory Auditors for listed companies recommended by the National Council of Chartered Accountants and Accounting Experts, as well as with the indications provided by CONSOB Communication No. 1025564/2001 and subsequent amendments and additions – the Board of Statutory Auditors supervised (I) compliance with the law and the Articles of Association; (II) compliance with the principles of correct administration and transactions with related parties; (III) the adequacy of the organisational structure, the internal control system and the administrative and accounting system; (IV) the methods of concrete implementation of the corporate governance rules envisaged by current legislation and by the internal regulations of the Bank; (V) the adequacy of the instructions given to the Group companies. The Board of Statutory Auditors also participated in the internal training programme organised for the benefit of the Board of Directors by attending sessions dedicated to ICAAP and ILAAP processes, ESG risk management, internationalisation and the Bank's International Service, and general principles of Compliance and AML controls.

I) On compliance with the Law and the Articles of Association

During the 2022 financial year, as envisaged by paragraph No. 2 of the aforementioned article of the TUF and by art. 42 of the Bank's Articles of Association, the Board of Statutory Auditors attended the annual Shareholders' Meeting held on 30 April 2022, the meetings of the Board of Directors (16) and those of the Executive Committee (41).

The Board of Statutory Auditors, by participating in the meetings of the Board of Directors and the Executive Committee, monitored the compliance with the Law and the Articles of Association of the decision-making processes and was able to find that the related resolutions adopted in the financial year 2022 were adopted with adequate information and are in the interest of the Bank.

The systematic participation in the meetings of the Board of Directors and the Executive Committee allowed the Board, in accordance with the provisions of art. 150 of the TUF, to obtain information on the most significant transactions carried out during the year by the Bank and by the other Group companies.

During 2022, the Board created a plan of its own meetings (48) also implemented following scheduled and periodic meetings with the Control Functions, with the Statutory Auditor and with the Bank's Supervisory Board. The Board also held frequent meetings with corporate offices and structures, as well as with senior management of the Bank, concerning specific management aspects or events. In the current year and up to the date of approval of this Report, the Board of Statutory Auditors has held 19 meetings.

During 2022, the Board of Statutory Auditors monitored, also by taking part in the Appointments Committee meetings convened for the purpose, the procedure for co-opting a Director, resolved upon by the Board of Directors on 8 November 2022, which became necessary following the resignation tendered by Prof. Propersi on 27 July 2022; at this juncture, the Board of Statutory Auditors expressed the specific approval required by Article 37 of the Articles of Association.

Moreover, the Board of Statutory Auditors took part - upon invitation - in all the meetings of the Control and Risk Committee; also through one member, it attended - also upon invitation - some meetings of the Related Parties, Remuneration and Appointments Committees.

The Board of Directors, in its meeting of 22 December 2022, accepted the Board's suggestion and, in approving an updated version of the «Regulation of the Board of Directors and Board Committees», included in the same, among the «Provisions common to the Board Committees», the provision that «*The Chair of the Board of Statutory Auditors, and/or other members designated by the latter, shall participate in the work of the Committees*», thus making it systematic for the Board of Statutory Auditors to convene and participate in the meetings of all the Committees formed within the Board of Directors.

Operations and facts of greatest significance in economic, financial and capital terms involving the Bank or its subsidiaries

In their Report on Operations, the Directors described the most significant business, financial and capital activities that occurred in 2022. The Board conducted specific in-depth studies with the Bank's company departments on the projects underway in various areas, developing a dynamic of constant and fruitful discussion within the scope of their respective competences.

Based on the results acquired in carrying out supervisory activities and the information provided by the Directors pursuant to art. 150 of the TUF, the Board deems it appropriate, as far as it is concerned, to summarise the most significant events that occurred in 2022.

- In 2022, contributions to the National Resolution Fund and the Interbank Deposit Protection Fund for the stabilisation of the banking system were booked for a total of 46 million euro.
- On 1 March 2022, a binding agreement was signed with Banco BPM for the acquisition of 39.5% of the capital of Factorit S.p.A., in which the Bank already held the remaining 60.5% investment; on 15 March 2022, the aforementioned agreement to acquire the investment was executed and thus Factorit S.p.A. is now 100% owned by the Bank.
- On 17 March 2022, the agreement to purchase the shares of Rent2Go S.r.l. held by the latter, equal to 66.66% of the share capital of the company itself, was signed with the industrial shareholders, thus resulting in Rent2Go S.r.l. now being 100% owned by the Bank.
- On 28 June 2022, the Board of Directors approved the «Next Step» Business Plan 2022-2025, resulting in the alignment of the capital plan and the NPE plan.
- On 3 August 2022, the first sale of receivables classified as probable defaults was finalised. Taking into account the carrying value of the receivables in the financial statements at 1 January 2022, the transfer operation led to the recognition of a positive economic effect of 2.4 million euro.
- In December 2022, as part of the derisking process begun in previous years, the Bank carried out its third securitisation transaction through a multi-originator sale, involving non-performing loans originated by fifteen banks. This transaction, described in detail in the Explanatory Notes, to which reference is made, resulted in a loss on the sale of 4.2 million euro.
- On 15 December 2022, the Bank received notification from the ECB, at the conclusion of the annual SREP prudential review and assessment process conducted in 2022, of the new decision regarding prudential requirements to be met on a consolidated basis, effective 1 January 2023. Based on data at 31 December 2022, the Bank has capital ratios consistent with the new thresholds. For further details in this regard, reference should be made to the following paragraph concerning Relations with the Supervisory Authorities and the SREP process.
- On 20 December 2022, the second transaction was finalised, which saw the assignment of loans classified as «unlikely to pay». Taking into account the carrying amount of the loans at 30 June 2022, the sale transaction resulted in the recognition of a positive economic effect of 0.9 million euro.
- On 22 December 2022, the Board of Directors resolved to renew the bancassurance collaboration with «Arca Vita S.p.A.» and its subsidiaries «Arca Assicurazioni S.p.A.» and «Arca Vita International DAC». At the same time, the Bank's distribution of Unisalute S.p.A.'s «health» insurance products was also regulated. The agreements have a duration of five years and run from 1 January 2023.

Covid-19

Also during 2022, the Bank continued to pay attention to measures to deal with the continuing health emergency resulting from the Covid-19 pandemic, especially during the first part of the year. For more information, please refer to the Directors' Report, which provides adequate information in this regard. It should be recalled, however, that already in March 2022, the Italian government had lifted most of the restrictions related to Covid-19, marking an acceleration in the return to the post-pandemic «new normal».

Russia-Ukraine Conflict

As known, since the end of February 2022, a conflict has been ongoing following the armed invasion of Russia in Ukraine, which has led to a situation of profound uncertainty on the macroeconomic level, on rates, on the costs of energy, gas and raw materials, trade, inflationary expectations and the cost of debt.

The European Union immediately launched major sanctions, applicable in all Member States directly, which also affect the financial operations of Russian citizens and companies. CONSOB, the Bank of Italy, IVASS and the FIU have jointly recommended that supervised entities pay particular attention to compliance with these measures and to monitoring the risk of cyber attacks and malware activities, with particular reference to the continuity plan. In addition, CONSOB, in its recommendation of 18 March 2022, expressly requested Issuers to promptly quantify the impact of the crisis on their fundamentals, prospects and financial situation.

In the sense desired by the Supervisory Authorities, the Bank, in order to detect potential risk profiles arising from the aforementioned situation and identify related mitigation actions, has undertaken monitoring activities on various areas, especially concerning credit risk.

TRANSFORMATION INTO A JOINT-STOCK COMPANY

As known, the Shareholders' Meeting of Banca Popolare di Sondrio - held in extraordinary session on 29 December 2021 - resolved to transform the Bank from a cooperative company limited by shares into a joint-stock company, with the consequent adoption of new Articles of Association. The transformation took effect on 5 January 2022, the date on which the shareholders' resolution was recorded in the Sondrio Companies Register. Following this, the procedure was activated to ensure the possibility of exercising the right of withdrawal for the Bank's Shareholders, including those who did not take part in the approval of the transformation resolution pursuant to article 2437(1)(b) of the Italian Civil Code. The 12,676 shares belonging to shareholders who exercised their right of withdrawal were offered under option, pursuant to art. 2437-quater of the Italian Civil Code, to all shareholders holding shares for which the right of withdrawal had not been exercised. The offer under option and the pre-emption ended on 7 March 2022 with the subscription of all the shares with reference to which the withdrawal had been exercised.

The Board of Statutory Auditors, during 2022, took note of the status of the activities related and consequent to the transformation into a S.p.A., identified by the General Management and shared by the Board of Directors. The implementation of the actions and fulfilments consequent to the aforementioned transformation, or appropriate as a result of the same, is still in progress and has also been the subject of analysis by the Supervisory Authorities and of discussions between them and the Board of Statutory Auditors.

Significant events after 2022

Among the significant events that occurred after the close of 2022, the Board of Statutory Auditors believes it is worth mentioning mainly the following.

– On 17 February 2023, the Bank received notification from the ECB of the «Decision on Amendments to the Articles of Association of the Supervised Entity», which confirmed that the amendments to the Articles of Association proposed by the Board of Directors in relation to Article 24 of the Articles of Association do not conflict with the sound and prudent management of the Bank and that, on the contrary, they ensure a more balanced representation of shareholders on the board.
– On 14 March 2023, the rating agency Scope Ratings, at the conclusion of its annual rating review process, upgraded the issuer rating assigned to the Bank to investment grade «BBB» from the previous investment grade «BBB-», consequently the outlook was revised to «stable» from «positive».
– On 31 March 2023, the Board of Directors resolved to submit its own list of 5 candidates on the occasion of the partial renewal of the administrative body, which is on the agenda of the Shareholders' Meeting called for 29 April 2023. At the same time, a resolution was passed to proceed with the solicitation of proxies pursuant to art. 136 as amended of the TUF with the help of a specialist consultant. On the same date, a second list consisting of 2 candidates was filed by 13 shareholders, holding a total shareholding of 4.62082% in the Bank's capital.

II) On compliance with the principles of correct administration and on transactions with related parties

During 2022, we gathered information about the principal economic and financial transactions carried out by the Bank. On the basis of the information collected, it can be reasonably excluded that manifestly imprudent, risky, conflict of interest operations, in contrast with resolutions adopted by the Bank or such as to compromise the integrity of the corporate assets, have been carried out, including through subsidiaries of the same.

The information received during meetings of the Board of Directors and Executive Committees, that collected during the periodic interviews with the Chair, the Managing Director, CFO, Responsible Manager, Management, the Heads of the second and third level Control Functions, the Boards of Statutory Auditors of the directly controlled companies and the Independent Auditors of the Bank, did not highlight the existence of atypical or unusual transactions carried out by the same with third parties, with companies of the Banking Group or with other related parties, pursuant to art. 2391-bis of the Italian Civil Code.

With regard to transactions with related parties and with associated parties, to the best of the Board's knowledge, the Board of Directors complied with the rules set out in the Regulation on transactions with related parties issued by CONSOB Resolution No. 17221/2010 and subsequent amendments, Bank of Italy Circular No. 285/2013, containing the rules on «Risk activities and conflicts of interest in relation to related parties», art. 136 of Legislative Decree 385/1993, as well as IAS 24 for information with related parties; this is in compliance with the specific internal regulations adopted by the Bank.

On the basis of what was represented to the Board of Statutory Auditors, also on the occasion of the latter's participation in the meetings of the Related Party Transactions Committee, the transactions were settled under normal market conditions, also taking into account the assessments of objective mutual convenience and fairness and not have had a significant influence on the equity and economic situation of the Bank and the Group.

During the 2022 financial year, the Related Party Transactions Committee initiated, with the help of an authoritative and independent external consultant, a process of updating the internal regulations adopted by the Bank, in which the Board was able to participate. This process was concluded on 31 March 2023 with a resolution of the Board of Directors that incorporated all the proposed changes, including the reduction of the threshold for identifying transactions of small amounts that fall within the cases of exclusion from the application of the RPT Procedure adopted by the Bank.

Finally, we inform you that the operations pursuant to art. 136 of the TUB, in 2022, in continuity with the past and in compliance with the regulatory provisions, were evaluated by the Related Party and Affiliated Party Transactions Committee and approved unanimously by the Board of Directors, with the favourable vote of all members of the Board Statutory auditor, any company representative abstaining.

III) On the adequacy of the organisational structure, the internal control system and the administrative and accounting system

Organisational structure

The Bank's organisational structure did not undergo particularly substantial changes during 2022; the Board carried out, as before, the supervisory activity of its competence by acquiring the necessary information on the organisational structure of the Bank and of the Group, in order to assess the adequacy of the structure and, in particular, of the second and third-level control Functions.

Specifically, the Board of Statutory Auditors met several times with the Heads of the second and third level Control Functions, with the aim of maintaining constant monitoring of the risk controls, of the performance of the annual plan of checks planned by them, as well as the implementation, within the assigned deadlines, of the remedial actions to remedy the findings raised as a result of the audit activities.

With regard to the Compliance, Anti-Money Laundering and Internal Audit Functions, with which the Board maintained a constant flow of information during the year (the Board met 4 times with the Head of the Compliance and Anti-Money Laundering Function and 6 times with the Head of the Internal Audit Function), the positive self-assessment by the related Managers was confirmed both in terms of quality and in terms of the size of the respective structures.

The Board of Statutory Auditors examined the reports issued by the Control Functions in implementation of the scheduled annual plans and the annual reports of the Control Functions, which show a substantially positive assessment of the structure of internal controls and the ability to monitor risks.

The Board has also met the CRO and related Function several times, both in order to receive information regarding the activities carried out by the area in question, and in order to carry out in-depth analyses in relation to the SREP process and the Inspections on governance and credits carried out by BCE.

As for ESG issues, the responsibility for developing the culture of sustainability and preparing the non-financial statement is entrusted to the structure of the CFO Area and, in particular, to the Sustainability Office.

The structure that reports to the Responsible Manager falls within the area of the Managing Director. In this regard, by virtue of the ever-increasing interrelationships between the administrative-accounting area, strategic planning and the activity of preparing the consolidated non-financial statement, the Board believes that the opportunity remains for the Board of Directors to evaluate the transfer under the supervision of the CFO also of the Area of the Financial Reporting Manager.

System of internal control

The Bank's internal control system is structured on three levels: (i) line controls (so-called first level controls), carried out by the corporate Structures responsible for business/operating activities, also through dedicated units, or performed as part of the back office or, as far as possible, incorporated into IT procedures; (ii) controls on risks and compliance (so-called second-level controls), aimed at ensuring the correct implementation of the risk management process, compliance with the operating limits assigned to the various corporate Structures and the compliance of operations with the rules, including self-regulatory ones, by the Compliance, Anti-Money Laundering and Risk Management Functions, each for the matters for which they are responsible; (iii) Internal Audit (so-called third-level controls), under the responsibility of the Internal Audit Function, whose purpose is to identify any anomalies in the procedures, monitor compliance with the regulations, and periodically assess the adequacy, functionality and reliability of the internal control system and the information system, with a deadline set in relation to the nature and intensity of the risks. Pursuant to Bank of Italy Circular No. 285/2013, the Validation Function is also included among the Corporate Control Functions.

The Board of Statutory Auditors - also considering the specific responsibility attributed to it by Bank of Italy Circular No. 285/2013, to supervise the completeness, adequacy, functionality and reliability of the overall system of internal controls, also availing itself of the corporate Functions that perform internal control activities - believes it can affirm, to the best of its knowledge, the adequacy, functionality and reliability of the System of Internal Controls and the RAF, which contribute to ensuring the regularity and legitimacy of management and compliance with the rules governing the Bank's activities. It also acknowledges that the aforementioned Control Functions have fulfilled their reporting obligations to the Corporate Bodies, including the Board itself.

The Board took note of the requests contained in the SREP 2022 Communication and the OSI-Governance inspection with reference to the Corporate Control Functions, studied their contents in depth and discussed the proposed remedial actions and their deadlines with the Managers.

Also in 2022, especially in the first part of the year, the work of the Control Functions was impacted by the health emergency deriving from the Covid-19 pandemic, an organisational approach having been maintained for reasons of social distancing, which included the use to smart-working, a solution which, however has not limited the activity carried out nor has it affected its effectiveness; so much so that the action plans of all the aforementioned Functions have been substantially respected.

The training programmes for all the Control Functions launched for 2022 were essentially carried out at all levels, an aspect to which the Board of Statutory Auditors dedicates constant attention by gathering information during its periodic meetings with the Managers.

At Group level, the second-level Compliance and Anti-Money Laundering control functions are centralised at the Parent Company as regards Banca della Nuova Terra SpA

Factorit S.p.A. has entrusted the Compliance Function to a leading external company, while it manages the Anti-Money Laundering Function internally; these structures which in any case operate in compliance with the guidelines and standards laid down by the Parent Company, with a view to developing a global approach to risk according to suitably uniform methodological criteria.

Risk Management and Internal Audit are outsourced to the Parent Company by both subsidiaries.

BPS (SUISSE) has autonomous control functions, which act, albeit in compliance with Swiss laws and regulations, taking into account the policies adopted by the corresponding parent company functions. As far as possible, appropriate measures have been taken to ensure continuous interaction between the respective Heads of Function.

With regard to first-level controls, the Board of Statutory Auditors monitored their adequacy by examining the audits conducted by the competent second- and third-level Control Functions.

With regard to second-level controls, taking into consideration the work of the individual Control Functions, the most significant aspects that were discussed with the respective Managers are summarised below.

– In 2022, the gradual consolidation of the role of the Compliance Function was confirmed in relation to the need to ensure «compliance» within an articulated and ever-changing regulatory framework; also within this circumstance, there was a further strengthening of the Function with the addition of three new resources.

  During 2022, the Compliance Function continued its adoption of the «broad compliance» operational model, with direct work on core matters within the Bank and collaboration with specialists and compliance contacts regarding more specific matters. This model makes it possible to use and benefit from certain professional skills within the Bank, spreading and consolidating a culture of compliance with the established rules and control. We believe this approach to be effective.

  With the Function and, in particular, with the Head, the Board of Statutory Auditors had a periodic and constructive discussion for the examination and assessment of issues arising from the regulatory framework and the indications of the national and European Supervisory Bodies; particular attention was paid by the Function, *inter* alia, to the issue of investment services and the verification with respect to the requirements of the MIFID II and IDD regulations, with particular reference to the areas relating to product governance processes and the procedures for assessing the adequacy of client transactions, also with regard to the result of a supervisory inspection by Consob in 2019; also on banking transparency, in continuity with the past, several interventions were dedicated as planned for 2022. In the area of Market Abuse, in 2022, the Function was able to strengthen its oversight through the assignment of a new resource, as well as finalise the general revision of the control thresholds, so as to ensure the correct and up-to-date parameterisation of the procedures in order to have effective monitoring mechanisms in line with market practices; the Function also discussed with Consob on the overall functioning of the IT application, providing the Authority with the clarifications requested by the latter.

  The activities carried out by the Function resulted in specific indications to the owners of reference, aimed at refining/reinforcing the process examined in order to further mitigate the risks of non-compliance; the tracking and monitoring of these actions are carried out with the consolidated use of the Compliance Tracking Tool, a useful tool also for the Board of Statutory Auditors for the purposes of verifying the results of

the checks carried out and the timing of the resolution of the findings.
In May 2022, the Internal Audit Department subjected the Compliance Function to an analysis of the regulatory and organisational framework, the activities carried out in the year 2021 and the planning for 2022; the outcome of the audit identified needs for refinement with respect to the overall framework and the planned corrective actions have already been completed.
In light of the above, and also through the periodic meetings held directly by the Board of Statutory Auditors with the Manager, on the occasion of the in-depth analyses concerning both the contents of the annual and six-monthly reports and Compliance Tracking at said dates, and the results of specific control activities, of which the Function in any case informs the Board of Statutory Auditors in a timely manner by sending all the reports, we can confirm the substantial adequacy of the risk control falling within the Function's competence.

– For the Anti-Money Laundering Function, the year 2022 was characterised, among other things, by the activities resulting from the armed aggression of Ukraine by the Russian Federation, which took place as of February 2022. The conflict led to the issuing of several sanctions packages, by the EU, OFAC, SECO (Switzerland) and the UK. Specifically, as far as the EU is concerned, the EU has imposed a series of new sanctions on Russia. In this context, on 7 March 2022, the Bank of Italy, CONSOB, IVASS and the FIU, through a joint communiqué, drew the attention of supervised entities to the full compliance with the restrictive measures decided by the European Union in response to the situation in Ukraine. The Anti-Money Laundering Function was also engaged in activities related to the above, first by adjusting the geographical risk associated with Russia and Belarus at the level of procedures and applications, and then in the periodic screening carried out when new sanctions packages were published, in order to verify the possible presence of customers affected by restrictive measures. Support activities for the branch network, related to the above-mentioned bans and sanctions, were also necessary. The attention dedicated by the Function to money laundering and terrorist financing risks related to the Covid-19 emergency also continued; in addition, the focus was extended to the transfer of tax credits from building bonuses and to the implementation of the National Recovery and Resilience Plan (so-called PNRR), also taking into account the contents of the Communication «*Prevention of financial crime phenomena related to Covid-19 and PNRR*» issued by the FIU on 11 April 2022.
With regard to the subsidiary Banca Popolare di Sondrio (SUISSE), taking into account the existing limits in Swiss law on the sharing of information, in 2022, the discussions were systematically resumed, also hoped for by the Bank of Italy, made difficult in 2020 and 2021 by the limitations imposed by the Covid-19 pandemic, concerning the relations between the Parent Company and the subsidiary, procedurally envisaged through bi-monthly on-site visits by the Manager. The Board attended one of the six meetings held in 2022.

In 2022, the Function completed all activities within its remit and the controls scheduled in the plan, with only one exception in 2023. The self-assessment exercise conducted confirms a low residual recycling risk across the Group.
During 2022, the Function was subject to an ordinary audit by the Internal Audit Department, with particular reference to its organisational and management structure and with the aim of verifying its structure, the results of the activities carried out, the control measures adopted and the related information flows. On the basis of the analyses carried out, the Internal Audit Department expressed, in continuity with the previous year, an overall opinion that was «mostly favourable», highlighting certain elements requiring attention, with a view to improving the efficiency of the overall control framework; the actions aimed at remedying the findings are in the plan of activities to be implemented for 2023.
Adequate attention was also paid to staff training on anti-money laundering, both for the operational branches and for the more specialised branches reporting to the Headquarters Function; the courses were conducted both in «virtual classroom» mode and in person; the training plan prepared for 2022 was adhered to and similar commitment was reserved for the planning for 2023.
The Board can confirm for 2022 the substantial adequacy of the supervision of the risks for which the Function is responsible.

– The Validation Function, during 2022, continued its activities, regularly and in accordance with the action plan, aimed at validating the internal models for measuring, monitoring and managing risks (for both regulatory and non-regulatory purposes) and assessing the company's activities; this allowed an overall positive judgement to be attributed to the set of controls carried out, even though there were aspects that needed improvement, for which specific recommendations were made. In continuity with the past, the prevalence of checks carried out yielded «adequate» results; the areas for improvement identified are mostly attributable to the verification activities performed in the area of credit risk - AIRB. The activities of the Function were mainly concentrated in this area; in addition, validation activities were carried out relating to the so-called non-regulatory risks, including IFRS 9 in the area of credit risk, counterparty risk, market risk, operational risk, interest rate risk and internal processes aimed at determination of ICAAP and ILAAP.
  From an organisational perspective, the new Head of the Function was appointed in 2022, at the proposal of the Control and Risk Committee and with the favourable opinion of the Appointments Committee.
  The Board of Statutory Auditors, taking into account its own examination of the annual and half-yearly reports, can formulate a judgement on the substantial adequacy of the Function to fulfil its tasks.
– As far as the Chief Risk Officer governance area is concerned, from the point of view of organisational structure, there were no significant changes in 2022; the process of renewing and strengthening the structure continued, with 19 new staff members joining in the past year, and at the beginning

of the year, the new Head of the Credit Risk Office was appointed, a position previously held *ad interim* by the Head of the Risk Control Service. It should be noted that, as of 1 January 2022, following the authorisation received from the Bank of Italy, the activities aimed at making the risk management outsourcing agreement entered into by the Parent Company with its subsidiary Factorit operational began.

In 2022, the Risk Control Function, mediated by the Supervisory Relations Function, continued to support the Bank in the activity, which was further intensified, of dialogue with the Supervisory Authorities, both in the context of specific inspections and on the occasions of constant dialogue with the Supervisors, among other things, on the requests and assessments conducted by the ECB as part of the SREP process.

The RAF, in 2022, was affected by three targeted updates of an extraordinary nature, concerning, in two cases, certain risk appetite parameters related to primary indices and, in another case, certain threshold values related to a complementary index; a general review of the system was also prepared, following the ordinary cycle of annual review and recalibration of the risk parameters and a series of evolutionary interventions in the characteristic elements and organisational processes for defining and monitoring the RAF, also in implementation of recommendations or expectations expressed by the Supervisory Authority as well as the Bank's Internal Audit.

The activities conducted for the purposes of the ICAAP and ILAAP at 31 December 2022, on the other hand, were in a line of continuity with the past, also taking into account the «ECB expectations towards banks' ICAAP/ ILAAP packages for SREP 2022» communicated by the JST on 25 January 2022 and concerning the main supervisory guidelines for sound and effective capital and liquidity management.

The process of updating the Recovery Plan was conducted taking into consideration both the areas for improvement represented by the Supervisor following the revision of the previous year's Plan, communicated to the Bank with a formal letter of «feedback» dated 31 March 2022, and the contents of the communication «Information and guidance with respect to banks' 2022 recovery plan submissions» of 10 May 2022, through which the ECB clarified its expectations in the preparation of recovery plans for 2022 for all significant banks.

The Board paid particular attention to the activity of the Function, also through periodic meetings with the Manager and the collaborators referring to the various Offices, in the presence of the CRO: in addition to overseeing and monitoring the various types of risk, specific supervisory activities were reserved the RAF definition process, as well as the capital adequacy assessment (ICAAP) and liquidity (ILAAP) exercises.

With regard to third-level controls, it is worth noting the verification and in-depth analyses carried out continuously by the Internal Audit Function on the core processes, in a risk-based logic.

Constant attention has been maintained in the area of risk governance, both in relation to primary processes such as ICAAP, RAF and Resolution

Plan, and with reference to specific corporate functions such as Compliance, Anti-Money Laundering and the Financial Reporting Manager.

With reference to the latter, some aspects for improvement were highlighted by the Internal Audit Function with respect to the system of controls, and an evaluation was recommended with respect to a strengthening of the structure on the staff of the Financial Reporting Manager. In this regard, the Board of Statutory Auditors agreed that a further strengthening of the administrative accounting area should be considered in terms of both human resources and IT support.

In 2022, the Internal Audit Function conducted a specific activity, requested by the ECB, on the complex issue of risk culture: a set of elements, spread over different evaluation pillars, was identified to align the Bank with market best practices. The outcome of the audit activities was presented to the Board of Statutory Auditors and brought to the attention of the Board of Directors in the last quarter of the financial year 2022.

Specific activities were conducted on the credit process, which continued to be a priority area of action for the Function: in continuity with the past, the NPE Strategy, Leveraged Transactions, Economic Groups and New Dod issues were considered. A number of aspects related to the management of forborne and bad loans were also discussed, and several reports covered the AIRB area. From the activities carried out, some areas emerged that would need improvement, against which remedial actions are planned, their evolution monitored on a quarterly basis by the Board through the examination of the appropriate tracking.

Specific activities were also carried out on internal IT processes and on EIF and non-EIF outsourcing, which did not reveal any critical elements; adequate oversight was also dedicated to compliance with particular regulatory provisions and specifically with reference to remuneration, usury, privacy, FACTA/CRS and banking transparency policies. There were no findings with high scores and the recommendations made are monitored by the Board of Statutory Auditors.

Important audits also concerned the area of financial risks, from which areas of improvement emerged on specific aspects related to portfolio advice (due to delays in the installation of the new procedure, which is in the process of being resolved) and the issue of market abuse (on the area of insider information).

The Board of Statutory Auditors, recipient of all the reports, monitored the corrective actions implemented and planned by the Bank's structures as a result of the findings formulated in the various areas by the Internal Audit.

As at 31.12.2022, there were no overdue findings, but only sometimes rescheduled as a result of a joint assessment conducted by the Function with the owner with respect to the objective impossibility of resolving the issue.

From an organisational point of view, there was a further consolidation of internal reorganisation, in close continuity with what has been achieved in recent years. In particular, it is noted how, in the first half of 2022, responsibilities were reintegrated within the various organisational units that make up the Internal Audit Service; in terms of sizing, as at 31 December

2022, the workforce was almost in line with the size targets deemed adequate following the sizing analysis conducted internally. Training activities, including both specialised sessions at external companies and in-house activities, took place regularly, as they were considered by the Function as a significant lever for internal growth, also in view of the staff reinforcement achieved in recent years.

With the Head of the Service, the Board shared, in a spirit of mutual collaboration, the planning of its activity during the design phase; moreover, the results of the verification activity carried out and of the intervention actions implemented by the Bank on the areas for improvement identified were periodically evaluated during the year.

Based on these assumptions and with particular reference to the specific operational contexts analysed and the consequent corrective actions currently being implemented, it is believed that the internal control system has matured during the year a substantially adequate level of control of corporate risks.

The administrative and accounting system and the Manager responsible for preparing the company's accounting documents

We have monitored the adequacy and concrete functioning of the administrative and accounting system, as well as its ability to record the results of operations and present them properly in the financial statements, by obtaining information from the managers of the relevant business Structures, examining significant corporate documentation and analysing the results of the work performed by the Independent Auditors and the Manager responsible for preparing the company's accounting documents (hereinafter also «Financial Reporting Manager»).

In the context of its Operating Report referring to the year 2022 for the purpose of issuing the attestation provided for by Art. 154-*bis*, paragraph 5, of the Consolidated Finance Act, the Financial Reporting Manager acknowledges, *inter alia*, the fact that, in the first months of 2022, the Internal Audit function conducted a specific audit on its activities. This audit, which closed with a «partially favourable» opinion, highlighted the following areas for improvement: i) strengthening of the structure on the staff of the Financial Reporting Manager or adoption of solutions consistent with the planned control system; ii) involvement of subsidiaries and extension of the control model of the methodological system; iii) provision of IT General Controls for both the Parent Company and subsidiaries. These findings are also shared by the Board of Statutory Auditors.

With regard to the specific remedial actions implemented by the Bank in relation to the above points, the following should be noted: i) in September 2022, the structure of the Financial Reporting Manager was strengthened through the inclusion of a new resource to support the planned control activities; ii) during 2022, dialogue and information exchange tables were opened with the subsidiaries and, for 2023, a specific project is planned on the relevant subsidiaries, in order to extend to them the Methodological Regulations and provide for specific reporting on the activities to monitor administrative and accounting risks; iii) in the second half of 2022, a specific project was launched with the assistance of the consulting firm KPMG aimed at taking over and testing the Parent Company's IT General Controls.

Given the duties assigned to the Board of Statutory Auditors in the process of making financial disclosures, including our role as the Audit Committee, we have coordinated with the Head of the Administration & Financial Accounting Department, holding periodic exchanging of information about the administrative and accounting system, as well as its reliability in terms of presenting properly the results of operations in compliance with international accounting standards.

Although it is not the task of the Board of Statutory Auditors to carry out the statutory audit pursuant to Legislative Decree No. 39/2010, as this is delegated to the Independent Auditors, it is believed, on the basis of the analyses carried out and the information gathered in discussions with the Financial Reporting Manager and the Independent Auditors, that the administrative and accounting system is, on the whole, adequate in relation to the provisions of the current reference regulations, without prejudice to the opportunities for strengthening already mentioned, mainly with regard to the sizing of the Function and the automation of processes/procedures to improve data production and reduce times and costs of control activities.

Lastly, with regard to the accounting information contained in the financial statements at 31 December 2022, the Board notes that the Managing Director and the Financial Reporting Manager have issued an unqualified attestation pursuant to art. 154-bis of the TUF, having regard for the requirements of art. 81-ter of CONSOB Regulation 11971 dated 14 May 1999, as amended.

IV) On the procedures for the concrete implementation of the corporate governance rules provided for by current legislation

Pursuant to the provisions of art. 123-bis of the TUF, the Board of Directors' meeting of 17 March 2023 approved the «Report on corporate governance and ownership structures», which is published on the Bank's website.

The Board deems it appropriate that particular attention be paid to the matter in order to ensure effective organisational and corporate governance structures, which constitute an important condition for the achievement of the Bank's objectives.

As is known, currently, the Bank has decided not to adhere to the «Corporate Governance Code», approved by the Corporate Governance Committee, addressed to all companies with shares listed on the Mercato Telematico Azionario managed by Borsa Italiana. In particular, the Board of Statutory Auditors, following the transformation of the Bank into a joint-stock company, expressed the advisability of the Board of Directors reassessing the Bank's adherence to the aforementioned Code. In the course of the 2022 financial year, the Board of Statutory Auditors had the opportunity to reiterate this opportunity both in Board of Directors meetings and in meetings with the Chair and Chief Executive Officer; at the end of the Board of Directors' self-assessment process conducted in February 2023, this recommendation of the Board of Statutory Auditors was shared by the Board members. The Board of Directors' evaluation of adherence to the above-mentioned Code, initially scheduled for the first quarter, is currently scheduled for the first half of 2023.

In this regard, in its Report on Corporate Governance and Ownership Structures, the Board of Directors states that the Bank's current corporate governance organisation is largely in line with the aforementioned Code.

The Report also illustrates the outcome of the evaluation of the functioning, size and composition of the Board of Directors and the Board committees conducted in 2022. The Board of Directors has also identified its optimal qualitative and quantitative composition and the profile of the candidates for the office of Directors for the year 2023 in accordance with the provisions of the Bank of Italy's Circular No. 285 on corporate governance, as well as the MEF Decree. The related document was approved by the Board of Directors on 24 February 2023 and made known to the members of the Bank, so their nominations for the partial renewal of the Board of Directors could take account of the skills and professionalism needed, the reasons for incompatibility and termination, and the limits on the accumulation of appointments envisaged under current regulations and laws, including the ban on interlocking relationships.

In compliance with the Supervisory Provisions and also in line with the recommendations of the Rules of Conduct for the Board of Statutory Auditors of Listed Companies prepared by the CNDCEC, the Board of Statutory Auditors carried out its self-assessment with a positive outcome as to whether the individual members still met the requirements necessary to hold office.

In the meeting of 31 March 2023, the Board of Directors, in view of the partial renewal of the Administrative Body, resolved the formation of its own list of candidates for the appointment of Director of the Bank composed of five names, two of which are currently in office, the Chief Executive Officer and the Deputy Chair, made public in accordance with the law. The selection of the other three candidates was carried out by an ad hoc Committee with the assistance of an Advisor of primary standing and taking into account the indications received from the Chair of the Board of Directors, part of the ad hoc Committee, also in compliance with the conduct guidelines expressed by the ECB in its letter of 21 March 2023 and by CONSOB in its specific attention notice No. 1/22 of 21 January 2022.

The Board of Statutory Auditors took part in the meetings of the ad hoc Committee, observing (i) how the decision was taken by the Board of Directors, at its meeting of 17 March 2023, thus shortening the time required to implement a broad selection process, which the Board of Statutory Auditors itself had called for on several occasions, and (ii) how it was in any case possible to have several candidates, also thanks to the support of an authoritative specialised consultant, among which to identify the profiles of greatest interest to the Bank. However, it remains necessary to adopt a specific procedure, formalised and published, to make the process, which by Articles of Association takes place annually, more in line with the best practices and rules of governance of listed companies.

As was the case on the previous occasion, the Board of Directors, in its meeting of 31 March 2023, also resolved on the promotion of proxy solicitation activities, with the assistance of a specialised Advisor, in view of the Shareholders' Meeting called for 29 April 2023; the Board of Statutory Auditors, in its supervisory duties and functions, made recommendations in this regard to ensure that the activities are carried out with the utmost care, transparency and traceability, guaranteeing, *inter alia*, objective and neutral information to shareholders aimed at creating a level playing field between competing lists, as well as freedom of expression of voting instructions and the protection of the confidentiality of the same.

V) On instructions given to Group companies

As part of its supervisory activities, the Board of Statutory Auditors met with the Board of Statutory Auditors of Banca della Nuova Terra S.p.A. (BNT), which produced an exchange of information with a view to integrated governance, with particular reference to issues specific to the entities themselves, took place in an open atmosphere of discussion.

The exchange of information and supervision of the Group directives given to Factorit S.p.A. was ensured by the Chair of the Board of Statutory Auditors of the aforementioned subsidiary, who also sits on the Bank's Board of Statutory Auditors as a full member.

This Board has monitored the adequacy of the instructions given by the Bank to its subsidiaries, in compliance with art. 114 of the TUF, considering them suitable for the purpose of complying with the disclosure requirements imposed by law.

In May 2022, the Board of Statutory Auditors met with the General Manager and the representatives of the Control Functions of the Swiss subsidiary BPS Suisse, in the presence of the Compliance and Anti-Money Laundering Function of the Parent Company.

The relations maintained by the Bank with the other Group companies were also described at meetings of the Board of Directors; these exchanges of information were facilitated by participation in the administrative bodies of subsidiaries by the General Manager, top managers and/or directors of the Bank.

With regard to the management, coordination and control activities carried out by the Parent Company in relation to the subsidiary companies, the Board of Statutory Auditors notes that:

– because Swiss regulations do not require Banca Popolare di Sondrio (SUISSE) SA (100%) to have a Board of Statutory Auditors, control activities consist in constant interaction between the Internal Audit and AML/Compliance Department of the Bank and the equivalent department within the subsidiary. This company operates in accordance with the instructions issued by FINMA, which is the authority that supervises financial activities in Switzerland. Based on the results of the checks carried out by the Bank's Internal Audit Department, the Board has not identified any critical matters or information to report about compliance by the subsidiary with the regulations. Considering what is set forth in the Report issued by EY SA, an independent external auditor, and taking into account the information gathered in discussions with the Directors and the Management of BPS (SUISSE), there are no issues worthy of specific reporting. The technical anomaly that occurred at the beginning of the financial year, which the Swiss subsidiary informed the Board of Statutory Auditors about, also through the Internal Audit Function, has also been largely remedied; the subsidiary itself initiated an internal investigation process that ended with the exclusion of involvement or liability of employees of the Swiss bank;

– as regards Factorit S.p.A. (100%), the control activity was carried out through the interaction with the Internal Audit Department of the Parent Company, in charge of carrying out the outsourcing function internal audit of the subsidiary itself, as well as by examining the periodic reports of the activity carried out, presented to the Board of Directors of the Bank. Moreover, information was exchanged with EY S.p.A., the Independent Auditors, concerning accounting aspects;
– for Popso Covered Bond S.r.l. (60%), a company formed to issue covered bonds, we have taken into consideration the Report issued by BDO Italia S.p.A., which currently acts as asset monitor, and the work performed by the Internal Audit Department, which issues an Annual Report on the covered bond issue programme, as required by the aforementioned Bank of Italy Circular 285;
– for Banca della Nuova Terra S.p.A. (100%), the control activity of the Board of Statutory Auditors in 2022, as mentioned, was mainly carried out through meetings with the Board of Statutory Auditors of the subsidiary, through interaction with the Internal Audit Department of the Parent Company, in charge of carrying out the internal audit function in outsourcing of the subsidiary itself, as well as by examining the periodic reports of the activity carried out, presented to the Board of Directors of the Bank. This Board has also held discussions with EY S.p.A., the Independent Auditors, obtaining all necessary information on economic and financial matters;
– for Sinergia Seconda S.r.l. (100%), Pirovano Stelvio S.p.A. (100%) and Rent2GO S.r.l. (100%) the Board of Statutory Auditors has obtained information during the meetings of the Board of Directors and in the meetings with EY S.p.A., the Independent Auditors, obtaining all the necessary information concerning economic and financial aspects.

With regard to the above, the Board has no observations to make about the adequacy of the instructions given to Group companies for the purpose of obtaining the information flows needed to comply on a timely basis with the reporting obligations imposed by law.

Other assets

Remuneration policies

The Board of Directors approved the document «Remuneration Policies of the Banca Popolare di Sondrio Banking Group» in implementation of the supervisory provisions for banks on the subject of remuneration and incentive policies and practices, issued in implementation of Directive 2013/36/EU of 23 June 2013.

The Remuneration Report made available to Shareholders as well as the Public Disclosure on Remuneration comprehensively explain the formation process and the recipients of the policy, the objectives for variable remuneration, as well as the criteria for its application in relation to the year 2022; please refer to these documents for a detailed review.

The Board of Statutory Auditors, having acknowledged the certificate of Compliance issued by the function of the same name, as well as the consistency with the RAF certified by the CRO function, to the extent of its competence and at the outcome of the activity carried out also through the participation in the meeting of the Remuneration Committee which dealt with the subject, considers that the document on the remuneration policies for 2023 is, as a whole, consistent with the regulatory provisions. The Board has, on this occasion, noted the absence of discriminatory behaviour between genders and, at the same time, considers it appropriate that particular attention be paid to the issue of gender equality, both in relation to the presence in the workforce, and in relation to the offer of career paths aimed at increasing the possibility of reaching the highest employment levels, also in relation to the desired equal pay treatment between genders.

Relations with the Supervisory Board

The Board has also interacted with the Supervisory Body, whose meetings have always been attended by at least one of its members, thus encouraging a constant exchange of information on specific issues of common relevance and, in particular, on the monitoring of the risks of commission of the offences provided for in the reference legislation. In the course of 2022, among other things, the Organisational Model was updated by the Board, which will be subject to approval by the Board of Directors in 2023.

Relations with the Supervisory Authorities and the SREP process

As the Parent Company of a significant banking group, since 2014 the Bank has been subject to the Single Supervisory Mechanism (SSM), under the direct supervision of the European Central Bank. In carrying out its control activities, the latter makes use of the JST (Joint Supervisory Team - operational nucleus of the SSM in charge of continuously exercising the prudential supervision activities of the Group, with which the Bank maintains constant contact and dialogue, through meetings with the management, the Heads of the second- and third-level Control Functions and the central offices, to define, evaluate and update, in agreement with the Team managers, the activities already undertaken and planned, as well as the new projects requested by the Supervisory Authority. The Bank is also subject to control and monitoring, to the extent of their responsibilities, mainly by the Bank of Italy, CONSOB and the bodies responsible for the resolution of banking crises.

During 2022, the Board held a meeting in November with the JST. In early 2023, the Auditors held a further meeting with the JST, as well as a meeting with CONSOB.

The Board monitored the implementation of the methodological and organisational initiatives taken by the Bank aimed at responding to the findings, decisions, observations and suggestions expressed by the Supervisory Authorities during the inspections and/or the most important thematic insights.

In carrying out its activities, the Board took advantage of the help provided by the Internal Audit Department, which paid particular attention to the completeness of the various interventions and compliance with the deadlines.

With regard to the improvement profiles that have emerged, the Board of Statutory Auditors has asked the Bank to formalise the information flows from the Head of Relations with the Supervisory Authorities, in order to guarantee the timeliness and completeness of the information provided to the Board regarding relations with all the Supervisory Authorities. With regard to this request, it should be noted that, in October 2022, the Bank's Board of Directors adopted a Regulation aimed at regulating the information flows of relations with the Supervisory Authorities in respect of all the Bank's bodies and Functions, incorporating the observations and additions made by the Board.

In detail, the main processes, communications and inspections by the Supervisory Authorities with regard to which the Board of Statutory Auditors has been involved during 2022, and in 2023, up to the date of this Report, are as follows.

ECB and Bank of Italy

– Annual Prudential Review and Evaluation Process SREP 2022, as a result of which, on 15 December 2022, the Bank received notification from the European Central Bank of the new decision regarding prudential requirements to be met on a consolidated basis, effective 1 January 2023. The additional Pillar 2 Requirement or «P2R» is 2.66%, down from the previous 2.77%. The new ratio, to be held in the form of Tier 1 (CET 1) capital for at least 56.25% and Tier 1 capital for at least 75%, includes a quota of 0.01% as an increase in the second pillar requirement for non-performing exposures. As a result, the minimum level of Common Equity Tier 1 ratio required is 8.50% (compared to the previous 8.56%); the Tier 1 ratio required is 10.50% (compared to the previous 10.58%); the minimum

Total Capital Ratio is 13.16% (compared to the previous 13.27%). On the basis of data at 31 December 2022, the Banca Popolare di Sondrio Group has capital ratios that are well above the aforementioned thresholds.

- Inspection of the ECB «Credit File Review» on the Non Financial Corporate segment (OSI-NFC), which began in October 2022, during which various aspects of a methodological nature were examined, linked to the Bank's ability to promptly identify the deterioration of these exposures, to record appropriate provisions on these and to undertake the necessary management actions to mitigate the risk.
- ECB inspection within the A-IRB rating system (IMI Model Change), which began in October 2021 and ended in February 2022, to verify the impacts of changes brought about by the entry into force from the beginning of 2022 of the EBA provisions on internal models that can be used within the framework of regulatory IRB approaches for measuring minimum capital requirements on credit risk.
- Governance inspection (OSI-Governance), performed by a Bank of Italy team between November 2021 and February 2022. The findings of the inspection revealed certain weaknesses in the Bank's governance practices, which were presented and discussed at the Board meeting of 30 May 2022 and detailed in the final report submitted by the ECB on 13 September 2022, as well as at the closing meeting of 24 October 2022. In accordance with the requirements of the Supervisory Authority, the Bank presented a specific action plan, indicating the deadlines within which it committed to complete remedial actions. The Internal Audit function has been mandated to conduct an assessment of the status of implementation of each remedial action for each deadline; this assessment must be presented to the Board of Directors when it reviews the implementation of these actions. The Board of Statutory Auditors monitors the execution of this programme also through information received from the Internal Audit Function. As of the date of preparation of this Report, only one remedial action pertaining to the succession plan had not been fully implemented by the due date of 31.3.2023 and was postponed to 30.6.2023. In this regard, the Board of Statutory Auditors has planned a specific activity for the year 2023.
- In a letter dated 9 February 2023, the ECB provided the Bank with the results of its supervisory assessment regarding the disclosure of climate and environmental risks, expressing its expectation that the Bank would take specific actions to address the deficiencies identified. At its meeting of 17 March 2023, the Board of Directors approved a specific action plan containing the actions necessary to overcome the gaps identified by the Supervisor.
- By letter of 21 March 2023, the ECB provided the Bank with comments on the practices concerning the composition and functioning of the Board of Directors, also in light of the problems encountered in past years. The contents of the missive were examined and discussed by the Board of Directors and the Appointments Committee, which took them into account when identifying the candidates included in the list submitted by the Board

of Directors for the annual renewal of one-third of the Directors. The Board of Statutory Auditors was also asked to examine the Bank's assessments of the formal independence and independent judgement of the Directors.

CONSOB

– By letter dated 1 and 14 April 2022, CONSOB requested, pursuant to Article 115 of the TUF, information from the Bank on the formation of the list of candidates for the partial renewal of the administrative body prepared by the Board of Directors and approved on 31 March 2022. The Bank provided the requested clarifications.
– By letter dated 25 May 2022, CONSOB requested, pursuant to Article 115 of the TUF, information from the Bank concerning certain pre-meeting applications, as well as concerning certain related-party transactions. The Bank provided the information requested.
– By letters dated 3 August 2022 and 18 October 2022, CONSOB requested, pursuant to Article 115 of the TUF, further information from the Bank and the Board of Statutory Auditors concerning, *inter alia*, shareholder relations, the formation of the list of the Board of Directors and the proxy solicitation promoted for the 2022 Shareholders' Meeting. The Bank and the Board of Statutory Auditors provided the information and clarifications requested.
– By letter dated 28 October 2022, CONSOB requested, pursuant to Article 115 of the TUF, further information from the Bank concerning, *inter alia*, the Regulation on Related Party Transactions. The Bank provided the information and clarifications requested.
– By letter dated 27 December 2022, CONSOB, pursuant to Article 115 of the TUF and in relation to previous communications, requested an interim and informative meeting with the Board of Statutory Auditors for 18 January 2023. The meeting took place on the same date.
– By letter dated 19 February 2023, CONSOB requested, pursuant to Article 115 of the TUF, information from the Board of Statutory Auditors concerning the process of forming the so-called «Non-Financial Statement». The Board of Statutory Auditors provided the requested information and clarifications.
– By letter dated 10 March 2023, CONSOB requested, pursuant to Article 115 of the TUF, information from the Bank concerning the assessments related to the adoption of a procedure for the formation of a list of candidates for the partial renewal of the Board of Directors, as well as related to the adherence to the Corporate Governance Code promoted by the Committee of Borsa Italiana. The Bank provided the requested information, specifying that it had not adopted an ad hoc procedure for the formation of the list then approved on 31 March 2023, postponing the issue to the time when the discussion regarding adherence to the Corporate Governance Code will be held, a discussion - as previously reported - also solicited by the Board of Statutory Auditors during the 2022 financial year and in any case currently scheduled within the first half of 2023.

Business continuity and cyber risk

At its meeting of 31 March 2023, the Board of Directors reviewed the IT Risk Situation Report and approved the Security and ICT Risk Self-Assessment Report prepared by the Bank's IT Function.

The supporting documents, which were also reviewed by the Board of Statutory Auditors, illustrate the risks and related safeguards adopted by the Group, as well as the incidents that occurred in 2022.

The analysis of IT risks also covered cyber threats and the organised protection of the function.

In the course of 2022, the Board of Statutory Auditors held a specific meeting at the Organisation and Information Systems Service (SOSI), as well as a specific in-depth activity in relation to business continuity.

Independence of the Legal Auditor and other appointments granted to the Independent Auditors

In compliance with the provisions of article 17(9)(a) of Legislative Decree No. 39/2010 and article 149-duodecies of CONSOB Regulation No. 11971, as well as the provisions of articles 4 and 5 of EU Directive No. 537/2014, the Board of Statutory Auditors informs of the total fees deriving from the services rendered to the BPS Group during the 2022 financial year by the Independent Auditors EY S.p.A. and the network to which it belongs, as also reported in the explanatory notes to the Financial Statements to which reference should be made for anything not reported in detail here.

Amounts in euro	Parent Company		Subsidiaries		Total	
Type of services	EY S.p.A.	Network EY	EY S.p.A.	Network EY	EY S.p.A.	Network EY
Audit services	346,422	–	180,420	490,842	526,842	490,842
Certification services	223,135	–	2,000	–	225,135	-
Other services	60,000	72,500	–	–	60,000	72,500
Total	**629,557**	**72,500**	**182,420**	**490,842**	**811,977**	**563,342**

Attestation services are additional activities with respect to the statutory audit entrusted to the auditor either by law or by an authority; these include activities that represent an extension of the statutory audit (which also include the limited audit of the Consolidated Non-Financial Statement, the attestation in relation to the deposit and sub-deposit of clients' and intermediaries' assets, attestation pursuant to Article 7(1)(e) of the MEF Decree of 3 August 2016 (GACS Derecognition), and the compliance endorsement of tax returns).

With reference to the activities and related payments regarding the items listed above as «other services» requested from EY SpA and the companies of the EY network, we certify that, where necessary, they have been pre-authorized by the Board pursuant to art. 4 and 5 of the EU Regulation No. 537/2014.

The Independent Auditors have confirmed to us that they did not issue any opinions pursuant to the law during the year, given that the conditions that would have required them did not arise.

The Board of Statutory Auditors obtained the report on the independence of the Independent Auditors EY S.p.A. on 5 April 2023 and confirms that there are no critical aspects regarding independence or causes of incompatibility pursuant to articles 10, 10-bis and 17 of Legislative Decree No. 39/2010 and articles 4 and 5 of Regulation (EU) 537/2014.

As provided for in art. 150 of the TUF, the Board has had continuous exchange of information during the periodic meetings organised with the Independent Auditors.

The Board of Statutory Auditors in turn provided the Independent Auditors with information on its supervisory activities and, to the best of its knowledge, on the most significant events concerning the Bank.

The Board confirms that no matters have emerged that are deemed censurable and/or that require mention pursuant to art. 155(2) of the TU.

Other information required by law and by CONSOB Communication 1025564 of 6 April 2001 and subsequent updates

In the course of 2022, the Board of Statutory Auditors received a complaint pursuant to Article 2408 of the Italian Civil Code concerning the alleged failure/incomplete response to certain pre-meeting questions formulated by a shareholder. The Board carried out the investigative activities, conducted the appropriate evaluations and discussions, and concluded that there were no initiatives to be implemented.

It is also hereby informed that during 2022 the Board did not receive any complaints by customers of the Bank worthy of reporting.

Consolidated Non-financial Statement

The Board of Statutory Auditors, with reference to the Consolidated Non-Financial Statement (CNFS) and to the extent of its competence, observes that the same provides a description of (i) the business management and organisation model adopted, (ii) the policies implemented by the Bank, of the results achieved and of the key performance indicators, (iii) the main risks generated or suffered.

The Board of Statutory Auditors, in the performance of its duties, became aware, also by participating in the meetings of the Control and Risk Committee, of the compliance with the provisions contained in Legislative Decree 30 December 2016, No. 254, and of the CONSOB Regulation implementing the Decree adopted with resolution No. 20267 of 18 January 2018 with reference to the drafting process and contents of the Bank's Consolidated non-financial statement. The Statement was approved by the Board of Directors on 17 March 2023 as a separate document from the Report on Operations to the Consolidated Financial Statements at 31 December 2022.

The Independent Auditors appointed to carry out the limited audit of the CNFS pursuant to art. 3, paragraph 10, of Legislative Decree 254/2016, in the report issued on 5 April 2023 highlights that no evidence has come to its attention that the CNFS of the Banking Group relating to the year ended 31 December 2022 has not been prepared, in all significant aspects, in accordance with the requirements of articles 3 and 4 of Legislative Decree 254/2016 and the «Global Reporting Initiative Sustainability Reporting Standards».

The Board was not aware of any violations of the rules governing the CNFS.

Financial Statements and Report on Operations

The financial statements of the Bank and of the Banking Group headed by Banca Popolare di Sondrio for the year ended 31 December 2022 were approved by the Board of Directors on 17 March 2023 and were sent to the Board of Statutory Auditors, together with the Report on Operations and the other documents required by law.

As far as it is responsible, the Board examined the financial statements for the year ended 31 December 2022, accompanied by the Directors' Report on Operations and the explanatory notes, submitted for your examination and approval, as well as the Consolidated Non-Financial Statement.

It is recalled that the financial statements are audited by EY S.p.A., appointed as independent auditors of the separate and consolidated financial statements.

The Board also certifies that, on 5 April 2023, the Independent Auditors issued their Auditors' Report pursuant to art. 14 of Legislative Decree 39/2010 and art. 10 of Regulation (EU) 537/2014, the content of which respects, in terms of its form, certifications and information provided, the requirements of Legislative Decree No. 135/2016.

The auditors' reports on the separate and consolidated financial statements do not contain any qualifications or emphases of matter. In addition, in accordance with regulatory requirements, the auditing standards applied and the key aspects of the audit are reported.

On 5 April 2023, the Independent Auditors submitted to the Board of Statutory Auditors the Additional Report required by article 1 of Regulation (EU) No. 537/2010. This Report confirms that following the checks carried out pursuant to article 14(1)(b) of Legislative Decree No. 39 of 27 January 2010, on the regular keeping of the accounts and the correct recording of management facts in the accounting records, no significant aspects emerged that required reporting to the Governance and Control Bodies. This Report also certifies that during the audit activity no cases of non-compliance were found, it does not highlight any critical issues regarding the appropriateness of the accounting standards adopted by the Bank and the Group and gives an account of the audit differences brought to the attention of the Directors.

Finally, as regards the Report on Operations to the financial statements approved by the Board of Directors, we hereby certify that it is drafted in compliance with art. 81-ter of CONSOB Resolution No. 11971 of 14 May 1999 (»Issuers' Regulation»).

The financial statements are also accompanied by the attestation referred to in para.5 of art. 154-bis of Legislative Decree No. 58/1998, duly prepared and signed by the Managing Director and the Financial Reporting Manager.

Although the Independent Auditors is responsible for performing the accounting checks, the Board of Statutory Auditors still has a duty to monitor the preparation of the financial statements in both formal and substantive terms.

We have therefore checked that the directors complied with the Italian Civil Code and the instructions issued by the Supervisory Authorities on the preparation of the financial statements regarding, in particular, the adoption of generally-accepted accounting standards, agreement between the contents of the financial statements and the results of operations during the year, and the completeness of the directors' report on operations.

In this regard, we can confirm that:

– the financial statements for 2022 have been prepared in accordance with the IAS/IFRS endorsed by the European Community and applied in the manner described in the explanatory notes;
– the Report on operations is both complete and consistent with the data and other information provided in the financial statements; this report describes the operations and events arising during the year, both with regard to the related economic and financial information, and with reference to the «other information», such as management of the risks relating to the activities of the Bank, human resources, promotional and cultural activities;
– the Report on operations also describes the significant events and transactions that have taken place subsequent to the end of 2022.

Consolidated Financial Statements

With regard to the consolidated financial statements for the year ended 31 December 2022, which report a profit of 251.321 million euro compared with 268.634 million euro in 2021, we observed that they were correctly prepared in accordance with the relevant accounting standards, in terms of the definition of the scope of consolidation and with regard to compliance with the relevant regulations. The consolidated financial statements are also accompanied by the attestation referred to in para. 5 of art. 154-bis of Legislative Decree No. 58/1998, duly prepared and signed by the Managing Director and the Manager responsible for preparing the company's accounting documents.

Closing remarks

Shareholders,

Following the supervisory activity performed by the Board of Statutory Auditors no reprehensible facts, omissions, or irregularities arose that require disclosure in this Report. During the meetings of the Board of Directors, during which the most important economic, financial and asset operations of the Bank and its subsidiaries were examined, the Board received the information referred to in art. 150, paragraph 1, of Legislative Decree 58/1998 (Consolidated Finance Act). Based on the information acquired through its supervisory activities, the Board of Statutory Auditors is not aware of any transactions carried out during the financial year covered by this Report that were not in line with the principles of proper administration, that were not decided and implemented in compliance with the law and the bylaws, that were not in the Bank's interest, that were in contrast with the resolutions passed by the Shareholders' Meeting, that were clearly imprudent or risky, that lacked the necessary information in case of Directors' interests or that were such as to compromise the integrity of the company's assets.

For all the foregoing, having also taken note of the reports of the company EY S.p.A. and the certifications issued by the Chief Executive Officer and the Financial Reporting Manager, to the extent of our competence, we certify that nothing prevents the approval of the resolution proposals formulated to the Shareholders' Meeting by the Board of Directors, including those pertaining to the allocation of the profit for the year, taking into account the continued compliance with prudential capital requirements.

Sondrio, 5 April 2023

THE BOARD OF STATUTORY AUDITORS
Serenella Rossano, Chair
Laura Vitali, Standing Auditor
Massimo De Buglio, Standing Auditor

equity investments

international service

our digital bank

the bank and young people

multiplus account

card +ma

personal loans collateralized by the assignment of up to one-fifth of salary or pension severance pay advance (tfs)

asset management

bancassurance and pensions

publishing activities

“next step” 2022-2025 business plan

conference on "banking development and system"

cultural activities

ukraine emergency

POPSO COVERED BOND

BNT BANCA
Banca della Nuova Terra

Factorit

SINERGIA SECONDA

PrestiNuova

EQUITY INVESTMENTS

The portfolio of equity investments maintained during the year in review the established configuration.
In addition to the other components of the banking Group, the holdings relate mainly to companies supplying products and providing services that functionally complement the typical commercial offer.

MAIN AFFILIATES

Unione Fiduciaria SPA

Alba Leasing SPA

Arca Holding SPA

Polis Fondi SGR PA

Arca Vita SPA

Sofipo SA

SUBSIDIARIES

Banca Popolare di Sondrio (SUISSE) SA

Factorit SPA

Banca della Nuova Terra SPA

PrestiNuova SRL

Rent2Go SRL

Pirovano Stelvio SPA

Sinergia Seconda SRL

Popso Covered Bond SRL

Rajna Immobiliare SRL

Servizi Internazionali e Strutture Integrate 2000 SRL

INTERNATIONAL SERVICE

The global service offer for internationalisation constitutes a real "One-stop shop" to which companies can turn for all their needs: from the first phase of approaching foreign markets to financial support for business across borders.

ONE-STOP SHOP FOR INTERNATIONALISATION

BANKING AND FINANCIAL PRODUCTS

TRAINING, EVENTS AND SERVICES

EUROPEAN DESK

COLLABORATIONS

www.popso.it/estero

https://businessschool.popso.it/

SCRIGNO bps

INTUITIVE | FAST | COMPLETE | PAPERLESS

OUR DIGITAL BANK

SCRIGNO app

The mobile banking service that allows to view transactions related to SCRIGNO users and to carry out the main mobile operations.

A number of features are present that facilitate the use of the app:

- **biometric recognition at access** (fingerprint or face recognition)
- **quick operations**
- **contacts**
- **informative push notifications**
- **hide data Home page**
- **English language version**

SCRIGNO IdentiTel

The app that allows to operate online with maximum ease and security thanks to **"advanced modes of authentication"**, **Push IdentiTel** and **QR IdentiTel**.

The generated OTP code, to authorise operations, switched to SCRIGNO automatically.

www.popso.it/app

www.popso.it/scrigno

SCRIGNO *azienda*

The digital banking service
with dedicated business operations.

ALL THE ADVANTAGES OF OPERATING REMOTELY, SECURELY AND QUICKLY

SCRIGNO *Internet Banking*

DIGITAL BANKING is more and more:

- **COMPLETE**, thanks to multiple opewrations available;
- **SECURE**, thanks to notifications Push IdentiTel and QR IdentiTel;
- **CONVENIENT**, even for booking an appointment at the branch.

SCRIGNO *budget*

The service designed to keep
the family budget under control,
classifying transactions with the categories
of typical household expenditure.

To this end, it allows to connect
current accounts and cards with IBAN
held at third-party banks.

THE BANK AND YOUNG PEOPLE

Banca Popolare di Sondrio
offers a complete range of products dedicated to young people.

MULTIplus minors
is the current account designed for the daily needs of children and for parents who wish to empower their children, aged between 10 and 17, in managing their first savings.

44 Gatti account
is the savings book reserved for children aged between 0 and 12 (not yet celebrated).

ateneo+
the university badge is also prepaid contactless card with IBAN.
www.ateneopiu.it

SoPOP
is the online current account dedicated to university students.
www.sopop.it

MULTIplus

The current account the way you want it!

MULTIPLUS ACCOUNT

Dedicated current account for individuals and families offering a varied combination of services.

You compose it... according to your needs!

Complete and flexible!

BONUS under 27

Are you less than 27 years old?

MULTIplus recognises to you a **special discount** on the monthly fee

BONUS credit salary or pension

Do you credit to your current account your salary or pension?

With **MULTI**plus you get a **reduction** of the monthly fee

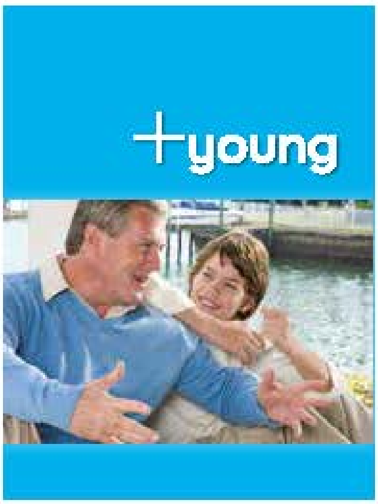
BONUS BPS SHAREHOLDER

Are you a Shareholder with at least 100 shares of Banca Popolare di Sondrio?

MULTIplus reserves for you an **exclusive advantage** on the monthly fee

CARD +MA

The reloadable prepaid card with IBAN that,
in a single payment instrument,
has multiple functionalities, from 14 years of age.



SEVERANCE PAY ADVANCE (TFS)

Reserved exclusively for retired civil servants,
allows pensioners to obtain an advance on their accrued TFS.

For retired civil servants

Advance
Severance pay

tfs

Termination indemnities

Obtaining **TFS in advance:**
today it is possible!

ASSET MANAGEMENT

Many years of experience and professionalism to best satisfy the most diverse investment objectives of savers.

Popso (SUISSE) Investment Fund SICAV

ARCA SGR Mutual Funds

Insurance solutions

Etica SGR Mutual Funds

Securities and Fund Management

Sidera Funds SICAV

BANCASSURANCE AND PENSIONS

In collaboration with historical partners Arca Vita, Arca Assicurazioni and Arca Fondi SGR, the Bank offers comprehensive and innovative solutions in insurance and social security.

BANCASSICURAZIONE
Together because your world is unique

ARCA VITA

ARCA ASSICURAZIONI

ARCA SGR

Arca Previdenza
FONDO PENSIONE APERTO

PUBLISHING ACTIVITIES

The cultural promotion activities of Banca Popolare di Sondrio are also evidenced by valuable publishing initiatives including the four-monthly *Notiziario (Newsletter)*, which in 2023 marks the 50th anniversary of its foundation. The collaboration of the most prestigious leaders of Italian journalism and advertising makes it a quality magazine, which also mirrors the national and local socio-economic reality. In calendars, wall and table, always appreciated by the public, the passage of months is punctuated by bright photographs that capture the natural and scenic beauty of the province of Sondrio.

NEWSLETTER of BANCA POPOLARE DI SONDRIO

On the site **nonsolobanca.popso.it** all issues can be viewed published since April 1999

"NEXT STEP" 2022-2025 BUSINESS PLAN

On Wednesday 29 June 2022, at the Palazzo Mezzanotte in Milan, was the presentation to the market and the financial community "Next Step", the 2022-2025 Business Plan. The event was well received by shareholders, analysts, and the press. On said occasion, the "next steps" were outlined, with a view to the commitment to do and do well, grow and grow well, to always live up to what is demanded by the market and to meet the expectations of all stakeholders, with whom we have made a public pact. We are a bank without adjectives: a bank that does banking.


150 anni di crescita, affidabilità, trasparenza
NEXT STEP
PIANO INDUSTRIALE
2022 - 2025


Milano, 29 giugno 2022
Palazzo Mezzanotte


STEP

CONFERENCE ON "BANKING DEVELOPMENT AND SYSTEM"

2 December 2022 - "Fabio Besta" Hall

As part of Banca Popolare di Sondrio's tradition of organising high-profile cultural study days on topics of national importance, the Conference "Banking Development and System" - realised in cooperation with the business consulting firm Vitale Zane & Co. - intended to focus on the state of the art of the Italian banking system, also in the European context, and its adequacy to support the development issues of the production system, in the new national and international economic scenario.

After the institutional greetings of President Francesco Venosta, speakers included university professors of Economics of Financial Intermediaries Andrea Calamanti and Rosa Cocozza, economist and university lecturer Marco Onado, CEO of the agri-food company "Kometa 99" Giacomo Pedranzini, engineer and financial analyst Alfonso Scarano and Stefano Zamagni, professor of Political Economy. The meeting was moderated by journalist Gianfranco Fabi.
The concluding remarks were entrusted to the CEO and General Manager of the bank Mario Alberto Pedranzini.

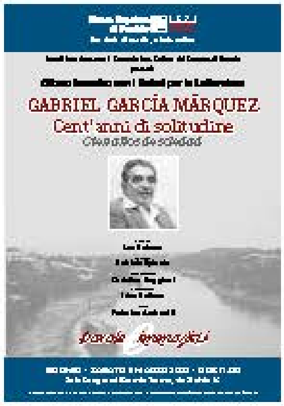
CULTURAL ACTIVITIES

A bank that pursues, as is its tradition, a commitment to culture, with numerous initiatives aimed at the community: conferences, conventions, exhibitions, participation in and support for cultural events in the area.

28 February 2022

MEETING WITH **PROFESSOR CARLO COTTARELLI**

At the “Fabio Besta” Hall, Carlo Cottarelli, one of the most authoritative economists and a well-known face to the general public, presented his latest book *All’Inferno e ritorno (To Hell and Back)* - an indispensable guide to understand the future of Italy in the post-Covid economic reconstruction - in an in-person meeting on the topic “For our social and economic renaissance”, organised by the Territorial School Office of Sondrio in collaboration with Arca Fondi Sgr and Banca Popolare di Sondrio.



5 March 2022

EIGHTH MEETING WITH **NOBEL PRIZE WINNERS FOR LITERATURE**

In collaboration with the Cultural Department of the Municipality of Bormio, at the Bormio Terme Congress Hall in Bormio, the eighth meeting of the "Nobel Prize in Literature" series was held. The event, coordinated by Professor Leo Schena and dedicated to the great Colombian writer Gabriel García Márquez and his masterpiece *One Hundred Years of Solitude*, drew a large audience to the Magnifica Terra. Patrizia Spinato, noted Hispanist and head at Università Statale di Milano of the Milan branch of the Institute of Mediterranean European History of the CNR, led the interesting lecture-show.

2 April - 8 May 2022

PAOLO PUNZO. MOUNTAINS OF LOMBARDY

Our bank was the main partner of the exhibition *Paolo Punzo. Mountains of Lombardy*, held from 2 April to 8 May at the Torre Viscontea in Lecco. In July, on the occasion of the "Regional Day for the Mountains", the exhibition made a stop at the Lombardy Region and in October at Lariofiere. The exhibition featured over seventy paintings of the Bergamo painter Paolo Punzo, some of which from our art collection and can be viewed at **www.popsoarte.it**.

21 July 2022

LA MILANESIANA

At agency no. 1 in Bormio the inauguration took place of the exhibition *Doppio Tricarico*, an event included in the well-known cultural event *La Milanesiana 2022*, conceived and directed by Elisabetta Sgarbi and which saw the participation of renowned art critic Vittorio Sgarbi. The public present was able to admire, within our historical dependency, some 20 paintings by Francesco Tricarico, singer-songwriter and painter. BPS has been included for some years in the category of the sponsors collaborating on the Bormina "stage" of the event.

2 August 2022

PRESENTATION OF THE VOLUME **“NELLE SCIE DEL SACRO MACELLO” (IN THE WAKE OF THE SACRED SLAUGHTER)**

At the Bormio Branch Conference Room was the presentation of the collection of essays *Nelle scie del Sacro Macello*, a publication realised with the support of the bank and edited by Professors Livio Dei Cas and Leo Schena. The volume was published in 2020 for the 400th anniversary of the well-known historical event, which had an immediate European resonance especially in northern European countries. The meeting was organised in collaboration with the Cultural Department of the Municipality of Bormio.

23 September 2022

MEETING WITH **CARDINAL TARCISIO BERTONE**

At the "Fabio Besta" Hall, His Eminence Most Reverend Cardinal Tarcisio Bertone, former Secretary of State of the Holy See and Archbishop of Genoa, presented to the public his book *Credere nello sport (Believing in Sport)*, at the meeting sponsored by the Sondrio Territorial School Office in cooperation with the bank.

1 October 2022

INVITATION TO THE PALACE

Banca Popolare di Sondrio participated in the 21st edition of the "Invitation to the Palace" cultural initiative promoted by ABI, opening the doors of the Headquarters and Head Office and those of the "Luigi Credaro" Library in the capital of Valtellina.
The objective of this important event is to give the community the opportunity to visit the "treasures" - through guided tours - of the "palaces" that are generally closed to the public, as they are used as workplaces.

29 October - 6 November 2022

36th EDITION **SONDRIO FESTIVAL**

An absolute triumph for the 36th edition of the Sondrio Festival, an important event that Banca Popolare di Sondrio supported with conviction and enthusiasm as an expression of the values it expresses on a daily basis: the protection of the environment and the territory, through cultural activities and actions oriented to environmental and social sustainability. Very good directors, from all over the world, entertained the numerous guests with breathtaking documentary films.
For the occasion, the bank prepared a limited edition volume for guests and spectators of the event: *Habitat, una Terra per l'uomo (Habitat, an Earth for Man)*, entirely dedicated to the changing planet and created by Italy's most authoritative environmental science specialists.

19 November 2022

THEATRICAL PERFORMANCE
FORTE COME LA MORTE È L'AMORE (STRONG AS DEATH IS LOVE)

At the Teatro Sociale di Sondrio, in collaboration with the Carabinieri Provincial Command of Sondrio, was the show "Strong as Death is Love", in memory of General Carlo Alberto Dalla Chiesa and his wife Emanuela Setti Carraro, killed in a cowardly Mafia attack in Palermo on 3 September 1982. To pass on to new generations and beyond, the memory of a tragedy of our Republic, and a manifesto to legality and civil responsibility.

UKRAINE EMERGENCY

INITIATIVE **"LET'S SUPPORT TOGETHER UKRAINIAN REFUGEE WELCOME PROJECTS"**

Banca Popolare di Sondrio implemented a joint initiative with the "Fondazione Pro Valtellina Onlus", local branch of the Cariplo Foundation, aimed at supporting welcome projects in the province of Sondrio for the benefit of Ukrainian refugees, women and children in particular, forced to leave their homeland and their loved ones to protect themselves from the events of the war.

It started with a significant donation: 50,000 euro was made available by the Pro Valtellina Foundation; 75,000 euro by our bank.

The Cariplo Foundation, in turn, against these sums contributed 125,000 euro.

FINANCIAL STATEMENTS
AT 31 DECEMBER 2022

BALANCE SHEET
(in euro)

ASSETS		31/12/2022	31/12/2021
10.	**Cash and cash equivalents**	**5,988,587,809**	**4,703,889,378**
20.	**Financial assets measured at fair value through profit or loss**	**1,265,271,071**	**1,458,703,687**
	a) financial assets held for trading	167,091,231	202,413,061
	c) other financial assets mandatorily measured at fair value	1,098,179,840	1,256,290,626
30.	**Financial assets measured at fair value through other comprehensive income**	**2,552,450,859**	**3,098,860,630**
40.	**Financial assets measured at amortised cost**	**39,519,378,873**	**38,247,794,841**
	a) loans and receivables with banks	3,842,174,996	4,846,046,900
	b) loans and receivables with customers	35,677,203,877	33,401,747,941
50.	**Hedging derivatives**	**247,973**	**–**
60.	**Change in value of macro-hedged financial assets (+/-)**	**(197,821)**	**–**
70.	**Equity investments**	**695,768,070**	**612,881,184**
80.	**Property, equipment and investment property**	**387,794,652**	**397,699,575**
90.	**Intangible assets**	**15,241,789**	**15,705,531**
100.	**Tax assets**	**307,977,292**	**289,532,693**
	a) current	15,588,448	7,046,019
	b) deferred	292,388,844	282,486,674
120.	**Other assets**	**1,786,775,650**	**810,729,046**
	TOTAL ASSETS	**52,519,296,217**	**49,635,796,565**

	LIABILITIES AND EQUITY	31/12/2022	31/12/2021
10.	**Financial liabilities measured at amortised cost**	**48,509,904,000**	**45,539,331,233**
	a) due to banks	10,350,930,945	9,689,126,033
	b) customer deposits	34,541,008,874	32,176,500,378
	c) securities issued	3,617,964,181	3,673,704,822
20.	**Financial liabilities held for trading**	**47,579,043**	**22,795,622**
40.	**Hedging derivatives**	**115,899**	**-**
60.	**Tax liabilities**	**19,948,705**	**28,200,195**
	a) current	-	-
	b) deferred	19,948,705	28,200,195
80.	**Other liabilities**	**755,194,523**	**916,805,041**
90.	**Provision for employee severance pay**	**33,238,555**	**37,821,567**
100.	**Provisions for risks and charges**	**280,458,030**	**258,856,209**
	a) commitments and guarantees given	62,771,976	42,904,110
	b) pension and similar obligations	158,507,633	164,886,732
	c) other provisions for risks and charges	59,178,421	51,065,367
110.	**Valuation reserves**	**(30,086,242)**	**52,087,552**
140.	**Reserves**	**1,276,171,128**	**1,153,959,091**
150.	**Share premium accounts**	**78,977,670**	**79,005,128**
160.	**Share capital**	**1,360,157,331**	**1,360,157,331**
170.	**Treasury shares (-)**	**(25,264,093)**	**(25,321,549)**
180.	**Profit (loss) for the year (+/-)**	**212,901,668**	**212,099,145**
	TOTAL LIABILITIES AND EQUITY	**52,519,296,217**	**49,635,796,565**

INCOME STATEMENT
(in euro)

VOCI		31/12/2022	31/12/2021
10.	INTEREST AND SIMILAR INCOME	726,504,232	554,081,281
	of which: interest income calculated using the effective interest method	*716,850,823*	*545,930,738*
20.	INTEREST AND SIMILAR EXPENSES	(144,295,504)	(107,238,358)
30.	**NET INTEREST INCOME**	**582,208,728**	**446,842,923**
40.	FEE AND COMMISSION INCOME	346,786,890	322,497,371
50.	FEE AND COMMISSION EXPENSE	(15,596,310)	(12,669,722)
60.	**NET FEE AND COMMISSION INCOME**	**331,190,580**	**309,827,649**
70.	DIVIDENDS AND SIMILAR INCOME	35,542,567	22,262,886
80.	NET TRADING INCOME	18,514,076	50,590,460
90.	NET HEDGING GAIN (LOSS)	(32,261)	-
100.	GAINS (LOSSES) FROM SALES OR REPURCHASES OF:	40,823,903	46,616,556
	a) financial assets measured at amortised cost	*28,971,501*	*32,878,373*
	b) financial assets measured at fair value through other comprehensive income	*11,847,612*	*13,756,106*
	c) financial liabilities	*4,790*	*(17,923)*
110.	NET GAINS/LOSSES ON OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	(66,299,580)	23,752,704
	b) other financial assets mandatorily measured at fair value	(66,299,580)	23,752,704
120.	**TOTAL INCOME**	**941,948,013**	**899,893,178**
130.	NET ADJUSTMENTS/WRITE-BACKS FOR CREDIT RISK RELATED TO:	(158,407,824)	(140,242,538)
	a) financial assets measured at amortised cost	*(158,047,658)*	*(141,251,457)*
	b) financial assets measured at fair value through other comprehensive income	*(360,166)*	*1,008,919*
140.	GAINS/LOSSES FROM CONTRACTUAL AMENDMENTS NOT RESULTING IN DERECOGNITION	3,565,479	(6,098,547)
150.	**NET FINANCIAL INCOME**	**787,105,668**	**753,552,093**
160.	ADMINISTRATIVE EXPENSES:	(474,297,535)	(471,609,050)
	a) personnel expenses	*(205,543,369)*	*(208,575,438)*
	b) other administrative expenses	*(268,754,166)*	*(263,033,612)*
170.	NET ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES	(30,527,436)	(460,303)
	a) commitments for guarantees given	*(19,867,865)*	*15,396,891*
	b) other net provisions	*(10,659,571)*	*(15,857,194)*
180.	DEPRECIATION AND NET IMPAIRMENT LOSSES ON PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY	(32,390,758)	(32,145,524)
190.	AMORTISATION AND NET IMPAIRMENT LOSSES ON INTANGIBLE ASSETS	(14,655,422)	(14,502,720)
200.	OTHER OPERATING INCOME/EXPENSE	62,636,314	67,599,038
210.	**OPERATING COSTS**	**(489,234,837)**	**(451,118,559)**
220.	GAINS (LOSSES) ON EQUITY INVESTMENTS	1,018,573	(894,887)
230.	NET RESULT OF FAIR VALUE MEASUREMENT OF PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY AND INTANGIBLE ASSETS	118,000	(271,952)
250.	GAINS (LOSSES) ON SALES OF INVESTMENTS	12,328	113,326
260.	**PRE-TAX PROFIT (LOSS) FROM CONTINUING OPERATIONS**	**299,019,732**	**301,380,021**
270.	INCOME TAXES FOR THE YEAR FROM CURRENT OPERATIONS	(86,118,064)	(89,280,876)
280.	**POST-TAX PROFIT (LOSS) FROM CONTINUING OPERATIONS**	**212,901,668**	**212,099,145**
300.	**PROFIT (LOSS) FOR THE YEAR**	**212,901,668**	**212,099,145**

STATEMENT OF OTHER COMPREHENSIVE INCOME

(in euro)

VOCI		2022	2021
10.	**Profit (loss) for the year**	**212,901,668**	**212,099,145**
	Other income items net of income taxes that will not be reclassified to profit or loss		
20.	Equity securities measured at fair value through other comprehensive income	(5,550,430)	266,021
50.	Property, equipment and investment property	630,732	9,817,730
70.	Defined-benefit plans	7,237,188	4,329,891
	Other income items net of income taxes that may be reclassified subsequently to profit or loss		
140.	Financial assets (other than equity securities) measured at fair value through other comprehensive income	(84,491,284)	(12,232,157)
170.	**Total other income items net of income taxes**	**(82,173,794)**	**2,181,485**
180.	**Other comprehensive income (Item 10+170)**	**130,727,874**	**214,280,630**

STATEMENT OF OTHER COMPREHENSIVE INCOME

(in euro)

	Balance at 31.12.2021	Changes in opening balances	Balance at 1.1.2022	Allocation of prior year result: Reserves	Allocation of prior year result: Dividends and other allocations	Changes during the year: Changes in reserves	Changes during the year – Equity transactions: Issue of new shares	Changes during the year – Equity transactions: Purchase of treasury shares	Changes during the year – Equity transactions: Extraordinary distribution of dividends	Changes during the year – Equity transactions: Changes in equity instruments	Changes during the year – Equity transactions: Derivatives on treasury shares	Changes during the year – Equity transactions: Stock options	Changes during the year: Other comprehensive income at 31.12.2022	**Equity at 31.12.2022**
Share capital														
a) ordinary shares	1,360,157,331	–	1,360,157,331	–	–	–	–	–	–	–	–	–	–	1,360,157,331
b) other shares	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Share premium accounts	**79,005,128**	**–**	**79,005,128**	**–**	**–**	**–**	**(27,458)**	**–**	**–**	**–**	**–**	**–**	**–**	**78,977,670**
Reserves														
a) from earnings	1,153,959,091	–	1,153,959,091	121,851,990	–	360,047	–	–	–	–	–	–	–	1,276,171,128
b) other	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Valuation reserves	**52,087,552**	**–**	**52,087,552**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(82,173,794)**	**(30,086,242)**
Equity instruments	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Treasury shares	**(25,321,549)**	**–**	**(25,321,549)**	**–**	**–**	**–**	**57,456**	**–**	**–**	**–**	**–**	**–**	**–**	**(25,264,093)**
Profit for the year	**212,099,145**	**–**	**212,099,145**	**(121,851,990)**	**(90,247,155)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**212,901,668**	**212,901,668**
Equity	**2,831,986,698**	**–**	**2,831,986,698**	**–**	**(90,247,155)**	**360,047**	**29,998**	**–**	**–**	**–**	**–**	**–**	**130,727,874**	**2,872,857,462**

On 25 May 2022, a dividend of € 0.20 per share was paid to shareholders for a total of € 90.677 million for 2021. For 2022, the directors have proposed the payment of a dividend of € 0.28. This dividend is subject to shareholder approval and therefore has not been included as a liability in these financial statements. The proposed dividend is payable from 24 May. The pay-out envisaged totals € 126.948 million.

STATEMENT OF CHANGES IN EQUITY
(in euro)

				Allocation of prior year result		Changes during the year								
							Equity transactions							
	Balance at 31.12.2020	Changes in opening balances	Balance at 1.1.2021	Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Other comprehensive income at 31.12.2021	**Equity at 31.12.2021**
Share capital														
a) ordinary shares	1,360,157,331	–	1,360,157,331	–	–	–	–	–	–	–	–	–	–	1,360,157,331
b) other shares	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Share premium accounts	**79,005,128**	**–**	**79,005,128**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**79,005,128**
Reserves														
a) from earnings	1,102,256,637	–	1,102,256,637	47,760,931	–	3,941,523	–	–	–	–	–	–	–	1,153,959,091
b) other	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Valuation reserves	**49,906,067**	**–**	**49,906,067**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2,181,485**	**52,087,552**
Equity instruments	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Treasury shares	**(25,321,549)**	**–**	**(25,321,549)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(25,321,549)**
Profit for the year	**75,045,078**	**–**	**75,045,078**	**(47,760,931)**	**(27,284,147)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**212,099,145**	**212,099,145**
Equity	**2,641,048,692**	**–**	**2,641,048,692**	**–**	**(27,284,147)**	**3,941,523**	**–**	**–**	**–**	**–**	**–**	**–**	**214,280,630**	**2,831,986,698**

CASH FLOW STATEMENT (indirect method)

	31/12/2022	31/12/2021
A. **OPERATING ACTIVITIES**		
1. **Operations**	**706,290,484**	**555,127,963**
- profit for the year (+/-)	212,901,668	212,099,145
- gains/losses on financial assets held for trading and financial assets/liabilities measured at fair value through profit or loss (-/+)	71,046,583	(32,637,347)
- gains (losses) on hedging (-/+)	32,261	–
- net adjustments/write-backs for credit risk (+/-)	171,770,398	151,443,997
- net adjustments/write-backs for property, equipment and investment property and intangible assets (+/-)	46,928,180	46,920,196
- provisions for risks and charges and other costs/revenues (+/-)	57,841,310	25,917,992
- unpaid taxes, duties and tax credits (+)	86,118,064	89,280,876
- net impairment adjustments to disposal groups, net of tax effect (+/-)	–	–
- other adjustments (+/-)	59,652,020	62,103,104
2. **Cash generated/absorbed by financial assets**	**(2,025,355,789)**	**(4,445,033,600)**
- financial assets held for trading	32,138,476	(12,163,868)
- financial assets designated at fair value	–	–
- financial assets mandatorily measured at fair value	103,476,852	(166,072,034)
- financial assets measured at fair value through other comprehensive income	464,444,012	(490,154,785)
- financial assets measured at amortised cost	(1,416,759,876)	(3,282,324,028)
- other assets	(1,208,655,253)	(494,318,885)
3. **Cash generated/absorbed by financial liabilities**	**2,775,024,222**	**4,167,766,944**
- financial liabilities measured at amortised cost	2,952,387,834	4,131,744,596
- financial liabilities held for trading	15,410,121	(17,551,766)
- financial liabilities designated at fair value	–	–
- other liabilities	(192,773,733)	53,574,114
Net cash generated/absorbed by operating activities	**1,455,958,917**	**277,861,307**
B. **INVESTING ACTIVITIES**		
1. **Cash generated by**	**32,197,719**	**17,240,331**
- sales of equity investments	2,500,000	–
- dividends collected from equity investments	29,685,391	17,127,439
- sales of property, equipment and investment property	12,328	112,892
- sales of intangible assets	–	–
- sales of business units	–	–
2. **Cash absorbed by**	**(113,394,798)**	**(41,620,794)**
- purchases of equity investments	(84,568,727)	(288,088)
- purchases of property, equipment and investment property	(14,634,891)	(23,997,012)
- purchases of intangible assets	(14,191,180)	(17,335,694)
- purchases of business units	–	–
Net cash generated/absorbed by investing activities	**(81,197,079)**	**(24,380,463)**
C. **FUNDING ACTIVITIES**		
- issues/purchases of treasury shares	(57,456)	–
- issues/purchases of equity instruments	–	–
- distribution of dividends and other uses	(90,462,683)	(26,352,950)
Net cash generated/absorbed by financing activities	**(90,520,139)**	**(26,352,950)**
NET CASH GENERATED/ABSORBED IN THE YEAR	**1,284,241,699**	**227,127,894**

Key:
(+) generated (–) absorbed

RECONCILIATION

Reconciliation	31/12/2022	31/12/2021
Cash and cash equivalents at beginning of year	4,703,889,378	4,476,284,059
Total net cash generated/absorbed in the year	1,284,241,699	227,127,894
Cash and cash equivalents: effect of exchange rate fluctuations	456,732	477,425
Cash and cash equivalents - closing balance	**5,988,587,809**	**4,703,889,378**

NOTES

PART A *Accounting policies*

A.1 General information

Section 1 Declaration of compliance with international accounting standards

Banca Popolare di Sondrio, a joint-stock company, declares that these financial statements have been prepared in accordance with the International Accounting Standards (IAS/IFRS) adopted by the International Accounting Standards Board (IASB), and the related interpretations of the International Financial Reporting Interpretations Committee, in force at 31 December 2022 and endorsed by the European Commission according to the procedure established by EU Regulation 1606/2002.

The adoption of these international accounting standards has taken advantage of the provisions of art. 4, paragraphs 1 and 2, of Legislative Decree No. 38 dated 28 February 2005 «Making the elections envisaged by art. 5 of the EC Regulation No. 1606/2002 concerning international accounting standards».

The format of the financial statements complies with the Bank of Italy's provision No. 262, dated 22 December 2005, issued within the powers defined by Legislative Decree 38/2005 and subsequent updates and additions.

The financial statements of the Bank at 31 December 2022 were approved by the Board of Directors on 17 March 2023.

Section 2 Basis of preparation

The financial statements have been prepared in accordance with the following general criteria described in IAS 1:

1) Going concern. The financial statements have been prepared on a going concern basis: assets, liabilities and off-balance sheet transactions have therefore been valued according to their operating values. In this regard, it should be noted that the boards of directors and auditors have carefully assessed the prospect of the company's continuation as a going concern and have not detected any symptoms in the balance sheet and financial structure or in the operating performance that could lead to uncertainties on the point of business continuity, even taking into account the difficulties highlighted in the past by the so-called «sovereign debt securities» as well as the macroeconomic context created by the pandemic and the Russian-Ukrainian conflict. In this regard, it is believed that the Bank, despite possible negative repercussions regarding the trend of some types of revenues and the cost of credit, and the presence of the risk and risk elements referred to in the paragraph «Risk management» may continue to operate as an entity in operation in a foreseeable future according to the Business Plan 2022-2025.
2) Accruals basis. Costs and revenues are matched in the accounting periods to which they relate, regardless of when the transactions are settled.
3) Consistency of presentation. Items are presented and classified in the same way from one year to the next, in order to ensure the comparability of information, unless changes are required by an international accounting standard or related interpretation, or a different presentation or classification would be more appropriate for the meaningful and reliable disclosure of information.

   If the presentation or classification of items is changed, the comparative amounts are also reclassified, if feasible, and the nature of the reclassification is explained together with the reasons for it.
4) Significance and grouping. Each significant group of similar items is shown separately in

the financial statements. Items with a dissimilar nature or use are reported separately, unless they are insignificant.

5) No offsetting of balances. Assets, liabilities, costs and revenues are not offset against each other unless required or allowed by an international accounting standard or related interpretation, or unless this is specifically envisaged in the reporting formats established for banks.

6) Comparative information. Prior period comparative information is provided for all the data reported in the financial statements, except if a different approach is allowed by an international accounting standard or its interpretation. Explanatory and descriptive information is included when this helps to provide a better understanding of the financial statements.

The financial statements are prepared in accordance with Italian regulations to the extent that they are compatible with IAS. Accordingly, the financial statements incorporate the requirements of Legislative Decree 136/2015, the articles of the Italian Civil Code and the corresponding provisions of the Consolidated Finance Act («TUF»). All figures reported in the notes are stated in thousands of euro.

Section 3 *Subsequent events*

No events have taken place between the reference date for these financial statements and the date of their approval by the Board of Directors on 17 March 2023 that would require the adjustment of such approved information, and nothing of significance has occurred that would require changes in the figures of the financial statements.

Section 4 *Other aspects*

1. New international accounting standards endorsed and applied in the preparation of the financial statements at 31 December 2022

Below is an illustration of the new accounting standards or amendments to existing standards approved by the IASB, as well as the new interpretations or amendments to existing ones published by the IFRIC, with separate indication of those applicable in the financial year 2022 and those applicable in subsequent financial years.

New documents issued by the IASB and endorsed by the EU to be mandatori-ly adopted for the preparation of the 2022 financial statements

– *Regulation (EU) 2021/1080 of 28 June 2021* amending Regulation 1126/2008. This regulation introduces a number of formal amendments to International Accounting Standards (IAS) 16, 37 and 41 and International Financial Reporting Standards (IFRS) 1, 3 and 9.

  In detail, the IASB published the following amendments to the IFRS:

  • amendments to IFRS 3 Business Combinations: they update the reference in IFRS 3 to the Conceptual Framework in the revised version, without this involving any changes to the standard;
  • amendments to IAS 16 Property, Plant and Equipment: they do not allow the amount received from the sale of goods produced before the asset is ready for use to be deducted from the cost of the fixed asset. Such sales revenues and costs will be recognised in the income statement;
  • amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets: they clarify which cost items have to be considered to assess whether a contract will make a loss;
  • Annual Improvements 2018-2020: amendments made to IFRS 1 First-time Adoption of International Financial Reporting Standards, to IFRS 9 Financial Instruments, to IAS 41 Agriculture and to the Illustrative Examples accompanying IFRS 16 Leases.

Taking into account the extent of the amendments in question, the application of the amendments in question did not have any impact on the Bank.

New accounting standards, amendments and interpretations, whose application will become mandatory after 31 December 2022.

- *Regulation (EU) No. 2021/2036 of 19 November 2021*, amending Regulation (EC) No. 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council with regard to International Financial Reporting Standard 17. IFRS 17 – Insurance contracts published on 18 May 2017 and the amendments to IFRS 17 published on 25 June 2020. This applies from 1 January 2023.
- *Regulation (EU) No. 357 of 2 March 2022*, amending Regulation (EC) No. 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council, with regard to the international accounting standards IAS 1 (Presentation of financial statements) and IAS 8 (Accounting standards, changes in accounting estimates and errors).
  These amendments clarify the differences between accounting principles and accounting estimates in order to ensure the consistent application of accounting principles and the comparability of financial statements. With reference to IAS 1, the IASB introduced amendments with the aim of developing guidelines and examples in the application of materiality and relevance judgments to accounting policy disclosures. In particular, information about accounting policies is material if, taken together with other information included in the entity's financial statements, it is reasonable to expect that it will influence the decisions of users of the financial statements. With regard to the amendments to IAS 8, the IASB introduced the definition of an accounting estimate. Accounting estimates are to be understood as the «monetary amounts in the financial statements subject to valuation uncertainty».
  The amendments are applicable from 1 January 2023, with the possibility of earlier application.
- *Regulation (EU) 2022/1392 of 11 August 2022* amending Regulation (EC) No. 1126/2008 as regards International Accounting Standard IAS 12. These amendments clarify how companies should account for deferred taxes on transactions such as leases and decommissioning obligations and aim to reduce diversity in the recognition of deferred tax assets and liabilities on leases and decommissioning obligations. The amendments are applicable on or after 1 January 2023.
- *Regulation (EU) 2022/1491 of 8 September 2022* amending Regulation (EC) No. 1126/2008 as regards International Financial Reporting Standard 17. This amendment relates to financial assets for which comparative information is required to be disclosed at the date of transition of IFRS 17 and IFRS 9, which, however, is not restated under IFRS 9, with the aim of avoiding temporary accounting mismatches between the valuation of financial assets and those of insurance contracts, thereby contributing to improving the relevance of comparative information for users of financial statements.

  The amendments are applicable from 1 January 2023.

  IAS/IFRS and SIC/IFRIC interpretations issued by the IASB/IFRIC, pending en-dorsement
- Amendments to IAS 1 – Presentation of Financial Statements: classification of liabilities as current or non-current. On 23 January 2020, the IASB published an amendment to IAS 1, which seeks to clarify one of the IAS 1 criteria for the classification of a liability as non-current, namely the requirement that the entity must have the right to defer settlement of the liability for at least 12 months after the end of the reporting period.

  The amendment includes:
  - clarification that the right to defer settlement must exist at the end of the reporting period;
  - clarification that classification is unaffected by management intentions or expectations about possible exercise of the deferral right;

- clarification about how loan conditions influence classification;
- clarification of the requirements for classifying a liability that the entity intends to settle or might settle by the transfer of its own equity instruments.

2. Interest Rate Benchmark Reform

The so-called «IBOR reform» follows the recommendations of the Financial Stability Board (FSB) following the G20 request for a radical revision of the main benchmark interest rates. The request is a direct consequence of the loss of reliability of certain benchmark rates following their alleged manipulation, corroborated by the scarcity of liquidity in interbank markets in the period after the economic crisis.

At the European level, this reform was translated into the European Union Regulation 2016/1011 of 8 June 2016 (the so-called Benchmarks Regulation, BMR) in force since January 2018, implemented in Italy by Legislative Decree No. 19 of 13 February 2019. The regulation defined the new regulatory framework on reference rates, EURIBOR, LIBOR and EONIA, creating uncertainty about the long-term availability of some Benchmarks. In this context, Banca Popolare di Sondrio has launched an assessment project from which it emerged that the impact of the reform is of low significance with regard to the following areas of investigation: products, contracts, models and information systems.

With reference to the EURIBOR, the reference rate used for numerous types of funding and lending transactions and derivative products, calculated for different maturities and administered by the European Money Markets Institute (EMMI), from 28 November 2019 it is calculated using a new methodology in order to adapt to this regulation. This innovative methodology does not change the economic variable that the index represents, which remains the cost of funding for the contributing European banks. The change relates to the figure being measured, which now consists of the actual cost of funding recorded by the transactions effectively concluded and no longer, as was previously the case, from that relating to the purchase or sale proposals declared by the contributing banks.

Publication of the EONIA benchmark rate as previously calculated ceased as of 1 October 2019. The publication of €STR (Euro Short-Term Rate) replaced this parameter from 2 October 2019. As regards the €STR rate, the Bank's exposure appears to have no impact given the limited presence of products indexed to the new €STR. In the end of the day, publication of LIBOR ceased from the end of 2021 and in the individual countries concerned there are already alternative risk-free rates that replace LIBOR.

With regard to the disclosures pursuant to IFRS 7, paragraphs 24 I and 24 J concerning the reform of the reference indices for determining interest rates, no significant impact was seen on instruments that have already experienced the transition. As of 2021, Regulation No. 25/2021 dated 13 January 2021, which implements the document «Reform of interest rate benchmarks - phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16», is mandatorily applicable for the first time. From the point of view of accounting presentation, it is clarified that the amendments made as a result of the IBOR Reform relating to the replacement of the existing IBOR rate with the new Risk Free Rate should not constitute a derecognition, but should be considered for accounting purposes as a modification. In this regard, a practical expedient is introduced to represent such modifications, if made as a direct consequence of the IBOR Reform and on equivalent economic bases, with a prospective adjustment of the effective interest rate, with impacts on the interest margin of future periods.

On the subject of hedge accounting, in the second phase of the project, the IASB introduced certain exceptions to IAS 39, in the case of modifications required as a direct consequence of IBOR Reform and carried out on an equivalent economic basis, which make it possible not to carry out discontinuing following the updating of the documentation on the hedging (for the change in the hedged risk, the underlying hedged item or the hedging derivative or the method of verifying the solidity of the hedge). Any effect of ineffectiveness must, however, be recognised in the income statement. It should be noted that the Bank did not experience any significant impact from the reform.

3. TLTRO III

The TLTRO III refinancing operation consists of a programme of ten refinancing operations, each with a three-year maturity, starting in September 2019 with a quarterly frequency, at an interest rate set at a level equal to the average interbank refinancing cost. In 2020, with the aim of further supporting lending to households and businesses, some of the parameters of existing operations were revised, with particular reference to the maximum amount that can be financed and the related remuneration. TLTRO III operations are indexed to the average interest rate on the main refinancing operations (MRO), or alternatively, depending on the achievement of certain benchmarks, at the average interest rate on deposits at the central bank's Deposit Facility (DF).

As a result of the crisis linked to Covid-19, a cut of 50 basis points was envisaged in the above rates for the period between 24 June 2020 and 23 June 2021, and with the ECB decision of December 2020 the reduction was also extended to the period between 24 June 2021 and 23 June 2022. Again, the concessional terms are subject to the achievement of certain growth targets measured at 31 March 2021 and 31 December 2021.

As the Bank has achieved all required growth targets, it will be eligible for the application of the Deposit Facility rate, as well as the reduction of an additional 50 b.p. for the period from June 2020 to June 2022, from all funds held by the Bank, depending on their allocation date. As from 27 July 2022, the banks will no longer benefit from the reduction of an additional 50 b.p.

In order to counter rising inflation, the ECB started a series of rate increases from July onwards at a steady pace to reach levels sufficiently restrictive to ensure a timely return of inflation to the 2% target in the medium term.

The ECB intervened by changing the way the final rate applicable to transactions is counted, in order to normalise the cost of funding for the banking sector. In detail, the current rate calculation methodology is maintained for the period up to 22 November 2022, and from 23 November 2022, the applicable interest rate has been indexed to the average interbank rates applicable from that date onwards (essentially raising the applicable rate over the entire life).

With regard to the way in which these transactions are recognised in the accounts, they present such peculiarities that they cannot be immediately attributed to a specific accounting principle.

The Bank considered the funding provided to be non-arm's length and qualified the TLTRO III operations as a loan from a government whose benefit is treated as a government grant, in accordance with IAS 20. In line with the provisions of paragraph 8 of IAS 20, a government grant cannot be recognised until there is reasonable certainty that the entity meets the conditions. Based on this approach, the 'premium' paid for the achievement of the planned net lending levels, amounting to 63 million euro, was recognised in the income statement systematically in the period to which it referred (24/06/2020-24/06/2022), then in 2020 for 11.5 million euro, in 2021 for 30.1 million euro and in 2022 for 21.4 million euro.

Ordinary interest is recorded taking into account the refinancing conditions defined by the ECB as floating market rates defined within the framework of monetary policy measures, which the Governing Council may change prospectively at any time. Interest is then recognised time-by-time on the basis of the interest rate of the instrument defined as the average of the rate on outstanding deposits in each of the reference periods. This interest component in the financial year 2022 amounted to 13.2 million euro. Thus, the positive contribution to the income statement in the financial year 2022 was 34.6 million euro.

From an accounting point of view, in consideration of paragraph 12 of IAS 20, the recognition of the benefit must be made in the years in which the entity recognizes as costs the related expenses that the contributions are intended to offset. Considering that the benefit was granted to the banks in order to support the provision of loans during the pandemic which, for the Bank, mainly consisted of granting of new loans directly linked to the pandemic, it can be concluded that the «higher cost» incurred by the Bank is attributable to both the cost of the new funding to finance new disbursements, and to a loss of cash flow on transactions subject to moratoria for the period of the suspension, which resulted in an additional financial requirement.

4. Interbank Deposit Protection Fund - Voluntary Scheme

In December 2015, the Bank joined the Voluntary Scheme established as part of the Interbank Deposit Protection Fund to support measures in favour of member banks in receivership or distress or in danger of collapse. This is an additional tool to resolve banking crises intended for interventions when there is a reasonable chance of turning round the bank or when the intervention is likely to cost less than liquidating it. The Fund intervened in support of Banca Carige in 2018, resulting in a payment by the Bank of 5.257 million matched by the recognition of a financial asset represented by securities measured at fair value through profit and loss. The financial asset was fully impaired in the 2018 financial statements. No charges for other operations were recorded in subsequent years or in the year under review.

5. Risks and uncertainties related to estimates

The preparation of the annual financial statements requires the use of estimates and valuations that may have a significant impact on the values recorded in the balance sheet and income statement concerning in particular:

– the quantification of impairment losses on loans and financial assets in general;
– the use of valuation models for recording the fair value of financial instruments not listed in active markets;
– the assessment of the fairness of the value of goodwill and other intangible assets;
– the quantification of the fair value of investment properties;
– the quantification of personnel provisions and provisions for risks and charges;
– estimates of the recoverability of deferred tax assets.

The Bank defined the estimation processes to support of the carrying amount of the more significant items requiring valuation in the annual financial statements at 31 December 2022, as required by prevailing accounting standards and relevant regulation.

These processes are largely based on estimating the future recoverability of amounts reported in the financial statements in accordance with rules dictated by current regulation and have been performed on a going concern basis, i.e. valuations are not based on the assumption of a forced sale. Specifically, with reference to the estimates that could potentially be most impacted by the Russian-Ukrainian conflict and the Covid Pandemic, please refer to paragraph 16 of Section A.2 of these notes.

The outcome of this work supports the carrying amount of these items at 31 December 2022. It should be stated, however, that this valuation process was particularly complex in view of the current macroeconomic and market context, characterised by high levels of uncertainty about the prospects, and the consequent difficulty in making even short-term forecasts for these financial parameters which have a significant impact on estimates.

The parameters and information used to verify the above figures have been heavily affected by the macroeconomic and market framework that could experience rapid changes that are currently unforeseeable, with effects - even significant effects - on the amounts reported in the financial statements at 31 December 2022.

6. Terms for the approval and publication of financial statements

Article 154-*ter* of Legislative Decree 58/98 («TUF») provides that, within one hundred and twenty days from the end of the financial year, the annual financial statements must be approved and the annual financial report including the draft financial statements, the consolidated financial statements, the report on operations, and the certification of the Financial Reporting Manager of preparing the company's financial reports referred to in Article 154-*bis*, paragraph 5, must be published. The draft financial statements of Banca Popolare di Sondrio were approved by the Board of Directors at its meeting of 17 March 2023 and will be submitted for approval to the Shareholders' Meeting called for 29 April 2023.

7. Information pursuant to art. 1, paras. 125-129 of Law 124/17 dated 4 August 2017 «Annual law for the market and competition - Measures on the transparency of public payments» as amended by Decree Law 30/4/2019 No. 34 (so-called «Growth Decree») art. 35

With regard to the above legislation, the contributions or aid received by the bank in cash or kind, that were not generally available and did not represent consideration, remuneration or reimbursements, have been published on the National Register of State Aid, to which reference is made pursuant to art. 125-*quinquies* of that law.

8. Statutory audit

The annual financial statements at 31 December 2022 are audited by EY S.p.A., which was assigned the task of auditing for the nine-year period 2017/2025 with a resolution of the shareholders' meeting of 29 April 2017, pursuant to Legislative Decree No. 39 of 27 January 2010.

A.2 Main financial statement items

Below are the accounting policies, broken down by item, that have been adopted for the preparation of the annual financial statements at 31 December 2022, with reference to the classification, recognition, measurement and derecognition of the various asset and liability items, as well as the methods for recognising revenues and costs introduced by certain general elements inherent to the classification of financial assets.

Classification of financial assets

The classification of financial assets is guided, on the one hand, by the contractual characteristics of the cash flows of the instrument itself linked to the generation of cash flows represented solely by payments of principal and interest on the principal to be repaid (i.e. which involve passing the so-called «SPPI test» – «Solely Payment of Principal and Interest test»).

The other factor guiding the classification of financial assets is the business model adopted, which determines whether cash flows will arise from the collection of contractual cash flows, the sale of financial assets, or both.

Business models

Held to Collect (HTC)

The objective of this business model is to hold financial assets to collect the contractual cash flows during the instrument's life. Sales are only deemed to be eligible if they are frequent but not significant, or significant but not frequent, or if due to an increase in credit risk, and if close to the maturity date of the financial asset. Frequency is measured based on the number of sales made in the period, while significance is measured on the total amount of sales compared to the portfolio at the beginning of the period. The criteria used to determine these requisites have been included by the Bank in specific internal regulations.

Banca Popolare di Sondrio holds the following within an HTC business model:

- Almost the entire portfolio of loans to customers and Banks, given that the bank mainly undertakes traditional banking activities and holds a loan portfolio that originates from finance granted to households, individuals and businesses;
- Fixed-yield securities that may be subjected to this business model's management logic.

Held to Collect & Sell (HTC&S)

The objective of this business model is to collect contractual cash flows and to sell the financial assets. The Bank decided not to use the HTC&S business model for receivables, but decided to use it for securities.

Others (FVTPL)

This business model is adopted when the Bank takes decisions based on the fair value of financial assets and it manages them in order to realise the latter or when the objective of the business model does not fall within that of the previous two (HTC and HTC&S). Banca Popolare di Sondrio holds the following within an «Others» business model:

- Financial instruments held within a trading business model;
- Financial instruments held with management on a fair value basis.

The Bank does not require *ex post* monitoring for credit and loans to verify the consistency of the loan portfolio with the HTC business model within which they are held, while it is required for securities to verify the consistency of securities portfolio management with the HTC and HTC&S business models.

SPPI Test - Solely Payment Principal Interest Test

By means of an SPPI test, it is possible to check whether a financial asset may be considered to be a «basic lending arrangement», whereby the contractual cash flows consist solely of payments of principal and interest accrued on the principal amount outstanding. If the test of the characteristics of the contractual cash flows shows compliance with the requirements of IFRS 9 (SPPI test has been passed), the asset may be measured at amortised cost, provided that it is held within a business model the objective of which is to collect the contractual cash flows during the instrument's life (HTC business model), or at fair value through other comprehensive income (FVOCI), provided that the asset is held within a business model the objective of which is to collect contractual cash flows over the entire life of the asset and to sell the asset (HTC&S business model).

If the test of the characteristics of the contractual cash flows from a financial asset does not show compliance with the requirements of IFRS 9 (SPPI test has not been passed), the asset is measured at fair value through profit or loss (FVTPL). In accordance with guidelines, the Test is performed before a loan is disbursed or a security purchased (origination). Test procedures make use of the so-called SPPI tool.

For credit and loans, the approach for the execution of the SPPI test differs based on whether they consist of:

- Standard products (e.g. current accounts or loans), for which the test is performed at product level. Upon granting a loan, account is taken of the outcome of the SPPI test at product level, updated following verification of the remuneration of credit risk and a benchmark test, where required.

Non-standard contracts, for which the test is performed individually for each amount.

For the securities portfolio, the results of the SPPI test and benchmark test are acquired for each ISIN from an external info provider. For amounts for which the results of the SPPI test and/or benchmark test obtained from an external info provider are not available and/or complete, the tests are performed within the Bank, using the aforementioned tool.

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

Classification

Financial assets held for trading (fixed-yield securities, equity securities, loans, mutual funds) have been allocated to this line item. It also includes the derivative contracts with a positive fair value, except those offset pursuant to IAS 32. A derivative contract is a financial instrument whose value is linked to movements in an interest rate, the prices struck for a financial instrument, the price of a commodity, a currency exchange rate, a price index, a rate index or other type of index, is settled on maturity and requires a limited initial net investment. If the derivative qualifies as a hedging derivative, it is recognised in the item «hedging derivatives». If a financial asset contains an embedded derivative, it is measured by measuring the entire asset at fair value. A derivative that is attached to a financial instrument but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

This item also includes financial assets designated at fair value (fixed-yield securities and loans) as the result of the exercise of the fair value option. For the time being, the Bank does not apply the fair value option, but does not exclude the exercise thereof in the future.

Lastly, it includes other financial assets mandatorily measured at fair value (fixed-yield securities, equity securities, mutual funds and loans) or financial assets that do not meet the requirements for classification at amortised cost or at fair value through other comprehensive income, since they do not pass the contractual cash flow characteristics test (SPPI test), as well as equity securities and mutual funds (that are not held for trading) and debt instruments held within a business model managed based on fair value.

Recognition

Assets measured at fair value through profit or loss are recognised at the settlement date at fair value, which normally corresponds to the consideration paid, with the exception of transaction costs and revenues that are recognised directly in profit or loss. Trading derivatives are recognised at the «contract» date and are stated at their current value at the time of acquisition.

Accounting policies

Subsequent to initial recognition, financial assets measured at fair value through profit or loss are measured at fair value at the reporting date. With regard to instruments listed on official markets, fair value is calculated with reference to their official bid price at the close of trading, while the fair value of instruments not listed on official markets is determined by reference to prices supplied by information providers such as Bloomberg and Reuters. If this is not possible, estimates and valuation models that take account of market data are used, where available; these methods are based on the valuation of listed instruments with similar characteristics, calculations of discounted cash flows or models for the determination of option prices, taking into account the credit risk profile of the issuer.

If data is not available for measurement under the above models, fair value measurement is performed using unobservable inputs (e.g. adjusted equity).

As regards loans and receivables (due from banks and customers), the models used differ based on the nature and the characteristics of the instruments being measured. Currently, three main base models are applied:

- Discounted Cash Flow Model (DCF)

- Reverse Mortgage Model (RMM)
- ABS model

The above models are used to measure performing exposures.

In the case of loans on demand or maturing in the short term, the book value is considered a good approximation of fair value.

Recognition of components affecting the income statement

Income statement components generated by changes in fair value are recognised in the income statement in the period they arise under «Net trading income» and «Net gains/losses on other financial assets and liabilities measured at fair value through profit or loss» split between the sub-items: «financial assets and liabilities designated at fair value» and «other financial assets mandatorily measured at fair value».

Interest income and dividends are reported in the income statement under «interest and similar income» and «dividends and similar income» respectively.

Derecognition criteria

Financial assets measured at fair value through profit or loss are derecognised when the contractual rights over the cash flows deriving from them expire or are closed out, or when they are sold with the transfer of substantially all the related risks and benefits, or when no control is retained over them even though substantially all the related risks and benefits are neither transferred nor retained.

2. Financial assets measured at fair value through other comprehensive income

Classification

This item includes all financial assets (fixed-yield securities, equity securities and loans) classified in the portfolio measured at fair value through other comprehensive income, distinguishing between those that will subsequently be reclassified to the income statement (fixed-yield securities and loans) and that will not (equity securities). The following are classified in the portfolio measured at fair value through other comprehensive income:

- fixed-yield securities and loans held within an HTC&S business model and that pass the SPPI test;
- equity securities for which the FVOCI option has been irrevocably exercised upon initial recognition.

Recognition

Assets included in this item are recognised at the settlement date at fair value, which normally corresponds to the consideration paid to acquire them.

With regard to fixed-yield securities and loans, the Bank requires any changes in business model due to inconsistency between the management of the portfolio and the model chosen, or to significant changes in the strategic choices made, to be decided by the Board of Directors, which will determine if, in rare circumstances, reclassification is needed.

No possibility exists for the reclassification of equity securities. The exercise of the FVOCI option, being the option envisaged by the standard that permits equity instruments to be designated at fair value through other comprehensive income upon initial recognition, is in fact irrevocable.

Accounting policies

Subsequent to initial recognition, financial assets measured at fair value through other comprehensive income are measured at fair value, determined in the same manner as financial assets measured at fair value through profit or loss.

The line «Financial assets measured at fair value through other comprehensive income» comprises equities held by way of support for the core business and to encourage the development of initiatives in the territories where the Bank operates. These instruments represent the majority in this portfolio. For these investments and in consideration of the fact that the application of valuation techniques would use significant discretionary factors, valuation at cost is considered the best expression of their fair value.

At each year-end or interim reporting date, fixed-yield securities classified in this item are subject to impairment testing based on a calculation framework similar to the one used for financial instruments measured at «amortised cost». Any subsequent write-backs cannot exceed the impairment losses recorded previously.

As regards equity securities classified in the item «Financial assets measured at fair value through other comprehensive income», they are not subject to impairment and changes in value, also due to deterioration in creditworthiness, are recognised in an equity reserve.

Recognition of components affecting the income statement

The interest calculated using the effective interest method, which takes account of the difference between cost, including transaction costs, and redemption value, is recorded in the income statement.

Changes in fair value of assets, net of the related deferred tax effect, are recorded in specific equity reserve, the «Valuation reserve», consisting of «Valuation reserves: Equity securities measured at fair value through other comprehensive income» and «Valuation reserves: Financial assets (other than equity securities) measured at fair value through other comprehensive income». An exception is made for fixed-yield securities, value adjustments and reversals related to changes in credit risk, which are recognised in the income statement under item 130(b) «Net adjustments/write-backs for credit risk».

If the reasons for impairment cease to apply following events subsequent to the reduction in the value of the financial asset, the write-backs relating to fixed-yield securities are reflected in the income statement, while those relating to equity securities are recorded in a specific «Valuation reserve» within equity.

Upon derecognition, the cumulative gain or loss on fixed-yield securities are recorded in the income statement while on equity securities, they are recorded in the equity reserve (item 140).

Dividends are shown under «dividends and similar income».

Derecognition criteria

Financial assets measured at fair value through other comprehensive income are derecognised when the contractual rights over the cash flows deriving from them expire or are closed out, or when they are sold with the transfer of substantially all the related risks and benefits, or when no control is retained over them even though substantially all the related risks and benefits are neither transferred nor retained.

3. Financial assets measured at amortised cost

Classification

This item includes financial assets, fixed-yield securities and loans, managed through an HTC business model that have passed the SPPI Test. The following are recognised in this item:

a) amounts due from banks (current accounts, guarantee deposits, fixed-yield securities, etc.), other than those «on demand» included under «Cash and cash equivalents». These include operating loans linked to the provision of financial services and activities as defined by the Consolidated Banking Act (TUB) and the Consolidated Finance Act (TUF) (e.g., distribution of financial products) and receivables due from Central Banks (e.g. compulsory reserve), other than current accounts and «on demand» deposits included under «Cash and cash equivalents», are also included;

b) loans and receivables with customers (mortgage loans, finance leases, factoring, fixed-yield securities, etc.). These also include deposits with post offices and Cassa Depositi e Prestiti, variation margins with clearing houses arising from derivative transactions and operating loans linked to the provision of financial services and activities as defined by the Consolidated Banking Act and the Consolidated Finance Act (for example, servicing activities).

Also included are:

- advances in respect of the assignment of loans with recourse or without recourse without the substantial transfer of risks and rewards, and loans acquired by the company recognised against the assigned debtor for which the substantial transfer of risks and rewards to the assignee has been recognised;
- finance leases relating to assets under construction and assets about to be leased under «transfer of risks» contracts, whereby the risks are transferred to the lessee prior to delivery of the asset and the start of lease instalments;
- loans granted through government or other public entity funding in connection with particular lending transactions provided for and governed by specific laws («loans through third-party funds under administration»), provided that the loans and funds bear interest due and payable to the lender;
- trade notes and documents that the banks receive subject to collection or subsequent to collection and for which the banks handle the collection service on behalf of assignors (recognised only upon settlement of the related amounts).

Recognition

Financial assets measured at amortised cost are recognised on the settlement date at fair value, which normally coincides with the amount paid, including transaction costs.

Repurchase agreements are recorded in the financial statements as funding or lending transactions. In particular, spot sales with forward repurchases are recorded as a payable for the spot amount collected, while spot purchases with forward resales are recorded as a receivable for the spot amount paid.

The Bank requires any changes in business model due to inconsistency between the management of the portfolio and the model chosen, or to significant changes in the strategic choices made, to be decided by the Board of Directors, which will determine if, in rare circumstances, reclassification is needed.

Accounting policies

Subsequent to initial recognition, valuations are carried out on an amortised cost basis, using the effective interest method. Amortised cost is represented by the initial value, including transaction costs, net of any repayments of principal, as uplifted or decreased by adjustments or reversals and the amortisation of the difference between the amount paid and that recoverable on maturity. The effective interest rate is the rate using which the present value of future cash flows equals the amount of the loan granted, as adjusted by directly-related costs and revenues. Short-term loans (less than 12 months) without a specific repayment date and loans repayable on demand are recognised at cost, as the calculation of the amortised cost does not produce significant differences. The effective interest rate identified initially, or when the indexing parameter for the loan is modified, is used subsequently to discount expected cash flows, even if there has been a credit change associated with the loan followed by loan forbearance measures that has led to a change in the contractual rate.

At each reporting date, financial assets measured at amortised cost are subject to impairment according to the rules set forth in IFRS 9; the value adjustments made are recognised in the income statement under item «130. Net adjustments/write-backs for credit risk: a) financial assets measured at amortised cost». For the definition of value adjustments, financial assets measured at amortised cost are classified into different Stages:

- Stage 1: performing positions for which there has been no significant increase in credit risk since the date of initial recognition;
- Stage 2: performing positions for which there has been significant increase in credit risk since the date of initial recognition;
- Stage 3: non-performing positions (non-performing past-due positions, unlikely to pay, bad loans) are included.

Classification in one of the stage 3 credit-impaired categories complies with the definition of «Non-performing exposures» provided by the Implementing Technical Standards (ITS) of the EBA and adopted by the European Commission, where impaired financial assets are to be split between bad loans, unlikely to pay and non-performing past due exposures.

Specifically:

- Bad loans reflect the exposure to parties that are insolvent or in essentially equivalent situations, regardless of any loss forecasts made by the Group. Accordingly, no account is taken of any guarantees received in support of such exposures.
- Exposures classified as unlikely-to-pay loans are exposures, other than bad loans, for which the bank deems it improbable that the obligor will pay its credit obligations (principal and/or interest) in full without recourse to measures such as the enforcement of guarantees.
- Non-performing past due exposures are exposures other than bad or unlikely to pay loans, which, at the reference date, are past due and/or overdrawn continuously for more than 90 days and which exceed set absolute materiality thresholds (100 euro for retail exposures or 500 euro for non-retail exposures) and relative materiality (set at one percent (1%) for both retail and non-retail exposures). Non-performing past due exposures are determined by reference to the individual debtor.

  At each reporting date, an entity must assess whether there has been a significant increase in credit risk since the date of initial recognition. The determination of a significant increase in credit risk (SICR) and the subsequent estimation of impairment, which may either be annual (for positions classified in stage 1) or multiannual based on the residual life of the exposure (for positions classified in stage 2), is performed via the use of specific methodologies, which combine the use of absolute criteria – specifically, information relating to the number of continuous days past due/overdrawn, any forbearance measures, POCI and use of the low credit risk exemption for limited and particular types of counterparties and technical forms – and relative criteria. More precisely, the latter enable the measurement, via the analysis of an appropriate PD-based metric («Probability of Default»), of the change in the riskiness of the position over a timescale equating to the residual life thereof that has elapsed since the origination date up to the analysis/reporting date. For the construction thereof, use is made of probability of default term structures (lifetime PD curves, which differ according to appropriate granularity), which are constructed starting with an internal rating system, where available, or that assigned by an external rating agency, and by also taking into consideration elements of a predictive-evolutionary nature and specific to the macroeconomic scenario deemed to be most plausible at the analysis/reporting date in compliance with the underlying rationale of the new accounting standard.

  If there has been a significant change in credit risk, there will be a transfer between stages: this model is symmetrical, and assets can move between stages. In the case of positions subject to forbearance measures, it should be noted that in accordance with prudential principles, an observation period of at least two years is envisaged before the position is returned to a better stage.

  The measurement of financial assets carried at amortised cost is based on a computation of expected credit loss, which is defined as an estimate of the weighted probability of credit losses over the expected life of the financial instrument weighted for the probability of occurrence and is calculated based on the classification in stages as indicated above.

In particular:

- 12-month expected credit losses, for assets classified in stage 1. 12-month expected credit losses are those that result from default events that are possible within 12 months (or within a shorter period if the expected life is less than 12 months), weighted for the probability of occurrence of the default event.
- Lifetime expected credit losses, for assets classified in stage 2 and 3. Lifetime expected credit losses are those that result from all possible default events over the expected life of the financial instrument, weighted for the probability of occurrence of the default event.

For stage 2 positions, the provisions relating to each counterparty may be increased to a level considered appropriate by the competent business functions, based on the results of applying the statistical methodology defined by the Bank and specific operational information, if the theoretical expected loss does not accurately reflect the level of risk identified.

As regards performing positions, measurement is performed on a collective basis, taking account of the risk parameters consisting of probability of default (PD) and loss given default (LGD), as well as exposure at default (EAD).

As regards credit-impaired positions, measurement may be performed on a collective or detailed basis.

Impairment of individual assets measured at amortised cost is the extent to which their recoverable value is lower than their amortised cost. In the case of detailed analysis, recoverable value is defined as the present value of expected cash flows, determined with reference to the following elements:

- value of contractual cash flows net of any expected losses, estimated with reference to both the ability of the borrower to meet its obligations and the value of any collaterals or personal guarantees assisting the loan;
- expected timing of recoveries, considering the progress made by recovery procedures;
- internal rate of return.

The specific analysis of non-performing financial assets takes the following parameters into account:

- recoveries forecast by the account managers;
- expected timing of recoveries based on historical-statistical data;
- original discounting rates or the actual contractual rates applying at the time of classifying the loans as doubtful.

Collective assessments are made of positions with limited total exposures that do not exceed given «threshold values». These thresholds are determined from time to time, using simple processes that mainly involve the automatic application of specific coefficients defined internally with reference to detailed quantitative analyses.

Unlikely-to-pay loans, which include loans subject to restructuring agreements, are also assessed on either a detailed or an overall basis. The detailed analysis takes the following parameters into account:

- recoveries forecast by the offices concerned;
- expected timing of recoveries based on historical-statistical data;
- original discounting rates represented by the actual contractual rates applying at the time the loans were classified as unlikely-to-pay or, with specific reference to loans subject to restructuring agreements, in force before signing the agreement with the debtor.

Collective write-downs are made using similar methodology to that applied in relation to the overall write-down of bad loans for which no specific estimate of the loss attributable to each individual relationship has been made.

These financial assets are adjusted on an overall basis with reference to specific historical/statistical analyses of the related losses incurred in the past.

Non-performing past due exposures are identified using automated procedures that extrapolate anomalous positions with reference to specific parameters established by regulations in force from time to time.

For the positions in question, it is not possible to quantify expected losses on a detailed basis at the level of individual position. The measurement of the level of impairment thereof – and, thus, of the adjustments to be applied on a collective basis – is performed by taking account of the possibility of return to performing of the positions or of a further deterioration of default and, accordingly, of the amount of the estimated expected losses arising from the established work-out process. Measurement is also performed based on the availability of appropriate information of a macroeconomic and prospective nature that is deemed significant for the estimation of the adjustments.

It should be noted that the impairment model relating to non-performing loans (Stage 3) envisaged by IFRS 9 is based on an estimate of the difference between the original contractual flows and expected cash flows. So, in determining the expected flows, it is necessary to include estimates at the reporting date of the various expected scenarios, including any loan disposal programmes and/or settlement agreements. If the entity expects to recover a portion of the cash flow of the exposures through sales procedures or settlement agreements, these can be included in the calculation of the Expected Credit Losses verified under certain conditions.

The Bank incorporates the various recovery strategies considering the different probabilities that they will take place.

In the context of calculating the ECL, internal regulations require the expected loss and the recoverable value of non-performing loans to be estimated in disposal scenarios in accordance with a specific procedure, comprising several phases, that starts with identification of the scenarios.

In general, the accounting rules require the estimate of the loss on non-performing loans to reflect a range of possible outcomes for different scenarios, each associated with a specific probability of occurrence.

Currently, the following possible scenarios have been identified, each with different models and estimated outcomes:

- internal management of credit recovery activities;
- adoption of settlement agreements for a selected number of non-performing positions;
- disposal to third parties of non-performing exposures.

The next phase consists in identifying the portfolio to be sold, based on knowledge of its characteristics, the existence of any internal and/or external constraints, the monitoring of market conditions and any more complex strategic and operational objectives. The aggregate is defined with reference to the specific factors attributed to each position, such as their contractual characteristics (e.g. type of guarantee, ageing, size of the exposure etc.) and relevant operational information, including the type of recovery procedures already in progress, the geographical location of the counterparty, any impediments or obstacles to disposal, the strategic orientation, the conditions existing from time to time in the market for the disposal of loans, the strategies adopted by competitors, and any other internal and/or external factors that can be explained appropriately.

Each operational scenario identified is assigned a specific probability of occurrence. This probability is determined on both qualitative and quantitative bases, the latter taking into account the correlation between the target and extended portfolios selected for each scenario.

The next phase involves estimating the expected loss for each scenario. The estimate of losses on non-performing loans must reflect reasonable and well-founded information, available without excessive cost or effort, including details of past events, current conditions and the economic situation expected in future. In line with the internal regulations for quantifying the loss expected on non-performing exposures, an estimate is made of the cash flows expected from each operational scenario identified. Without prejudice to specific regulatory instructions, the estimate of cash flows from internal credit management scenarios takes account of macroeconomic and sector information, the situation faced by the debtor, the cash flows expected from the debt restructuring to «unlikely-to-pay exposures», any collaterals or personal guarantees, the period for which the position has been impaired and the expected time to obtain recovery.

The estimate of cash flow from loan disposal scenarios takes account of similar transactions carried out in the past by the bank, as well as specific information available about the «underlying» (situation faced by the borrower and any loan guarantees obtained) and the market for the disposal of «non-performing» loans (e.g. prices of similar transactions carried out by other intermediaries and historical and forecast market curves.

The expected loss on each impaired position is therefore determined using the following formula:

Expected Loss - Individual position	=	Expected Loss - Disposal Scenario* Probability of occurrence of Disposal	+	Expected Loss - Internal Management Scenario* Probability of occurrence of Internal Management

Recognition of components affecting the income statement

Interest income on financial assets measured at amortised cost is classified in the item «interest and similar income».

As regards financial assets classified in stage 3 and loans purchased or originated credit-impaired (POCI), interest is calculated using the net interest method and is recognised in the item «interest and similar income».

Adjustments and reversals for changes in credit risk, calculated as specified above, are recognised in the income statement. Any write-backs do not exceed the (specific and general) impairment adjustments recorded previously.

Derecognition criteria

Financial assets measured at amortised cost are derecognised when the contractual rights over the cash flows deriving from them expire or are closed out, or when they are sold with the transfer of substantially all the related risks and benefits, or when no control is retained over them even though substantially all the related risks and benefits are neither transferred nor retained.

IFRS 9 also includes the following provisions on:

- Write-off of financial assets: when an entity does not reasonably expect to fully or partly recover contractual cash flows from a financial asset, it must directly reduce the gross carrying amount of the financial asset. This write-down constitutes partial or total derecognition of the asset.
- Change in contractual cash flows: when a change in contractual cash flows occurs, the entity must assess whether the original asset should continue to be recognised in the financial statements or whether the original instrument should be derecognised and a new financial instrument recognised. When the modification of contractual cash flows of a financial asset is substantial, the Entity should derecognise the existing financial asset and subsequently recognise the modified financial asset: the modified financial asset is deemed to be a «new» financial asset for the purpose of this standard (IFRS 9 B5.5.25). When the modification of contractual cash flows from a financial asset is not substantial, the Entity should redetermine whether there has been a significant increase in credit risk and/or whether the financial asset should be reclassified to stage 3. At the time of a modification that does not lead to derecognition, the Bank adjusts their carrying amount to the present value of the

modified cash flows determined using the original effective interest rate, with a matching entry to the income statement.

3.1 Commitments and guarantees given

Classification

These comprise all the collaterals and personal guarantees given for third-party obligations and commitments to grant loans.

Recognition and measurement

Endorsement loans are valued on the basis of the riskiness of this particular form of loan, taking into account the creditworthiness of the borrower. The impairment model envisaged for this category of financial assets is the same as that for financial assets measured at amortised cost (see paragraph 3 above).

Recognition of components affecting the income statement

The commissions accrued are shown in the income statement under «fee and commission income». Impairment losses, and subsequent write-backs, are booked to the income statement under «net provisions for risks and charges» with a contra-entry to «Provisions for risks and charges - a) Commitments and guarantees given».

4. Hedging transactions

Classification and recognition

Financial and credit derivatives held for hedging purposes with a positive or negative fair value are recognised in the corresponding balance sheet item. The IASB is still developing new macro hedging requirements to complete the hedge accounting requirements already included in IFRS 9, which will replace the rules set out in IAS 39 and, accordingly, until the completion and publication of the new standard, the Bank has decided to continue to apply the hedge accounting requirements set out in IAS 39, as this option is allowed under IFRS 9.

The portfolio of hedging derivatives comprises the derivative instruments used by the Bank to neutralise or minimise the losses arising in relation to hedged assets and liabilities.

The hedging of market risks can take two different forms:

- fair value hedges, to hedge the exposure to changes in the fair value of a balance sheet item attributable to a particular risk; this also includes generic fair value hedges («macro hedges») whose objective is to reduce fair value fluctuations, attributable to interest rate risk, of a monetary amount, arising from a portfolio of financial assets and liabilities.
- cash flow hedges of the exposure to changes in future cash flows attributable to specific risks associated with balance sheet items.

If the test reveals that the hedge is not sufficiently effective, the instrument is reclassified to the trading book. Hedging instruments are recorded using the «contract date» method.

For a transaction to be accounted for as a «hedging transaction», the following conditions must be met: a) the hedging must be formally documented, b) the hedge must be effective at the time it starts and prospectively throughout its life. Effectiveness is tested using specific techniques and exists when the changes in the fair value (or cash flows) of the hedging instrument almost entirely offset the related changes in the hedged instrument (the results of the test fall into the 80% - 125% interval). The effectiveness of the hedge is assessed at each interim reporting date and at year end.

Derivative hedging instruments are initially recorded at fair value on the date the contract is entered into and are classified, depending on their positive or negative value, respectively, in assets under item «50. Hedging derivatives» or on the liabilities side of the balance sheet under item «40. Hedging derivatives».

Measurement and recognition of components affecting the income statement

Fair value hedges are measured and recorded on the following basis:

- hedging instruments are stated at their fair value; the fair value of instruments listed on active (efficient) markets is represented by their closing market price, while the fair value of instruments not listed on active markets corresponds to the present value of expected cash flows, which are determined having regard for the different risk profiles of the instruments subject to measurement. The measurement techniques used are those normally adopted by the market. The resulting gains and losses are recorded in the income statement item «90. Net hedging gain (loss)»;
- hedged positions are measured by including changes in fair value attributable to the hedged risk. These changes in value are also recognised in the income statement under item «90. Net hedging gain (loss)» as balancing entry against the change in book value of the hedged item.

With regard to interest-earning financial instruments, if the hedge transaction ceases to satisfy the recognition criteria of the standard, the difference between the carrying value of the hedged item at the time the hedge ceases and its carrying value had the hedge never existed is amortised to the income statement; if the financial instruments concerned do not earn interest, this difference is recorded in the income statement immediately.

In the case of generic fair value hedges («macro hedges»), changes in fair value with reference to the hedged risk of the hedged assets and liabilities are recognised in the balance sheet respectively, under item «60. Change in value of macro-hedged financial assets» or «50. Change in value of macro-hedged financial liabilities». The offsetting entry for changes in value referring to both the hedged item and the hedging instrument, like specific fair value hedges, is item «90. Net hedging gain (loss)» in the income statement. In the event of the discontinuation of a generic fair value hedging relationship, the cumulative revaluations/ write-downs recognised in the balance sheet items above are recognised in the income statement under interest income or expense over the remaining term of the original hedging relationships, subject to verification that the underlying conditions are met.

Cash flow hedges are measured and recorded on the following basis:

- derivative instruments are stated at their fair value. The gains and losses deriving from the effective part of the hedge, net of the related deferred tax effect, are recorded among the «Valuation reserves» within equity and only released to income when the hedged change in cash flows takes place or if the hedge is ineffective;
- the hedged item continues to be valued on the basis applicable to the category concerned;
- the amounts recognised among the components of other comprehensive income are reclassified to the income statement for the year in which the hedged transaction affects the income statement, for example when charges or income are recognised in relation to the hedged instrument.

If the hedging instrument expires or is sold, cancelled or exercised without replacement (as part of the hedging strategy), or if it ceases to be designated as a hedging instrument, or if the hedge no longer satisfies hedge accounting criteria, any gains or losses previously recognised as components of other comprehensive income remain classified separately within equity until the expected transaction takes place or the commitment made in relation to foreign currency is called upon.

Derecognition criteria

Risk hedges cease to generate accounting effects when they expire, when they are closed out or terminated early, or when they cease to satisfy the recognition criteria provided.

5. Equity investments

Classification

The portfolio of equity investments comprises holdings in subsidiary companies, associated companies and companies under joint control, other than those classified as «financial assets measured at fair value through other comprehensive income». Control is presumed to exist when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Control is therefore deemed to exist in the following circumstances:

a) availability of actual and potential voting rights at a shareholders' meeting and/or other contractual rights, relations or other elements that guarantee influence over the relevant activities of the investment;
b) exposure to the variability of results, for example in terms of an overall economic interest in the investment;
c) with regard to the above points, existence of an ability to influence the economic results of the investment by the power exercised over it.

A company is an associated company if the Bank exercises significant influence over its activities or, in any case, if it holds 20% or more of the voting rights or, if it has an interest of less than 20%, if one or more of the following circumstances apply:

a) the Bank has a representative on the Board of Directors or the equivalent body of the affiliate;
b) the Bank takes part in the decision-making process, including decisions regarding dividends;
c) there are significant transactions between the parent company and the affiliate;
d) there is an exchange of managers;
e) essential technical information is being provided.

Joint control exists when control over the investment is shared equally with others, is agreed contractually and only exists if the decisions about relevant activities require the unanimous consent of the parties sharing control.

Recognition

Equity investments are initially recognised at cost on the acquisition date, whereby cost normally coincides with the amount paid, including transaction costs.

Accounting policies

Equity investments are subsequently measured at cost. If the solvency of an equity investment appears to have deteriorated, it is subjected to impairment testing to check if there has been any loss in value. The impairment loss is the difference between the lower new value and the previous carrying value. Any subsequent write-backs cannot exceed the impairment losses recorded previously.

Measurement and recognition of components affecting the income statement

Dividends are accounted for in the year they are collected and shown under «dividends and similar income». Impairment losses, as well as profit/losses on disposal, are booked to the income statement under «net gains (losses) on equity investments».

Derecognition criteria

Equity investments are derecognised when the financial asset is sold together with the transfer of all the risks and benefits of ownership.

6. Property, equipment and investment property

Classification

This item includes buildings, land, installations, furniture, equipment, furnishings and machinery. The rights of use acquired with the lease relating to the use of a tangible asset (for lessees) are also included.

This item includes buildings held for investment purposes in order to earn rentals or enjoy capital appreciation and follow the rules laid down by IAS 40.

This item also includes property, equipment and investment property classified according to IAS 2 Inventories, mainly relating to assets acquired with a view to enhancing the value of the investment, including through renovation or redevelopment, with the explicit intention of selling them, including assets deriving from the enforcement of guarantees received.

Recognition

Property, equipment and investment property are initially recorded at cost, including all expenses directly related to the asset's installation prior to being brought into service. Expenditure on improvements that will generate future economic benefits is added to the value of the assets concerned, while routine maintenance costs are charged to the income statement.

Investment properties, at the time of purchase, are recorded under assets in the balance sheet at cost. In the presence of a change of use of the property from property for business use to investment property, the initial book value is equal to the fair value, deduced from a specific appraisal. The difference between the fair value and the book value of the property at the date of change in use is treated on the basis of IAS 16, i.e. if there is a negative difference between fair value and book value, the decrease is recognised in the income statement, whereas if there is a positive difference between fair value and book value, the increase in value is recognised in the income statement as income for the amount that adjusts any previously recognised decrease in value; any excess must be credited to a revaluation reserve included in equity.

According to IFRS 16, leases are accounted for on the basis of the right of use model, so that, at the initial date, the lessee has a financial obligation to make payments due to the lessor to compensate for his right to use the underlying asset for the duration of the lease.

The start of the lease term is the date from which the lessee is authorised to exercise his right to use the leased asset, it corresponds to the date of initial recognition of the lease and also includes the so-called rent-free period, or those contractual periods in which the lessee makes use of the asset free of charge. When the asset is made available to the lessee for its use (initial date), the lessee recognises:

- an asset consisting of the right to use the asset underlying the lease contract. The asset is recognised at cost, determined by the sum of:
  - the financial liability for the lease;
  - payments for the lease paid before or on the date on which the lease takes effect (net of the lease incentives already received);
  - initial direct costs;
  - any (estimated) costs for the dismantling or restoration of the underlying leased asset;
- a financial liability deriving from the lease agreement corresponding to the present value

of the payments due for the lease. The discount rate used is the implicit interest rate, if determinable; otherwise the lesseÈs incremental borrowing rate is used. If a lease contract contains «non-lease components» (for example services, such as routine maintenance, to be recorded according to the provisions of IFRS 15) the lessee has to account for «lease components» and «non-lease components» separately and split the contract consideration between the various components based on the relative prices.

The lease term is determined by taking into account:

- periods covered by a lease extension option, if it is reasonably certain to be exercised;
- periods covered by a lease termination option, if it is reasonably certain to be exercised.

Accounting policies

Subsequent to initial recognition, property, equipment and investment property used for business purposes are stated at cost, net of depreciation and any impairment in value.

Depreciation is provided on a systematic basis over the useful lives of the various categories of asset. The total book value of property has been split, based on specific appraisals, between the value of buildings and that of the related land, which is not depreciated since it has an indefinite life. Property, equipment and investment property are subjected to impairment testing at year end, or at interim reporting dates if there is evidence of a possible loss of value, and any impairment of their carrying amount with respect to their recoverable amount is charged to the income statement. Recoverable amount is defined as the asset’s fair value, less any selling costs, or, if greater, its value in use as represented by the present value of future cash flows generated by the asset; subsequent write-backs do not exceed the impairment losses recorded previously.

Property, equipment and investment property «inventories» to which IAS 2 applies are valued at the lower of cost recognised and net realisable value. This case is not subject to periodic depreciation.

For investment properties, falling within the scope of IAS 40, the Bank adopts the fair value measurement method, whereby, following initial recognition, all investment properties are measured at fair value. Consequently, these properties are not subject to depreciation, nor are they subject to impairment testing.

With regard to lease contracts, the lessee must:

- assess the right of use at cost, net of accumulated depreciation and accumulated value adjustments determined and accounted for on the basis of the provisions of IAS 36 «Impairment of assets», adjusted to take into account any restatements of the lease liability;
- increase the liability deriving from the lease transaction following the accrual of interest expense calculated at the implicit interest rate of the lease, or, alternatively, at the incremental borrowing rate and reduce it for payments of principal and interest. In the event of changes in payments due for leases, the liability must be restated; the impact of the recalculation of the liability is recognised as a contra-entry to the asset consisting of the right of use.

Recognition of components affecting the income statement

Periodic depreciation, impairment losses and write-backs are recorded in the «depreciation and net impairment losses on property, equipment and investment property» item of the income statement.

The fair value method for investment properties requires that changes in value deriving from the periodic redetermination of the fair value must be recognised in the income statement as income or expenses in «Net result of fair value measurement of property, equipment and investment property and intangible assets». For the methods used to determine the fair value and the periodicity of restatement, reference should be made to the criteria illustrated in «Part A.4 - Information on fair value» below.

With regard to leasing contracts, the amortisation of the Right of Use of the asset is recognised under the item «Depreciation and net impairment losses on property, equipment and investment property», while the interest expense recognised on the financial liability related to the contract is included under the item «Interest and similar expense».

Derecognition criteria

Property, equipment and investment property are derecognised on disposal or when their economic lives are over and they are not expected to generate any further economic benefits.

On disposal of an investment property, the difference between the sale consideration and the carrying amount must be recognised in the income statement, as «Gain (loss) on sale of investments».

The right of use deriving from lease contracts is eliminated from the financial statements at the end of the lease term.

7. Intangible assets

Classification

This item comprises identifiable, intangible, non-monetary assets that will benefit future years. Existing intangible assets consist of software, goodwill and other intangible assets.

Recognition

Intangible assets are recorded at purchase cost plus any related charges, only if it is probable that the future economic benefits attributable to such assets will be realised and their cost can be measured reliably. In the absence of these conditions, the cost of the intangible asset is expensed in the period incurred; any costs incurred subsequently are only capitalised if they increase the value of or the economic benefits expected from the assets concerned. Goodwill is booked to assets when it derives from a business combination according to the criteria laid down in IFRS 3 as the residual surplus between the overall cost incurred for the operation and the net fair value of the acquired assets and liabilities that constitute businesses or business units.

Accounting policies

Subsequent to initial recognition, intangible assets except for goodwill are stated at cost, net of accumulated amortisation and any impairment in value. Amortisation is provided on a systematic, straight-line basis over the expected useful lives of the intangible assets concerned. At the end of each annual or interim reporting period, if there is evidence of impairment, the recoverable value of the asset is estimated: the amount of the loss is equal to the difference between the book value and the recoverable value and is posted to the income statement.

Once booked, goodwill is not amortised but tested periodically to ensure that the book value is holding up. This test is carried out once a year or more frequently if there are signs of impairment. For this reason, cash generating units (CGUs) to which the individual amounts of goodwill can be allocated are identified. The amount of any reduction in value is determined on the basis of the difference between the carrying value of the goodwill and its recoverable value, if this is less. This recoverable amount is equal to the higher of the fair value of the CGU, net of any costs to sell, and the related value in use, represented by the present value of the estimated cash flows for the years that the CGU is expected to operate, including those deriving from its disposal at the end of its useful life.

Recognition of components affecting the income statement

Periodic amortisation, impairment losses and any reversals are allocated to the income statement under the item «Net value adjustments on intangible assets» or «Value adjustments of goodwill». For goodwill, it is not permitted to book any subsequent reversals.

Derecognition criteria

Intangible assets are derecognised when they are not expected to generate any further economic benefits.

8. Non-current assets held for sale

The Bank classifies non-current assets and disposal groups as held for sale if their carrying amount will be recovered principally from sale rather than from continuous use. Non-current assets are only classified in this item when disposal is considered very probable, and the asset or disposal group is available for immediate sale in its current condition, given that Management is committed to making the sale, which should be scheduled for completion within one year of the classification date. They are measured at the lower of book value and fair value, net of selling costs.

The results of the valuation are posted in the relevant items of the income statement or in the item «Profit (Loss) from discontinued operations after tax» if these are discontinued operations.

9. Current and deferred taxation

Tax receivables and payables are reported in the balance sheet as «Tax assets» and «Tax liabilities». Current taxes include advance payments (current assets) and amounts due (current liabilities) in relation to income taxes for the year, if these amounts are likely to be recovered from or paid to the tax authorities. Tax liabilities are determined by applying the current tax rates and regulations.

The estimate of tax assets and liabilities takes into account any charges deriving from disputes notified by the Tax Authorities and not yet settled or whose outcome is uncertain, as well as any doubts about the tax treatment adopted by the Company, given the complexity of tax legislation.

If there are deductible or taxable temporary differences between the value of assets and liabilities for tax purposes and the related book values, the corresponding deferred tax assets and liabilities are recognised using the liability method. Deferred tax liabilities are recognised on all related temporary differences, with the following exceptions:

- they derive from the initial recognition of goodwill, or an asset or liability, in a transaction that did not represent a business combination and that, at the time, did not influence the results reported for statutory and tax purposes;
- the reversal of taxable temporary differences associated with equity investments in subsidiary companies, associated companies and joint ventures can be controlled, and it is probable that such reversal will not occur in the foreseeable future.

Deferred tax assets are recognised in relation to all deductible temporary differences, tax credits and unused tax losses available to be carried forward, to the extent it is probable that sufficient taxable income will be available in future to absorb them, with the following exceptions:

- the deferred tax assets associated with deductible temporary differences derive from the initial recognition of an asset or liability in a transaction that did not represent a business combination and that, at the time, did not influence the results reported for statutory and tax purposes;
- in the case of deductible temporary differences associated with equity investments in subsidiary companies, associated companies and joint ventures, deferred tax assets are

only recognised if it is probable that they will reverse in the foreseeable future and that sufficient taxable income will be available to absorb them.

Law No. 214/2011 allows, under certain situations, certain types of deferred tax assets recognised in the financial statements to be transformed into tax credits, such as those related to value adjustments/reversals on receivables.

No deferred taxes are provided in relation to higher asset values or reserves subject to the deferral of taxation as the conditions for payment of such taxation in the future do not currently apply. Deferred tax assets are only recognised when their recovery in future years is reasonably certain.

Deferred tax assets determined on the basis of deductible temporary differences are recognised in the financial statements to the extent that there is a probability of their recovery; this probability is assessed, through the performance of the so-called «Probability test», based on the ability to continuously generate positive taxable income for the Bank or, as a result of the «Tax Consolidation» option, for the group of participating companies. Unrecognised deferred tax assets are reviewed at each reporting date and recognised to the extent that it has become probable that future taxable income will be sufficient to absorb them upon reversal.

Deferred tax assets/liabilities are calculated using the tax rates expected to be in force when they reverse or expire, being the rates currently in force or those already communicated or substantially in force at the reporting date.

Tax assets and liabilities are usually recorded with matching entries to the income statement, except when they derive from transactions whose effects are attributed directly to equity; in those cases, they are recognised respectively in the statement of comprehensive income or in equity, consistent with the element to which they relate.

10. Provisions for risks and charges

This item comprises the following provisions:

- The sub-item «commitments and guarantees given» includes provisions for credit risk in connection with commitments to grant loans and financial guarantees given that are subject to IFRS 9 impairment rules and provisions for other commitments and other guarantees that are not subject to IFRS 9 impairment rules.
- Sub-item «Pensions and similar obligations» only includes the supplementary defined benefit and defined contributions pension plans classified as internal funds pursuant to current pension legislation, as well as the other «external» supplementary pension funds, if the return of the principal and/or the yield to the beneficiaries has been guaranteed.
- The sub-item «Other provisions for risks and charges» includes the provision for the long-service bonuses paid to employees with 30 years of service, as well as provisions for liabilities whose timing and amount are uncertain, including legal disputes, which are recognised in the financial statements when the following conditions are met:
  - the company has a present obligation (legal or constructive) as a result of a past event at the reporting date;
  - it is likely that settlement of the obligation will involve the use of economic resources;
  - a reliable estimate can be made of the amount necessary to settle the obligation.

These provisions are stated at their present value if recognition of the time value of money has a significant effect (settlements to be made more than 12 months after the date of recognition).

11. Financial liabilities measured at amortised cost

Classification

This item includes amounts due to banks and due to customers, regardless of their technical form (deposits, current accounts, loans, securities), other than those recognised in items 20. «Financial liabilities held for trading» and 30. «Financial liabilities designated at fair value». It also includes operating payables linked to the financial services and activities defined in the Consolidated Banking Act (TUB) and the Consolidated Finance Act (TUF), variation margins with clearing houses arising from derivative transactions and other operating payables associated with the provision of financial services. Amounts due to customers and banks and securities issued comprise the financial instruments (other than trading instruments) that represent the normal funding of the bank's activities by customers and other banks, or by the issue of securities. They also include payables recorded by the company as a lessee in the context of lease transactions.

Recognition

These financial liabilities are recorded using the settlement date method. They are initially recognised at their fair value, which is usually represented by the amount collected. The initial recognition value includes transaction costs, while all charges that are recovered from the creditor counterparty or that are attributable to internal administrative costs are not included. The elements of structured funding, comprising a host instrument and one or more embedded derivatives, are split and recorded separately from the related implicit derivatives, on condition that the economic characteristics and risks of the embedded derivatives are substantially different to those of the host instrument and that the derivatives can be configured as autonomous derivative contracts.

Accounting policies

Subsequent to initial recognition, financial liabilities are measured at amortised cost, using the effective interest method. Amortised cost is calculated after identifying the acquisition discount or premium and the fees or costs that are an integral part of the effective interest rate. Short-term liabilities are stated at the amount collected.

Liabilities covered by effective hedges are measured in accordance with the regulations applying to such transactions.

Lease payables are redetermined when there is a lease modification (e.g. a change in the scope of the contract), which is not accounted for/considered as a separate contract.

Recognition of components affecting the income statement

Interest expense linked to funding instruments, calculated with the internal rate of return method, are booked to the income statement under «interest and similar expense».

Gains and losses on the repurchase of liabilities are recorded in the income statement under «gains (losses) from sale or repurchase of financial liabilities».

Interest expense on the financial liability under the lease contract is recorded in «Interest and similar expense».

Derecognition criteria

Financial liabilities are derecognised when the underlying obligations expire or are settled, cancelled or satisfied. Funding liabilities that are subsequently repurchased are derecognised from the financial statements.

12. Financial liabilities held for trading

This item comprises derivative instruments with a negative fair value, except for hedging derivatives. The total also includes the negative value of derivatives separated from their underlying structured financial instruments, when the conditions for such separation apply.

The criteria for classification, derecognition, measurement and recognition of components affecting the income statement are the same as those described in relation to assets held for trading.

13. Financial liabilities measured at fair value

Currently, the Bank does not classify liabilities in the financial statements as financial liabilities measured at fair value.

14. Currency transactions

They include all assets and liabilities denominated in currencies other than the Euro.

Recognition

Assets and liabilities denominated in currencies other than the Euro are recognised initially using the spot exchange rates applying on the transaction dates.

Accounting policies

On the reporting date, monetary assets and liabilities denominated in foreign currencies are translated using the spot exchange rates at that time. Non-current financial assets denominated in foreign currencies are translated using the exchange rates ruling at the time of purchase.

Recognition of components affecting the income statement

Exchange differences deriving from the settlement of monetary items or from the translation of monetary items using rates other than the initial translation rate, or the closing rate at the end of prior periods, are recorded in the income statement for the period in which they arise. Exchange differences on assets, excluding monetary items, that are classified as financial assets measured at fair value through other comprehensive income, are recognised among the valuation reserves.

Derecognition criteria

The policies applied are those indicated for the corresponding items. The exchange rate used is the one ruling on the date of payment.

15. Termination indemnities

Termination indemnities are considered a defined benefit plan, i.e. a defined benefit obligation, and therefore, as required by IAS 19, the value of the obligation is determined using the projected unit credit method.

Under this method, each year of service originates an additional unit of indemnity that is used to calculate the final obligation. This calculation is performed by forecasting future payments with reference to historical-statistical analyses of the demographic curve, and discounting them using a market interest rate. The actuarial analysis is carried out every six months by an independent actuary.

As a result of the reform of supplementary pensions by Decree No. 252 of 5 December 2005, the termination indemnities accrued up to 31/12/2006 remain in the company, whereas those accruing after that either have to be assigned to some form of supplementary pension fund or kept in the company and subsequently transferred to INPS, depending on the preference of the individual employee. This has entailed changes in the underlying assumptions used for the actuarial calculation: in particular, account no longer has to be taken of the average annual rate of increase in salaries.

The termination indemnities earned after 31 December 2006 are part of defined contributions plans. The Bank recognises the contributions payable to these plans as a liability on an accruals basis, after deducting any contributions already paid to supplementary pension funds and to the INPS treasury fund in relation to the work performed by employees, with a matching entry to the income statement.

It is also noted that, in compliance with Law 335/95, employees hired since 28 April 1993 may allocate part of their termination indemnities to a supplementary pension fund established pursuant to current in-house agreements.

Gains and losses arising from changes in actuarial assumptions are booked to equity as shown in the statement of comprehensive income.

16. Other information

16.1 Share-based payments – Transactions settled using equity instruments

A Share-based Remuneration Plan has been devised for top management, in the context of which any variable remuneration exceeding the threshold of significance determined by the Board of Directors is subject to rules regarding its deferral and payment with financial instruments that are considered suitable for ensuring compliance with the Bank's long-term business objectives. The cost of transactions settled using equity instruments is represented by their fair value at the grant date, as determined using an appropriate method of measurement. This cost and the corresponding increase in equity is recognised as a payroll cost over the period in which the conditions for achieving the objectives and/or providing the service are satisfied. The transaction costs already accumulated at each reporting date prior to the vesting date are projected forward to the vesting date, together with the best estimate of the number of equity instruments that will actually vest. The cost or income recognised in the income statement represents the change in accumulated cost between the start and the end of the year. The service or performance conditions are ignored when the fair value of the plan is determined at the grant date. However, the probability that these conditions will be satisfied is considered when estimating the number of equity instruments that will actually vest. Market conditions are reflected in the fair value determined at the grant date. All other plan conditions that do not involve a service obligation are not considered to be vesting conditions. Non-vesting conditions are reflected in the fair value of the plan and result in immediate recognition of the cost of the plan, unless service or performance conditions must also be satisfied.

16.2 Revenue Recognition

In compliance with the provisions of IFRS 15, revenue arises from the transfer of goods or services to the customer and is recognised at an amount that reflects the consideration that the Group deems it is entitled to in exchange for the above goods or services using a five-step model (identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations; recognise revenue when the entity satisfies a performance obligation).

Revenue from contracts with customers is recognised in profit or loss when it is probable that an entity will receive the consideration to which it expects to be entitled in exchange for transferring goods or services to a customer. The consideration is allocated to individual performance obligations in the contract and is recognised in profit or loss based on the timing of the satisfaction of performance obligations. More specifically, revenue is recognised in profit or loss either at a point in time or over time as and when the entity satisfies its performance obligations. The consideration promised in the contract with the customer may include fixed amounts, variable amounts, or both. The contractual consideration may vary as a result of price concessions, discounts, rebates, incentives or other similar items and may be contingent on the occurrence or non-occurrence of a future event. In the presence of variable consideration, revenue is recognised in profit or loss if it is possible to reliably estimate the revenue and only if it is highly probable that the entire consideration, or a significant part thereof, will not be subsequently reversed from profit or loss. If an entity receives from the customer consideration that envisages the reimbursement to the customer of all or part of the revenue obtained, a liability should be recognised for expected future reimbursements. The estimate of this liability is updated at each year end or interim reporting date based on the portion of the consideration that an entity does not expect to be entitled to. The amount of commission recognised on the placement of products is adjusted to take account of any variable revenues that might have to be returned in future. The revenues earned on current accounts are recognised after allocation to the individual products or services comprising the stand-alone package.

16.3 Cost Recognition

Costs are recognised in the income statement in the period in which they are incurred on an accrual basis. Costs related to obtaining and fulfilling contracts with customers are recognised in the Income Statement in the periods in which the relevant revenues are recognised. If costs cannot be associated with revenues, they are immediately recognised in the income statement.

16.4 Revenues and costs relating to financial instruments

With reference to income and expenses related to financial assets/liabilities, it should be noted that:

- interest is recognised *pro rata temporis* based on the contractual interest rate or the effective interest rate if amortised cost is applied. Interest income and interest expense also include differentials or margins, positive or negative, accrued up to the reporting date, relating to:
  - financial derivative contracts to hedge interest-bearing assets and liabilities;
  - derivative contracts classified in the balance sheet as trading instruments, but operationally linked to financial assets and/or liabilities designated at fair value, in accordance with IFRS 9;
  - derivative contracts operationally related to financial assets and liabilities classified in the balance sheet as trading instruments or operationally related to «other financial assets mandatorily measured at fair value» and which provide for the settlement of differentials or margins at multiple maturities;
- default interest on bad loans is recognised in the income statement at the time of actual collection;
- fees for revenues from services are recognised, based on the existence of contractual agreements, in the period in which the services were rendered, with the exception of fees considered in amortised cost for the purpose of determining the effective interest rate;
- dividends are recognised in the Income Statement when paid;
- gains and losses arising from the trading of financial instruments are recognised in the Income Statement, or in equity in the case of capital instruments for which designation at fair value with impact on comprehensive income is opted for, when the sale is completed, based on the difference between the consideration paid or received and the carrying value of the instruments.

16.5 Accounting treatment of tax credits connected with the «*Cura Italia*» and «Relaunch» Decrees.

Decree-Laws No. 18/2020 (so-called «Cura Italia Decree») and No. 34/2020 (so-called

«Relaunch Decree») have provided for a series of measures aimed at supporting Italian individuals and businesses in their relaunch following the Covid-19 emergency, including tax incentives related to expenses incurred for specific interventions that can be used in the form of tax deductions or tax credits. These tax incentives are applied to households or businesses, they are commensurate with a percentage of the expenditure incurred (which in some cases even reaches 110%) and are disbursed in the form of tax credits or tax deductions (with an option to convert them into tax credits). With a view to helping to support families and businesses, the Bank launched a specific project aimed at acquiring these tax credits in the second half of 2020.
The main features of these tax credits are:

- the possibility of offsetting taxes and contributions under the same rules as for use by the original Beneficiary;
- transferability to third-party purchasers;
- non-refundability by the Treasury in the event of non-use within the prescribed timeframe.

Regulatory amendments were made by Decree-Law No. 4 of 27 January 2022 and Decree-Law 25 February 2022 No. 13, and further, the Government intervened again on the subject through Decree-Law No. 50 of 17 May 2022 (so-called «*Aiuti* Decree»), aimed at unblocking the state of paralysis in which the tax credits market was in, which extended to banks and companies belonging to a banking group the option of assigning tax credits previously acquired in favour of parties, other than consumers, or users who have a current account contract with the bank itself or the parent bank.

This was accounted for in accordance with international accounting standards and in line with the provisions of Bank of Italy/Consob/Ivass Document No. 9 (*«Accounting treatment of tax credits connected with the «Cura Italia» and «Relaunch» Decree-Laws acquired following disposal by direct beneficiaries or previous purchasers»*) issued on 5 January 2021.

Based on the document issued, the purchased tax credits do not represent tax assets, government grants, intangible assets or financial assets, so the most appropriate classification in the balance sheet is «other assets».

At the time of initial recognition, the tax credit is recognised at the price of the transaction (value corresponding to its fair value). For subsequent valuations, the provisions of IFRS 9 are expected to be applied.

In view of the expanded business possibility (purchase of tax credits for possible later disposal), the Bank opted to complement the HTC business model with the HTCS model.

The HTC business model envisages that the measurement subsequent to initial recognition of the credit takes place at amortised cost using the effective interest rate determined at the time of initial recognition, while the HTCS business model envisages that the measurement subsequent to initial recognition of the credit takes place at fair value with a balancing entry in comprehensive income.

No expected loss is calculated on these credits because there is no counterparty credit risk considering that the realisation of the credit takes place by offsetting or in cash in the case of assignment.

16.6 Treasury shares

Any treasury shares held are deducted from equity. Any gains or losses from transactions in treasury shares are also reflected in equity.

16.7 Cash and cash equivalents

The item Cash and cash equivalents includes «sight» cash and all receivables, in the technical forms of current accounts and deposits, from banks and central banks (with the exception of the obligatory reserve). In the income statement, net value adjustments/reversals for credit risk related to the above-mentioned «sight» loans with banks and central banks are recognised under item 130. «Net adjustments/write-backs for credit risk».

16.8 Repurchase agreements, securities lending and contangos

Repurchase agreements or contangos, whereby the Bank sells securities to third parties with the obligation to repurchase them at the maturity date of the transactions at a predetermined price, are recorded under liabilities to banks or to customers depending on the counterparty. Similarly, repurchase agreements or contangos, whereby the Bank purchases securities from third parties with the obligation to resell them at the maturity date of the transactions at a predetermined price, are accounted for as loans to banks or customers (accounting category of «Financial assets measured at amortised cost»), depending on the counterparty. The difference between the spot and forward prices of these transactions is accounted for as interest and recorded on an accrual basis over the life of the transaction. Securities lending transactions in which the collateral is cash that is fully available to the lender are recognised in the financial statements in the same way as the aforementioned repurchase agreements. In the case of securities lending transactions with collateral in the form of other securities, or without collateral, the lender and borrower continue to recognise in the assets side of the balance sheet, respectively, the security lent and the security given as collateral. The remuneration for such operations is recognised by the lender under item «40. Fee and commission income» and by the borrower under item «50. Fee and commission expense».

16.9 Financial instruments (measurement of financial assets, equity investments and models for determining the fair value of instruments not listed in active markets)

Financial instruments not listed in active markets and illiquid and complex instruments are measured using specific complex models and/or parameters not observable in the market. These measurements are therefore highly complex, as highlighted by their classification in the fair value hierarchy. See Part A.4 – «Information on fair value» in these notes to the financial statements for qualitative and quantitative information on the methods adopted to determine the carrying amounts of instruments measured at fair value and those measured at amortised cost.

With regard to equity investments, the draft financial statements and updated business plans of the companies concerned might not be available when preparing the financial statements of the bank, which would increase the uncertainties involved in measuring their value. In such cases, the carrying amounts assigned to the equity investments concerned, based on the available information, might differ from subsequent measurements made on the basis of different information that becomes available.

16.10 Deferred tax assets and valuation of liabilities associated with employee benefits

The assets shown in the Bank's balance sheet include deferred tax assets, which principally derive from temporary differences between the date of recognition of costs in the income statement and the date on which they become tax deductible and, to a lesser extent, from tax losses carried forward. Section 10 – «Tax assets and tax liabilities», contained in Part B – Assets of these notes to the financial statements, provides information about the nature of DTAs and the checks carried out on their recoverability, as well as about the results of the sensitivity analysis carried out on the time horizon for their recoverability, considering reasonable changes in the expected cash flows. The measurement of the liability for employee benefits involves a certain degree of complexity, especially with regard to defined benefit plans and other long-term benefits, given that this involves making actuarial assumptions of a demographic (e.g. mortality rate, employee turnover) and financial (e.g. discount rates and inflation rates) nature. Part B of these notes to the financial statements contains separate analyses covering the sensitivity of the provision for employee termination indemnities and the provision for defined benefit pensions to changes in the actuarial assumptions included in the model.

16.11 Significant accounting standards and uncertainties in the use of estimates in the preparation of consolidated financial statements (pursuant to IAS 1 and the recommendations in Bank of Italy/Consob/Isvap Document No. 2 of 6 February 2009 and No. 4 of 3 March 2010)

As stated previously, the adoption of certain accounting policies necessarily requires recourse to estimates and assumptions that influence the value of the assets and liabilities recognised in the financial statements and the disclosures made about any contingent assets and liabilities. When accounting estimates are made, the Bank considers all available information at the reporting date, as well as any reasonable assumptions based on external evidence and its own historical experience. However reasonable, it cannot be excluded that these estimates might not be confirmed in the future operating scenarios that unfold for the bank. The results reported in future might, in fact, also differ from the estimates made when preparing the interim financial statements and, consequently, adjustments to the carrying amounts of reported assets and liabilities might become necessary that are currently unforeseeable and cannot be estimated.

At present, the main uncertainties that could affect the future scenarios in which the Bank will operate include the negative consequences on the global and Italian economy directly or indirectly linked to the Coronavirus (COVID-19) epidemic together with the evolutions related to the geopolitical and macroeconomic context.

In relation to the impact of the COVID-19 health emergency, reference is made to the indications provided by the Authorities over the past two financial years, recalling that already in March, the Italian Government had lifted most of the restrictions related to COVID-19, marking an acceleration in the return to the new post-pandemic normality.

In relation to the Russian invasion of Ukraine, which took place at the end of February 2022, it should be noted, however, that it led to a drastic worsening of the macroeconomic context and recovery forecasts. In particular, the conflict had a negative impact on the global economy through rising commodity and energy prices. This added inflationary pressures, imposing a difficult balancing act on central banks in their attempt to keep inflation under control without triggering a recession. In addition, the supply of gas and oil to the EU from Russia has been progressively reduced in 2022, with the risk of further impacts in the coming months. In this context, characterised by growing uncertainty over the macroeconomic outlook, the Bank maintained the controls already in place in previous quarters, reinforcing them with additional specific credit risk monitoring activities.

In this respect, in addition to the controls already in place, a specific monitoring activity of companies operating in the sectors with the highest consumption of energy and natural gas was activated in order to identify those with potential elements of increased credit risk. As a result of the analyses and assessments conducted, a prudently defined «high risk» portfolio was identified, comprising counterparties potentially sensitive to the ongoing energy crisis and with active risk triggers. These counterparties were conservatively classified as stage 2.

There were no regulatory changes in 2022. Therefore, classifications and valuations were made in continuity with the 2021 Financial Statements, to which reference should be made for detailed information on regulatory amendments and how they were applied by the Bank.

Economic results

The dynamics of the Bank's main economic aggregates recorded at 31 December 2022 are summarised below, highlighting those most affected by the effects related to the health crisis brought about by the spread of COVID-19, by the Russian-Ukrainian conflict and by the evolution of the energy market. In particular, net interest income still benefited from the positive effects deriving from the expansion of volumes and the TLTRO III refinancing operations and from the rate hike. On the other hand, the results of the financial activities were affected by the negative development of the financial markets, recording significant losses compared to 2021, which had instead been positively impacted by the recoveries recorded compared to 2020. The cost of credit was impacted by the effects of the changed macroeconomic scenario; there was an increase in the overall cost of credit compared to the previous year due to both extraordinary and prudential provisions related to the conflict between Russia and Ukraine, as well as those related to the segments of the loan portfolio most exposed to the increase in energy commodity prices. On the non-performing receivables portfolio, coverage levels increased further also in relation to the massive sale carried out at year-end and the adoption of calendar provisioning in compliance with the regulatory framework. In the following paragraph, more detail is provided on the impacts on the quantification of expected losses, also highlighting the quantitative ones. Overall, this negatively impacted the partial and total economic results, with a consequent effect also on profitability and credit quality indicators. Please refer to the chapter «Results of brief and alternative performance indicators» contained in the consolidated report on operations for more details and quantitative data.

ECL – Expected credit losses

With reference to the methodological framework used by the Bank to quantify the expected losses on performing loans during 2022, we note, the usual updating of the macroeconomic scenario parameters and the weight factors associated with them based on the latest forecasts available, including both the effects of the COVID-19 pandemic and the changed macroeconomic and geopolitical context resulting from the outbreak of the Russian-Ukrainian conflict.

With specific reference to the explicit modelling of the prospective and scenario-dependency components postulated by the accounting standard, it is specified that a plurality of macroeconomic scenarios were adopted for the calculation of the write-downs of December 2022:

– a baseline scenario, corresponding to the equivalent scenario released by the official supplier at the time of the last available forecast report at the time of the impairment calculation (i.e. Q3 2022 - monthly update of November 2022);
– a (slightly) adverse scenario, corresponding to the same scenario released by the official supplier on the occasion of the last forecast report available at the time of calculation of the write-downs (i.e. Q3 2022);
– a scenario of an extreme nature, corresponding to the equivalent scenario issued by the official supplier at the time of the last forecast report available at the time of calculation of the write-downs (i.e. Q3 2022);

On the other hand, as regards the probabilistic coefficients assigned to the individual scenarios when weighting the scenario-dependent ECL, the baseline scenario is assigned, by reason of its nature, the prevailing weight factor (equal to 60%), where the alternative scenarios enter with weight factors respectively equal to 35% and 5%.

Lastly, considering the persistence of the high level of uncertainty regarding the evolution of the current macroeconomic and business context in which the Bank operates, the specific management overlay framework was maintained and further improved, aimed at better capturing the current and prospective risk profile of the Bank's portfolio. In this regard, it is important to note how, in addition to the usual data-driven component, subject to the usual calibration activity based on the evolutionary dynamics of geo-sector risk factors, the so-called prudential add-on was maintained, for which the overall level was updated, consisting of a further increase in the level of write-downs of stock in stage 2, in order to adequately incorporate in the write-down provision the direct and indirect effects of the profound energy and gas supply crisis that occurred following the outbreak of the conflict.

Overall, these revisions resulted in a level of collective write-downs regarding loans with customers on-balance sheet of 132 million euro at 31 December 2022 compared to 105 million euro at 31 December 2021.

In any case, however, it cannot be excluded that the introduction of different methodologies, parameters, assumptions in determining the recoverable value of the Bank's performing credit exposures - influenced moreover by the evolution of the reference economic-financial and regulatory context - may determine valuations different from those conducted for the purpose of preparing the financial statements as at 31 December 2022.

For further details on the incorporation of the effects of COVID-19 and the Russian-Ukrainian conflict in the calculation of value adjustments on loans and on the sensitivity analysis, refer to paragraphs «2.3 Methods for measuring expected losses» and «5 Impacts resulting from the COVID-19 pandemic and the Russian-Ukrainian conflict» contained in the section dedicated to credit risk of «Part E - Information on risks and related hedging policies» of the individual Notes.

Lastly, for details in terms of gross exposure, impairment adjustments (overall and for the year), inter-stage transfers of the support measures granted by the Bank at 31 December 2022, please refer to the following tables:

- 4.4a of «Section 4 – Financial assets measured at amortised cost», contained in «Part B – Information on the balance sheet» of these Notes;
- 8.1a of «Section 8 – Net value adjustments/reversals for credit risk» contained in «Part C – Information on the income statement» of these Notes;
- A.1.5a and A.1.7a included in the quantitative information of the section related to credit risk of «Part E – Information on risks and related hedging policy» of these Notes.

A.3 Transfer of financial assets held for trading

As in the previous year, the Bank did not carry out any reclassifications of financial assets.

In the 2022 financial year, as in previous years, there was no change to the Banca Popolare di Sondrio 'business model', i.e. the way in which the Bank manages financial instruments.

A.4 Information on fair value

Qualitative information

Information on fair value as required by IFRS 13 is provided below. This standard defines fair value as the price that would be received from the sale of an assets or that would be paid for the transfer of a liability in an orderly transaction between market operators on the measurement date. Fair value is a criterion based on market value; however, while transactional or observable market information may be available for certain assets and liabilities, such information may not be available for other assets and liabilities. When the price of an identical asset or liability cannot be found, it is necessary to use measurement techniques that maximise the use of significant observable inputs and minimise the use of unobservable inputs.

IFRS 13 requires the measurement of default risk in determining the fair value of OTC derivatives. This risk relates to changes in the credit rating of both the counterparty and the issuer. Accordingly, a model for the measurement of this component of risk has been devised and is used to adjust the simple market value of the instrument.

With regard to derivatives with positive mark-to-market adjustments, the risk component is known as the Credit Value Adjustment (CVA) and represents the potential loss associated with the counterparty credit risk, while the Debit Value Adjustment (DVA) quantifies the issuer risk in relation to instruments with negative mark-to-market adjustments.

These price adjustments are obtained according to a model-based approach derived from the possibility of default by both the counterparties and the bank itself, as well as additional representative cost/convenience components associated with the transaction. The Credit Valuation Adjustment represents the fair value adjustment due to the risk that the counterparty will default at a time when the bank has positive exposure to it. It therefore takes on a negative sign and represents a valuation component that therefore decreases the positive fair value of the instrument. The Debt Valuation Adjustment represents the fair value adjustment that considers the consequences on counterparties of possible bankruptcy of the bank. In contrast to the CVA, it represents a positive adjustment that therefore decreases the negative fair value of the instrument. If a specific CSA (Credit Support Annex) agreement has been concluded with the counterparty and a cash deposit has therefore been given or taken as security, the value of the instrument is not adjusted for the CVA/DVA component. The CVA/DVA book value for derivative instruments is then calculated as the product of the fair value of the position, the cumulative probability of default and the complement at 1 of the recovery rate (RR). These adjustments are calculated daily directly in the applications that manage the derivative positions held by the bank.

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

Input values for the determination of level 2 fair value include: prices for similar assets or liabilities listed in active markets, prices for identical or similar assets or liabilities listed in inactive markets, and information other than observable listed prices, such as routinely listed interest rates and yield curves observable at intervals, implicit volatility, credit spreads and inputs corroborated by the market. This information is usually supplied by providers or determined with reference to prices calculated with reference to the market parameters of similar financial assets.

Input values for the determination of level 3 fair value are unobservable market values for the asset or liability and must be used to measure fair value to the extent that relevant observable inputs are not available. They must reflect the assumptions that market operators would use to determine the price of the asset or liability, including those regarding the related risk. The input values not observable on the market derive from internal estimates and valuations based on pricing models that take account of expected cash flows and pricing and spread information, as well as of historical data and series of data concerning the risk factors, and relevant specialist reports.

Derivative instruments

OTC derivative instruments, for which there are no publicly formulated quotations by independent third parties and which are typically contracts signed bilaterally between the bank and another financial counterparty, are valued by means of appropriate pricing models and classified in Level 2 or Level 3 (if significant assumptions and/or unobservable market parameters are to be used) of the fair value hierarchy. In particular, all derivative instruments can be reduced to two categories:

- Derivative instruments with symmetric profile, which have as their underlying a transaction that is certain to occur on a specified maturity date (or dates) and which provide for simultaneous actions and identical positions (in terms of value and risk) for both counterparties. This category includes plain vanilla futures, forwards and swaps on all traded underlying types. Such instruments are typically valued using a Discounted Cash Flow model, which discounts, at a risk-free rate, the cash flows implicit in the contract.
- Derivative instruments with asymmetric profile, which have as their underlying a transaction

that may occur (or not occur) at the discretion of one of the counterparties. In particular, there is a counterparty that acquires the right and that will be able at its discretion to activate the underlying transaction on the given expiry date (or dates), while the other counterparty that sells the right will be subject to the purchaser's decision.

This category of derivative instruments, to which all types of options belong, requires calculation models based on the volatility of the underlying, with the possible use of models based on numerical methods in the case of the presence of path-dependent elements with respect to the expected evolution of the value of the underlying or elements of exoticism in determining the payoff.

Loans and receivables

The method of measuring loans and receivables at fair value, where parameters relating to credit risk that can be inferred from market prices cannot be used, results in the instrument being classified in Level 3 of the fair value hierarchy. In general, the calculation of the fair value for these loans is carried out by means of a DCF model, whereby the individual cash flows associated with the individual maturities, deducted of the unrecoverable component related to the counterparty's credit risk, are discounted at a risk-free rate plus a premium for the illiquidity of the instrument itself. The cash flows at the individual payment date are determined from the contractual flows and take into account, where relevant, both anticipatory early redemption dynamics and the modelling of any optional components linked to the indexation of the flows. For on sight loans or without contractual maturity, the net book value is considered the best approximation of fair value. The technical form of Life Mortgage Loans (PIV), which, due to their particular contractual structure and risk profile, have a specific valuation model that is more focused on the value of the property being financed.

With regard to tax receivables classified under Other Assets in the balance sheet, pending the consolidation of market practice in terms of valuation, the estimate of fair value is calculated using a «base» method, which replicates the DCF model previously set out, which leads to the substantial confirmation of the carrying value of the receivable, as the transfer price of the receivable is known from the outset. Possible refinements of the valuation model may depend on the observation of comparable transactions in the market, e.g. size, activity levels, time proximity to the assets being valued.

Mutual funds

Undertakings for Collective Investment (UCI) are financial intermediaries that collect private savings and invest them on the basis of specific management rules, arranged with reference to specific limits in terms of risk, asset allocation, concentration and exposure.

UCI generally have segregated assets that are usually dynamically managed and their composition is usually only partially known to investors. The Management Entity shall publish an estimate of the overall net value of the assets of the UCI (denominated Net Asset Value or NAV) with a frequency established by the internal regulations of the UCI, from which the theoretical value of each unit is calculated.

The risk and return profile of an investment in UCI is highly variable, depending on the characteristics and form of the UCI itself, the type of legislation to which it is subject, the type of investments it makes, and the possibilities for disposing of the units held. Most of the factors related to the risk and return profile of the units of a UCI are reflected in the valuation of the assets and, consequently, in the NAV value produced and disclosed by the Management Entity, which is the basis for determining the fair value of the units themselves. However, there may be elements of risk that are not perfectly or fully reflected in the NAV and therefore, require appropriate adjustments to be made to the NAV to identify fair value. This is particularly the case for UCI with the following characteristics:

- Closed-ended UCIs - unlike open-ended UCIs, do not allow investors to obtain (at any time) the immediate disposal of their units. Therefore, such disinvestment is only possible by reselling own units to a third party, which normally entails long lead times and high transaction costs.
- UCIs whose NAV does not represent the fair value of the underlying assets - certain types of UCIs, based on the relevant legislation, may adopt NAV valuation criteria that do not correspond to the valuation criteria that would be used to determine the fair value of the underlying investments. This category includes, for example, funds investing in private equity (whose investments are often valued at the lower of cost or market), those investing in private debt (normally valued at cost subject to impairment), and funds of NPEs, which sometimes value the underlying loans by discounting expected recoveries against rates that are far from market rates. In all these situations, it may be appropriate to make an adjustment to the NAV to realign it to the potential fair value.
- UCIs with infrequent NAV publication - some types of UCIs, especially closed-end UCIs and UCIs with illiquid underlying assets provide NAV calculation with limited frequency. Consequently, the value expressed by the latest available NAV could also be significantly different (as it is not up-to-date) from the actual value at current prices of the assets of the UCI itself. Again, it may be appropriate to make adjustments to the NAV to determine fair value.

Investments and other equity securities

If Level 1 and Level 2 price sources are not available, fair value is determined using an *ad-hoc* valuation model, specifically defined with respect to the characteristics of the instrument in question and the financial information available at the time of valuation. In said case, the instrument will be classified as Level 3 in the fair value hierarchy. In such circumstances, specific valuation approaches and methodologies are used, developed *ad-hoc* by the Pricing and Valuation Models Office in accordance with best practices and industry literature in the field of valuation and financial modelling, which can be categorised into the following two macro-typologies of analytical and empirical valuation methods. The so-called analytical methods are usually used as the main valuation approach, if no direct transactions on the company being valued can be detected, referring to the transfer of a significant portion of the share capital between independent market counterparties in a reasonably close time span. These methodologies estimate the value of a company by analysing its fundamentals to determine the inputs (such as cash flows, income, assets, etc.) on which the valuation is based. Analytical methods differ from empirical methods (described below), which estimate the value of a company by relying on the prices of comparable companies on the market.

For unlisted equities with observable inputs, but for which the most recent information available to measure their fair value is insufficient, the best estimate was made considering their adjusted equity value.

Non-financial assets measured at fair value on a recurring basis

For Banca Popolare di Sondrio, non-financial assets measured at fair value on a recurring basis are represented by real estate assets held for investment purposes measured at fair value on the basis of the provisions of IAS 40.

The fair value of properties held for investment purposes is determined through the use of special appraisals prepared by independent companies, professionally qualified and operating in the specific sector, capable of providing property valuations based on RICS Valuation standards.

These standards ensure that:

- ithe fair value is determined in accordance with the indications of the international

accounting standard IFRS 13, i.e. it represents the estimated amount for which an asset would be sold and purchased, at the date of valuation, by a seller and a buyer with no special ties, both interested in the purchase and sale, at competitive conditions, after adequate marketing in which the parties have both acted in an informed, conscious and non-coerced manner;
- experts have professional, ethical and independence requirements in line with international and European standards.

For properties of a significant amount, i.e. properties with a value of more than 5 million, a «full» appraisal is envisaged, i.e. conducted by means of an inspection of the property, as well as a detailed analysis of the available documentation. For the remaining properties, however, it is possible to have recourse to a «drive-by» type appraisal, that is, based on the examination of the documentation as well as through an external inspection of the unit being appraised.

Taking into account that for real estate held for investment purposes the measurement criterion is fair value, the value is determined on the basis of new appraisals each year.

A.4.2 Processes and sensitivity of the measurements

The Bank determines the fair value of assets and liabilities using various methodologies defined in the corporate policies. Based on the inputs that can be used, financial instruments are classified as Level 1, Level 2, Level 3. Financial instruments that are quoted in active markets for which the fair value is assumed based on official market quotations are classified in Level 1. If there is more than one active market, reference is made to the principal market; failing this, the most advantageous market is used. Level 1 inputs cannot be adjusted in normal circumstances. The concept of active market does not coincide with that of official market; rather, it refers strictly to the financial instrument concerned. It follows that a listing in an official market is not sufficient to be considered as listed in an active market. Listed prices are obtained from price boards, dealers, brokers etc. and reflect transactions carried out on an orderly basis. Level 2 financial instruments are those whose inputs are different from the listed prices included in Level 1 that are directly or indirectly observable for the asset or liability concerned. In this case, the measurement techniques used include the market value method, the income method which, in turn, is based on present value techniques and models for measuring the price of options. The use of present value techniques involves determining:

a) the future cash flows deriving from the asset or liability to be measured;
b) the uncertainty inherent in the cash flows, given possible changes in their amount and timing;
c) the rate applicable to risk-free monetary assets of similar duration;
d) the risk premium;
e) for liabilities, the related non-performance risk, including the credit risk associated with the debtor.

Level 3 financial instruments are those whose inputs are not observable. In this case, the best information available in the specific circumstances is used, including all reasonably available information about the assumptions adopted by market operators.

If a financial instrument is measured by recourse to inputs from various levels, it is allocated to the level of the input considered least meaningful. With regard to Level 3 financial assets, IFRS 13 requires the disclosure of information about the sensitivity of the reported results to changes in one or more of the unobservable parameters used to measure their fair value.

Given the limited weighting of such instruments within the Bank's portfolio of financial assets and considering that the Level 3 instruments contained in the portfolio of financial assets largely comprise securities carried according to models whose inputs are specific to the entity being valued (for example, the assets of the company) or through prices of previous transactions, without further adjustments (for which no quantitative information is required about the sensitivity of their valuation), any changes in unobservable inputs would not have a significant economic impact.

As regards the Asset Backed Securities (ABS) present in portfolio, deriving from securitisations of bad loan portfolios, the analyses and assessments were carried out on the basis of the most recent information available and following the so-called waterfall structure for modelling the cash flows of the securitisations. From our analyses, no elements emerged that would justify a change in the fair value of the tranches with respect to the values currently recorded in the financial statements.

There are also in portfolio units of funds deriving from corporate loan restructuring, whose measurement at fair value is carried out on the basis of the NAV, corrected if necessary to take into account the investment's poor liquidity.

The instruments classified at level 3, for which non-observable quantitative inputs are used in the determination of the fair value, are largely attributable to financial instruments that did not pass the SPPI test envisaged for the classification of financial assets by IFRS 9. The fair value of most of these financial instruments is determined through a Discounted Cash Flow model or, for revocable products, set equal to the gross exposure adjusted for the credit risk loss component. The economic results do not fluctuate significantly on changes in the unobservable risk parameters. In particular, the following analyses were carried out:

a) analysis of the sensitivity to changes in the PD (Probability of default) parameter under various scenarios: (slightly) favourable and adverse. In both cases, the changes in fair value were very limited (total fair value lower by 0.01% under the adverse scenario and lower by 0.12% under the favourable scenario). The changes were very limited because the credit risk associated with most of these instruments is low;
b) analysis of the sensitivity to changes in the LGD (Loss Given default) parameter under various scenarios: (slightly) favourable and adverse. In both cases, the changes in fair value were very limited (fair value lower by 0.24% under the adverse scenario and higher by 0.06% under the favourable scenario). Here too, the changes were very limited because the credit risk associated with most of these instruments is low;
c) analysis of the sensitivity to changes in the rate used to discount cash flows, applying a parallel shock to the rate curves of +/-200 basis points. In these cases, fair value decreased by -1.34% following an increase in the rate curves and, conversely, increased by +2.21% following a decrease in them. In particular, for fixed-rate instruments, the capitalisation rate was not affected by the shock which, however, did affect the discounting of cash flows; conversely, with regard to variable-rate instruments, the spread component of the capitalisation rate was not affected by the shock which, however, did affect determination of the variable component of coupons and the discounting cash flows. The fair value, with and without the application of the shock, may be affected by discounting using a negative rate; this is consistent with recent calculations for other purposes and with market practice. The capitalisation phase has a natural limit of zero and no rates are generated with a negative interest rate. The changes in fair value are greater than found with the other two sensitivity analyses, but nevertheless remain low;
d) sensitivity analysis to quantify the effect of modelling explicitly the illiquidity and funding spread component. If this component is not modelled explicitly, the change in fair value is +1.43%; conversely, if a parallel shock to the rate curves of +/-50 basis points is applied, the change in fair value is -2.24% if the rate curves are shifted up, and +2.32% if they are shifted down.

A.4.3 Fair value hierarchy

For the measurement of fair value, IFRS 13 makes use of the hierarchy of criteria concept introduced in an amendment to IFRS 7, adopted by Regulation 1165 of 27/11/2009, which required the classification of measurements using a hierarchy of levels that reflect the meaningfulness of the inputs used. These levels are:

a) prices (without adjustments) on active markets for the assets and liabilities being measured (level 1);
b) inputs other than the listed prices mentioned above; these can be seen directly (prices) or indirectly (derived from prices) on the market (level 2);
c) inputs not based on market observable data (level 3). In this case, the fair value is determined using measurement techniques based on estimates and assumptions by the relevant offices of the Bank.

Allocation to the levels is not optional and is carried out in hierarchical order, giving priority to the official prices in active markets; in the absence of such inputs, reference is made to other methods that rely on observable parameters, and then to measurement techniques that use unobservable inputs.

An asset or liability is transferred between different levels of the fair value hierarchy when, following changes, its previous classification is no longer consistent with the inputs used.

Fair value hierarchy of real estate assets

The fair value of real estate held for investment purposes is classified at level 3 in the fair value hierarchy under IFRS 13, as it is determined using valuation techniques for which one of the significant inputs is not based on observable market data.

A.4.4. Other information

The information provided above together with that contained in the following tables represents appropriate disclosure pursuant to paras. 91 and 92 of IFRS 13. The disclosures envisaged in paras. 51, 93 (i) and 96 of that standard are not required.

QUANTITATIVE INFORMATION

A.4.5 Fair value hierarchy

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

	31/12/2022			31/12/2021		
Financial assets/liabilities measured at fair value	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Financial assets measured at fair value through profit or loss**	**108,403**	**584,462**	**572,406**	**158,701**	**716,288**	**583,714**
a) financial assets held for trading	102,157	64,934	–	158,701	41,561	2,150
b) financial assets designated at fair value	–	–	–	–	–	–
c) other financial assets mandatorily measured at fair value	6,246	519,528	572,406	–	674,727	581,564
2. **Financial assets measured at fair value through other comprehensive income**	**2,461,800**	**–**	**90,651**	**2,992,513**	**–**	**106,347**
3. **Hedging derivatives**	**–**	**248**	**–**	**–**	**–**	**–**
4. **Property, equipment and investment property**	**–**	**–**	**21,435**	**–**	**–**	**19,487**
5. **Intangible assets**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**2,570,203**	**584,710**	**684,492**	**3,151,214**	**716,288**	**709,548**
1. **Financial liabilities held for trading**	**9**	**47,570**	**–**	**–**	**22,796**	**–**
2. **Financial liabilities designated at fair value**	**–**	**–**	**–**	**–**	**–**	**–**
3. **Hedging derivatives**	**–**	**116**	**–**	**–**	**–**	**–**
Total	**9**	**47,686**	**–**	**–**	**22,796**	**–**

There were no transfers of financial instruments between the three fair value levels during the year. The impact of the CVA (Credit value adjustment) and DVA (Debit value adjustment) on the determination of the fair value of derivative products is not significant, not least because most of the exposures are covered by credit support annexes (CSA).

A.4.5.2 Annual changes in assets measured at fair value on a recurring basis (level 3)

	Financial assets measured at fair value through profit or loss				Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Property, equipment and investment property	Intangible assets
	Total	of which: a) financial assets held for trading	of which: b) financial assets designated at fair value	of which: c) other financial assets mandatorily measured at fair value				
1. **Opening balance**	**583,715**	**2,151**	**–**	**581,564**	**106,347**	**–**	**19,487**	**–**
2. **Increases**	**130,623**	**–**	**–**	**130,623**	**5,949**	**–**	**2,038**	**–**
2.1. Purchases	97,871	–	–	97,871	64	–	–	–
2.2. Profits recognised in:	19,106	–	–	19,106	5,687	–	1,150	–
2.2.1. Income Statement	19,106	–	–	19,106	–	–	208	–
- of which gains	17,334	–	–	17,334	–	–	208	–
2.2.2. Equity	–	–	–	–	5,687	–	942	–
2.3. Transfers from other levels	–	–	–	–	–	–	–	–
2.4. Other increases	13,646	–	–	13,646	198	–	888	–
3. **Decreases**	**141,931**	**2,151**	**–**	**139,781**	**21,646**	**–**	**90**	**–**
3.1. Sales	2,151	2,151	–	–	–	–	–	–
3.2. Reimbursements	57,896	–	–	57,896	10,151	–	–	–
3.3. Losses recognised in:	32,686	–	–	32,686	9,802	–	90	–
3.3.1. Income Statement	32,686	–	–	32,686	–	–	90	–
- of which losses	32,678	–	–	32,678	–	–	90	–
3.3.2. Equity	–	–	–	–	9,802	–	–	–
3.4. Transfers from other levels	–	–	–	–	–	–	–	–
3.5. Other decreases	49,199	–	–	49,199	1,693	–	–	–
4. **Closing balance**	**572,406**	**–**	**–**	**572,406**	**90,650**	**–**	**21,435**	**–**

The decrease during the year in financial assets mandatorily measured at fair value was largely attributable to the financial instruments (loans in particular) that did not pass the SPPI test and that, accordingly, were classified in this line item. This item also includes units in UCI, which are not held for trading purposes.

A.4.5.3 Annual changes in financial liabilities measured at fair value (level 3)

There are no financial liabilities measured at fair value on a recurring basis of level 3.

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

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis	31/12/2022				31/12/2021			
	BV	Level 1	Level 2	Level 3	BV	Level 1	Level 2	Level 3
1. Financial assets measured at amortised cost	39,519,379	9,510,538	–	29,818,327	38,247,795	9,627,715		29,362,141
2. Investment property	–	–	–	–	–	–	–	–
3. Non-current assets and groups of assets held for sale	–	–	–	–	–	–	–	–
Total	**39,519,379**	**9,510,538**	**–**	**29,818,327**	**38,247,795**	**9,627,715**	**–**	**29,362,141**
1. Financial liabilities measured at amortised cost	48,509,904	3,262,887	191,834	44,891,940	45,539,332	3,504,257	214,055	41,865,627
2. Liabilities associated with assets held for sale	–	–	–	–	–	–	–	–
Total	**48,509,904**	**3,262,887**	**191,834**	**44,891,940**	**45,539,332**	**3,504,257**	**214,055**	**41,865,627**

A.5 Information on the «day one profit/loss»

The «day one profit/loss» provided for in IFRS 7 and IFRS 9 para. B5.1.2A derives from the difference at the time of initial recognition between the transaction price of the financial instrument and its fair value. This difference can generally be found for those financial instruments that do not have an active market. This difference is charged to the income statement over the useful life of the financial instrument concerned. The Bank does not have any transactions outstanding which could generate significant income that could be defined as «day one profit/loss».

PART B Information on the balance sheet

Assets

Section 1 Cash and cash equivalents - Item 10

1.1 Cash and cash equivalents: breakdown

	31/12/2022	31/12/2021
a) Cash	166,672	126,935
b) Current accounts and sight deposits with central banks	5,768,020	4,483,213
c) Current accounts and sight deposits with banks	53,895	93,741
Total	**5,988,587**	**4,703,889**

Section 2 Financial assets measured at fair value through profit or loss - item 20

2.1 Financial assets held for trading: breakdown

	31/12/2022			31/12/2021		
Items/Values	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. **Cash assets**						
1. Fixed-yield securities	–	–	–	24,255	–	–
1.1 Structured securities	–	–	–	–	–	–
1.2 Other fixed-yield securities	–	–	–	24,255	–	–
2. Equity securities	50,856	–	–	65,378	–	–
3. Mutual funds	50,678	14,769	–	68,755	16,626	–
4. Loans	–	–	–	–	–	–
4.1 Repo transactions	–	–	–	–	–	–
4.2 Other	–	–	–	–	–	–
Total (A)	**101,534**	**14,769**	**–**	**158,388**	**16,626**	**–**
B. **Derivative instruments**						
1. Financial derivatives	623	50,165	–	313	24,935	2,151
1.1 for trading	623	50,165	–	313	24,935	2,151
1.2 associated with the fair value option	–	–	–	–	–	–
1.3 other	–	–	–	–	–	–
2. Credit derivatives	–	–	–	–	–	–
2.1 for trading	–	–	–	–	–	–
2.2 associated with the fair value option	–	–	–	–	–	–
2.3 other	–	–	–	–	–	–
Total (B)	**623**	**50,165**	**–**	**313**	**24,935**	**2,151**
Total (A+B)	**102,157**	**64,934**	**–**	**158,701**	**41,561**	**2,151**

2.2 Financial assets held for trading: breakdown by debtor/issuer/counterparty

Items/Values	31/12/2022	31/12/2021
A. **CASH ASSETS**		
1. **Fixed-yield securities**	**–**	**24,255**
a) Central banks	–	–
b) Public administrations	–	24,255
c) Banks	–	–
d) Other financial companies	–	–
of which: insurance companies	–	–
e) Non-financial companies	–	–
2. **Equity securities**	**50,856**	**65,378**
a) Banks	14,394	14,623
b) Other financial companies	5,426	11,275
of which: insurance companies	2,575	5,408
c) Non-financial companies	31,036	39,480
d) Other issuers	–	–
3. **Mutual funds**	**65,447**	**85,381**
4. **Loans**	**–**	**–**
a) Central banks	–	–
b) Public administrations	–	–
c) Banks	–	–
d) Other financial companies	–	–
of which: insurance companies	–	–
e) Non-financial companies	–	–
f) Households	–	–
Total (A)	**116,303**	**175,014**
B. **DERIVATIVE INSTRUMENTS**	**–**	**–**
a) Central Counterparties	–	–
b) Other	50,788	27,399
Total (B)	**50,788**	**27,399**
Total (A+B)	**167,091**	**202,413**

2.5 Other financial assets mandatorily measured at fair value: breakdown by category

	31/12/2022			31/12/2021		
Items/Values	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Fixed-yield securities**	**6,246**	**–**	**26,517**	**–**	**–**	**32,649**
1.1 Structured securities	6,246	–	26,517	–	–	32,649
1.2 Other fixed-yield securities	–	–	–	–	–	–
2. **Equity securities**	**–**	**–**	**–**	**–**	**–**	**–**
3. **Mutual funds**	**–**	**519,528**	**183,512**	**–**	**674,727**	**144,801**
4. **Loans**	**–**	**–**	**362,376**	**–**	**–**	**404,114**
4.1 Repurchase agreements	–	–	–	–	–	–
4.2 Other	–	–	362,376	–	–	404,114
Total	**6,246**	**519,528**	**572,405**	**–**	**674,727**	**581,564**

Loans classified under this item are financial instruments that have not passed the SPPI test. The fixed-yield securities classified under this item are instruments that are part of a business model of financial instruments managed at fair value and not held for trading.

The item «Fixed-yield securities» includes the Asset Backed Securities (ABS) mezzanine and junior for 0.975 million deriving from the sales of Diana, Luzzatti, Luzzatti II and Luzzatti III, and the note linked with the securitisation by BNT Portfolio SPV Srl. These securities are classified in Level 3. See paragraph «C. Securitisation transactions» in Part E of these Notes to the financial statements for further details.

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

	31/12/2022	31/12/2021
1 **Equity securities**	**–**	**–**
of which: banks	–	–
of which: other financial companies	–	–
of which: non-financial companies	–	–
2. **Fixed-yield securities**	**32,763**	**32,649**
a) Central banks	–	–
b) Public administrations	–	–
c) Banks	6,246	–
d) Other financial companies	25,258	29,490
of which: insurance companies	–	–
e) Non-financial companies	1,259	3,159
3. **Mutual funds**	**703,040**	**819,528**
4. **Loans**	**362,376**	**404,114**
a) Central banks	–	–
b) Public administrations	46	68
c) Banks	–	–
d) Other financial companies	5,047	12,007
of which: insurance companies	–	–
e) Non-financial companies	239,312	263,012
f) Households	117,971	129,027
Total	**1,098,179**	**1,256,291**

Mutual funds are made up of: equity funds and sicavs for 58.889 million euro, bond funds for 513.429 million euro, balanced and flexible funds for 58.140 million euro and real estate funds for 72.582 million euro.

With regard to mutual funds acquired as part of transactions for the sale of receivables included among bond funds, please refer to the specific paragraph reported in Part E of these Notes (Subsection E «Disposals» point «C. Financial assets sold and fully derecognised»).

Section 3 *Financial assets measured at fair value through other comprehensive income - Item 30*

3.1 Financial assets measured at fair value through comprehensive income: breakdown by sector

	31/12/2022			31/12/2021		
Items/Values	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Fixed-yield securities**	**2,459,705**	**–**	**341**	**2,990,727**	**–**	**10,721**
1.1 Structured securities	234,855	–	–	409,257	–	10,165
1.2 Other fixed-yield securities	2,224,850	–	341	2,581,470	–	556
2. **Equity securities**	**2,095**	**–**	**90,310**	**1,787**	**–**	**95,626**
3. **Loans**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**2,461,800**	**–**	**90,651**	**2,992,514**	**–**	**106,347**

The debt portfolio is made up mostly of Italian government securities held with the intent of receiving cash flows and benefiting from any gains deriving from their sale.

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

Items/Values	31/12/2022	31/12/2021
1. **Fixed-yield securities**	**2,460,046**	**3,001,448**
a) Central banks	–	–
b) Public administrations	2,040,457	2,511,285
c) Banks	295,117	334,019
d) Other financial companies	69,328	79,940
of which: insurance companies	–	–
e) Non-financial companies	55,144	76,204
2. **Equity securities**	**92,405**	**97,413**
a) Banks	46	52
b) Altri emittenti:	92,359	97,361
– Other financial companies	82,747	85,584
of which: insurance companies	–	–
– Non-financial companies	9,612	11,777
– other	–	–
3. **Loans**	**–**	**–**
a) Central banks	–	–
b) Public administrations	–	–
c) Banks	–	–
d) Other financial companies	–	–
of which: insurance companies	–	–
e) Non-financial companies	–	–
f) Households	–	–
Total	**2,552,451**	**3,098,861**

3.3 Financial assets at fair value through comprehensive income: gross value and total value adjustments

	Gross value					Total write-downs				
	First stage	of which: Instruments with low credit risk	Second stage	Third stage	Impaired purchased or originated	First stage	Second stage	Third stage	Impaired purchased or originated	Total partial write-offs
Fixed-yield securities	2,453,090	360,020	8,274	–	–	1,308	10		–	–
Loans	–	–	–	–	–	–	–		–	–
Total 31/12/2022	**2,453,090**	**360,020**	**8,274**	**–**	**–**	**1,308**	**10**		**–**	**–**
Total 31/12/2021	**3,002,406**	**–**	**–**	**–**	**–**	**958**	**–**		**–**	**–**

3.3a Loans measured at fair value with impact on comprehensive income subject to Covid-19 support measures: gross value and total impairment

At 31 December 2022, there are no loans measured at fair value through comprehensive income subject to Covid-19 support measures.

Section 4 *Financial assets measured at amortised cost - Item 40*

4.1 Financial assets measured at amortised cost: breakdown of loans to banks

	31/12/2022						31/12/2021					
	Book value			Fair value			Book value			Fair value		
Type of transaction/Amounts	First and second stage	Third stage	Impaired purchased or originated	Level 1	Level 2	Level 3	First and second stage	Third stage	Impaired purchased or originated	Level 1	Level 2	Level 3
A. **Loans with Central**	**352,511**	**-**	**-**	**-**	**-**	**352,512**	**2,231,679**	**-**	**-**	**-**	**-**	**2,231,679**
1. Fixed-term deposits	5,011	-	-	-	-	-	-	-	-	-	-	-
2. Compulsory reserve	347,500	-	-	-	-	-	2,231,679	-	-	-	-	-
3. Repo transactions	-	-	-	-	-	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-	-	-	-	-	-
B. **Loans and**	**3,489,664**	**-**	**-**	**741,697**	**-**	**2,667,508**	**2,614,368**	**-**	**-**	**783,387**	**-**	**1,842,382**
1.Loans	2,617,262	-	-	-	-	2,617,552	1,827,119	-	-	-	-	1,827,335
1.1 Current accounts	-	-	-	-	-	-	-	-	-	-	-	-
1.2. Fixed-term	1,654,411	-	-	-	-	-	1,808,589	-	-	-	-	-
1.3. Other loans:	962,851	-	-	-	-	-	18,530	-	-	-	-	-
- Repurchase agreements	-	-	-	-	-	-	-	-	-	-	-	-
- Lease financing	-	-	-	-	-	-	-	-	-	-	-	-
- Other	962,851	-	-	-	-	-	18,530	-	-	-	-	-
2.Fixed-yield	872,402	-	-	741,697	-	49,956	787,249	-	-	783,387	-	15,047
2.1 Structured	494,300	-	-	424,809	-	32,538	378,339	-	-	387,291	-	-
2.2 Other fixed-yield	378,102	-	-	316,888	-	17,418	408,910	-	-	396,096	-	15,047
Total	**3,842,175**	**-**	**-**	**741,697**	**-**	**3,020,020**	**4,846,047**	**-**	**-**	**783,387**	**-**	**4,074,061**

These loans are not specifically hedged.

The fair value of short-term loans or loans that are repayable on demand is assumed to be the same as their book value.

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

Type of transaction/Amounts	31/12/2022						31/12/2021					
	Book value			Fair value			Book value			Fair value		
	First and second stage	Third stage	Impaired purchased or originated	Level 1	Level 2	Level 3	First and second stage	Third stage	Impaired purchased or originated	Level 1	Level 2	Level 3
1. **Loans**	**24,957,359**	**496,026**	**107,368**	**-**	**-**	**26,022,482**	**23,083,488**	**671,122**	**131,735**	**-**	**-**	**24,551,529**
1.1 Current accounts	3,367,334	167,676	22,942	-	-	-	2,784,455	240,198	37,704	-	-	-
1.2 Repurchase agreements	8,293	-	-	-	-	-	-	-	-	-	-	-
1.3 Mortgages	14,542,222	280,098	78,097	-	-	-	13,642,605	387,643	83,694	-	-	-
1.4 Credit cards, personal loans and salary-guaranteed loans	248,160	2,564	572	-	-	-	234,201	3,739	637	-	-	-
1.5 Lease financing	-	-	-	-	-	-	-	-	-	-	-	-
1.6 Factoring	-	-	-	-	-	-	-	-	-	-	-	-
1.7 Other loans	6,791,350	45,688	5,757	-	-	-	6,422,227	39,542	9,700	-	-	-
2. **Fixed-yield securities**	**10,116,453**	**-**	**-**	**8,768,840**	**-**	**775,827**	**9,515,403**	**-**	**-**	**8,844,328**	**-**	**736,551**
1. Structured securities	1,573,173	-	-	739,237	-	775,827	1,887,530	-	-	1,197,303	-	736,551
2. Other fixed-yield securities	8,543,280	-	-	8,029,603	-	-	7,627,873	-	-	7,647,025	-	-
Total	**35,073,812**	**496,026**	**107,368**	**8,768,840**	**-**	**26,798,309**	**32,598,891**	**671,122**	**131,735**	**8,844,328**	**-**	**25,288,080**

In 2022, the Bank implemented four macrohedging transactions from interest rate risk on an amount of loans classified in the amortised cost portfolio.

Loans include 1,238 million euro of residential mortgages, which were the subject of covered bond transactions by the Bank.

The covered bond transaction involved the sale to the SPV «POPSO Covered Bond s.r.l.» of the first portfolio of performing residential mortgage loans as part of the issue of covered bonds reserved to institutional customers. Given that the Bank maintained all of the risks and benefits of these loans, they have not been derecognised and have therefore been retained on the balance sheet.

The fair value of loans with a contractual duration that extends beyond the short term is determined using measurement models that discount the flow of future repayments, net of any expected losses. The discounting rate is determined with reference to expected market interest rates, as well as to other specific components that take account of direct operating costs and the actual financing costs incurred by the Bank.

The difference between fair value and book value is mainly attributable to the difference between market rates and the rates used to value fixed-rate loans.

As a result of the derisking operations that took place during the year, bad loans (third stage) are down on the previous year. Reference should be made to Part E «Information on risks and related hedging policy, Section 1, Credit risk» for further information on impaired financial assets (third stage). Item 2. Fixed-yield securities, include for 311.815 million euro senior securities issued by the vehicle Diana S.p.V., POP NPLs 2020 S.p.V., Luzzatti POP NPLs 2021 S.p.V. and Luzzatti POP NPLs 2022 S.p.V.; the latter was issued as part of the sale transaction defined in the last quarter of 2022. See Part E, Section 1, «C. Securitisation transactions» for further information.

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

Type of transaction/Amounts	31/12/2022 First and second stage	31/12/2022 Third stage	31/12/2022 Assets impaired purchased or originated	31/12/2021 First and second stage	31/12/2021 Third stage	31/12/2021 Assets impaired purchased or originated
1. **Fixed-yield securities**	**10,116,452**	**–**	**–**	**9,515,404**	**–**	**–**
a) Public administrations	8,728,210	–	–	8,194,249	–	–
b) Other financial companies	1,099,167	–	–	1,059,591	–	–
of which: insurance companies	2,026	–	–	6,112	–	–
c) Non-financial companies	289,075	–	–	261,564	–	–
2. **Loans to:**	**24,957,357**	**496,026**	**107,368**	**23,083,487**	**671,122**	**131,735**
a) Public administrations	201,232	22	–	129,027	19	–
b) Other financial companies	4,676,945	6,063	2	4,165,007	5,337	21
of which: insurance companies	3	–	–	36	–	–
c) Non-financial companies	13,190,234	370,455	64,949	12,512,691	500,979	91,846
d) Households	6,888,946	119,486	42,417	6,276,762	164,787	39,868
Total	**35,073,809**	**496,026**	**107,368**	**32,598,891**	**671,122**	**131,735**

4.4 Financial assets measured at amortised cost: gross value and total value adjustments

	Gross value					Total write-downs				
	First stage	of which: Instruments with low credit risk	Second stage	Third stage	Impaired purchased or originated	First stage	Second stage	Third stage	Impaired purchased or originated	Total partial write-offs
Fixed-yield securities	10,850,213	2,558,502	148,637	–	–	6,202	3,793	–	–	–
Loans	25,382,909	–	2,674,905	1,233,615	172,821	33,438	97,247	737,589	65,453	81,793
Total 31/12/2022	**36,233,122**	**2,558,502**	**2,823,542**	**1,233,615**	**172,821**	**39,640**	**101,040**	**737,589**	**65,453**	**81,793**
Total 31/12/2021	**35,606,870**	**–**	**1,949,036**	**1,549,500**	**240,421**	**48,557**	**62,412**	**878,378**	**108,686**	**103,823**

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

	Gross value					Total write-downs				
	First stage	of which: Instruments with low credit risk	Second stage	Third stage	Impaired purchased or originated	First stage	Second stage	Third stage	Impaired purchased or originated	Total partial write-offs*
1. Loans subject to forbearance complying with the GL	-	-	-	-	-	-	-	-	-	-
2. Loans subject to outstanding moratoria measures no longer in compliance with GL and not evaluated as subject to forbearance measures	875	-	825	189	-	2	74	81	-	-
3. Loans subject to other forbearance measures	-	-	51	5,559	111	-	3	2,042	48	-
4. New loans	2,030,075	-	212,511	37,212	5,191	268	5,279	14,456	1,870	-
Total 31/12/2022	**2,030,950**	**-**	**213,387**	**42,960**	**5,302**	**270**	**5,356**	**16,579**	**1,918**	**-**
Total 31/12/2021	**2,356,130**	**-**	**196,946**	**40,060**	**6,561**	**561**	**4,261**	**11,364**	**1,637**	**-**

Section 5 Hedge derivatives - Item 50

5.1 Hedge derivatives: breakdown by hedge type and levels

	Fair Value 31/12/2022			NV	**Fair Value 31/12/2021**			NV
	Level 1	Level 2	Level 3	31/12/2022	Level 1	Level 2	Level 3	31/12/2021
A. **Financial derivatives**								
1) Fair value	-	248	-	11,359	-	-	-	-
2) Financial flows	-	-	-	-	-	-	-	-
3) Foreign investments	-	-	-	-	-	-	-	-
B. **Credit derivatives**								
1) Fair value	-	-	-	-	-	-	-	-
2) Financial flows	-	-	-	-	-	-	-	-
Total	**-**	**248**	**-**	**11,359**	**-**	**-**	**-**	**-**

5.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge (book value)

	Fair Value							Financial flows		
	Specific									
Operazioni/Tipo di copertura	fixed-yield securities and interest rates	equity securities and stock indices	currency and gold	receivable	commodities	other	Generic	Specific	Generic	Foreign Investments
1. Financial assets measured at fair value through other comprehensive income	–	–	–	–	–	–	–	–	–	–
2. Financial assets measured at amortised cost	–	–	–	–	–	–	–	–	–	–
3. Portfolio	–	–	–	–	–	–	248	–	–	–
4. Other transactions	–	–	–	–	–	–	–	–	–	–
Total assets	**–**	**–**	**–**	**–**	**–**	**–**	**248**	**–**	**–**	**–**
1. Financial liabilities	–	–	–	–	–	–	–	–	–	–
2. Portfolio	–	–	–	–	–	–	–	–	–	–
Total liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1. Expected transactions	–	–	–	–	–	–	–	–	–	–
2. Portfolio of financial assets and liabilities	–	–	–	–	–	–	–	–	–	–

The table shows the positive fair value of hedging derivatives, broken down in relation to the asset or liability hedged and the type of hedge realised. At 31 December 2022, the Bank implemented four macrohedging transactions from interest rate risk on an amount of loans classified in the amortised cost portfolio.

Section 6 *Value adjustment of financial assets with generic hedging - item 60*

6.1 Value adjustment of hedged assets: breakdown by hedged portfolio

Value adjustment of hedged assets/Values	31/12/2022	31/12/2021
1. **Positive adjustment**	**47**	**–**
1.1 of specific portfolios:	47	–
a) financial assets measured at amortised cost	47	–
b) financial assets measured at fair value through other comprehensive income	–	–
1.2 total	–	–
2. **Negative adjustment**	**(245)**	**–**
2.1 of specific portfolios:	(245)	–
a) financial assets measured at amortised cost	(245)	–
b) financial assets measured at fair value through other comprehensive income	–	–
2.2 total	–	–
Total	**(198)**	**–**

The balance of changes in the value of assets subject to macro-hedging against interest rate risk is recognised in this item, for which the Bank avails itself of the option, provided for by IFRS 9, to continue to apply the provisions permitted by IAS 39 in the «Carve-out» version.

Section 7 *Equity investments - Item 70*

7.1 Investments: disclosures on holdings

Company Name	Registered Office	Operative office	Shareholding %	% of votes
A. **Wholly-controlled companies**				
1. BANCA POPOLARE DI SONDRIO (SUISSE) SA	Lugano	Lugano	100.000	100.000
2. FACTORIT S.p.a.	Milan	Milan	100.000	100.000
3. SINERGIA SECONDA S.r.l.	Milan	Milan	100.000	100.000
4. PIROVANO STELVIO S.p.a.	Sondrio	Sondrio	100.000	100.000
5. POPSO COVERED BOND S.r.l.	Conegliano	Conegliano	60.000	60.000
6. BNT BANCA S.p.a.	Sondrio	Sondrio	100.000	100.000
7. SERVIZI INTERNAZIONALI E STRUTTURE INTEGRATE 2000 S.r.l.	Milan	Milan	100.000	100.000
8. RENT2GO S.r.l.	Bolzano	Bolzano	100.000	100.000
B. **Investments in companies under joint control**				
1. RAJNA IMMOBILIARE S.r.l.	Sondrio	Sondrio	50.000	50.000
C. **Associated companies (subject to significant influence)**				
1. ALBA Leasing S.p.a.	Milan	Milan	19.264	19.264
2. ARCA VITA S.p.a.	Verona	Verona	14.837	14.837
3. UNIONE FIDUCIARIA S.p.a.	Milan	Milan	24.000	24.000
4. POLIS FONDI SGR PA	Milan	Milan	19.600	19.600
5. ARCA HOLDING S.p.a.	Milan	Milan	34.715	34.715
6. BORMIO GOLF S.p.a.	Bormio	Bormio	25.237	25.237
7. LAGO DI COMO GAL S.c.r.l.	Canzo	Canzo	28.953	28.953

With limited exceptions, the above equity investments are held to complement the activities of the Bank, since they provide supplementary services or help to support the local territories served.

7.5 Investments: changes in the year

	31/12/2022	31/12/2021
A. **Opening balance**	**612,882**	**613,488**
B. **Increases**	**84,568**	**288**
B.1 Purchases	84,490	288
B.2 Write-backs	–	–
B.3 Revaluations	–	–
B.4 Other changes	78	–
C. **Decreases**	**1,682**	**894**
C.1 Disposals	1,299	–
C.2 Value adjustments	383	894
C.3 Write-downs	–	–
C.4 Other changes	–	–
D. **Closing balance**	**695,768**	**612,882**
E. **Total revaluations**	**–**	**–**
F. **Total write-downs**	**(39,488)**	**(39,106)**

This item passes from 612.882 million euro to 695.768 million euro.

The increases refer to:

- the purchase of the minority shares (39.5%) of the subsidiary Factorit S.p.a. for a consideration of 75 million euro;
- the purchase of 66.7% of the company Rent2Go S.r.l. for 9.49 million euro;
- coverage of the 2021 loss of Pirovano Stelvio spa of 0.78 million euro.

The decreases refer to:

- sale of 18.25% of Cossi Costruzioni to Webuild S.p.A. for 1.299 million euro;
- the write-down of Pirovano Stelvio S.p.A. by 0.383 million euro,

7.6 Commitments relating to investments in joint ventures

For the above information, reference should be made to the same section of the consolidated notes.

7.7 Commitments relating to investments in companies subject to significant influence

For the above information, reference should be made to the same section of the consolidated notes.

7.8 Significant restrictions

For the above information, reference should be made to the same section of the consolidated notes.

7.9 Other information

For the above information, reference should be made to the same section of the consolidated notes.

Section 8 *Property, equipment and investment property - Item 80*

8.1 Property, equipment and investment property used for business purposes: breakdown of assets measured at cost

Assets/Amounts	31/12/2022	31/12/2021
1. **Owned assets**	**196,123**	**194,299**
a) land	58,712	58,712
b) buildings	123,746	121,580
c) furniture	4,688	4,432
d) IT equipment	852	736
e) other	8,125	8,839
2. **Assets acquired under finance leases**	**170,237**	**183,914**
a) land	–	–
b) buildings	170,042	183,696
c) furniture	–	–
d) IT equipment	144	158
e) other	51	60
Total	**366,360**	**378,213**
of which: obtained through enforcement of guarantees received	–	–

Property, equipment and investment property used for business purposes are measured at cost less accumulated depreciation and any accumulated impairment losses. Buildings have a fair value of 350.096 million euro, as determined by an internal appraisal. The book value of land and buildings totals 182.458 million euro.

Property, equipment and investment property are free from restrictions and commitments guaranteeing liabilities.

8.4 Tangible assets held for investment purposes: breakdown of assets measured at fair value

	31/12/2022			31/12/2021		
Assets/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Owned assets**	**–**	**–**	**21,435**	**–**	**–**	**19,487**
a) land	–	–	–	–	–	–
b) buildings	–	–	21,435	–	–	19,487
2. **Rights of use acquired through leases**	**–**	**–**	**–**	**–**	**–**	**–**
a) land	–	–	–	–	–	–
b) buildings	–	–	–	–	–	–
Total	**–**	**–**	**21,435**	**–**	**–**	**19,487**
of which: obtained through enforcement of guarantees received	–	–	–	–	–	–

8.6 Property, equipment and investment property used for business purposes: changes in the year

	Land	Buildings	Furniture	Electronic equipment	Other	Total
A. **Opening gross amount**	**58,712**	**464,372**	**31,458**	**19,130**	**82,341**	**656,013**
A.1 Total net reductions in value	–	(159,096)	(27,026)	(18,236)	(73,443)	(277,800)
A.2 Opening net amount	58,712	305,276	4,432	894	8,899	378,213
B. **Increases**	**–**	**14,850**	**1,332**	**759**	**4,485**	**21,426**
B.1 Purchases	–	1,568	1,332	691	4,471	8,062
B.2 Capitalised improvement expenditure	–	6,573	–	–	–	6,573
B.3 Write-backs	–	–	–	–	–	–
B.4 Fair value increases booked to	–	–	–	–	–	–
a) equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
B.5 Positive exchange rate differences	–	–	–	–	–	–
B.6 Transfers from investment property	–	–	–	–	–	–
B.7 Other changes	–	6,709	–	68	14	6,791
C. **Decreases**	**–**	**26,337**	**1,076**	**657**	**5,209**	**33,279**
C.1 Disposals	–	–	–	–	–	–
C.2 Depreciation	–	25,449	1,076	657	5,209	32,391
C.3 Impairment adjustments booked to	–	–	–	–	–	–
a) equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
C.4 Negative changes in fair value booked to	–	–	–	–	–	–
a) equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
C.5 Negative exchange rate differences	–	–	–	–	–	–
C.6 Transfers to:	–	888	–	–	–	888
a) investment property	–	888	–	–	–	888
b) non-current assets and disposal groups held for sale	–	–	–	–	–	–
C.7 Other changes	–	–	–	–	–	–
D. **Closing net amount**	**58,712**	**293,789**	**4,688**	**996**	**8,175**	**366,360**
D.1 Total net reductions in value	–	(183,690)	(28,102)	(18,727)	(76,387)	(306,906)
D.2 Closing gross amount	58,712	477,479	32,790	19,723	84,562	673,266
E. **Valuation at cost**	**58,712**	**293,789**	**4,688**	**996**	**8,175**	**366,360**

Property, equipment and investment property used for business purposes amounted to 366.360 million euro, a decrease of 11.853 million euro.

The principal changes relate to:

- for owned properties: purchase in Alassio and works in Sondrio, Brescia, San Pietro Berbenno
- for furniture, plan and other: increases relate to head office and branch IT equipment, furniture and fittings and miscellaneous equipment for newly-opened branches.

As regards the «Other changes», the impact is mainly linked to remeasurement of the right-of-use assets mainly due to the ISTAT adjustments and to the renegotiation of some lease contracts.

8.7 Investment property: changes in the yearannue

	Total	
	Land	Buildings
A. **Opening balance**	**–**	**19,487**
B. **Increases**	**–**	**2,038**
B.1 Purchases	–	–
B.2 Capitalised improvement expenditure	–	–
B.3 Positive changes in fair value	–	1,150
B.4 Write-backs	–	–
B.5 Exchange gains	–	–
B.6 Transfer of buildings for business purposes	–	888
B.7 Other changes	–	–
C. **Decreases**	**–**	**90**
C.1 Disposals	–	–
C.2 Depreciation	–	–
C.3 Negative changes in fair value	–	90
C.4 Impairment write-downs	–	–
C.5 Exchange losses	–	–
C.6 Transfers to:	–	–
a) assets used in business	–	–
b) non-current assets and disposal groups held for sale	–	–
C.7 Other changes	–	–
D. **Closing balance**	**–**	**21,435**
E. **Valuation at fair value**	**–**	**–**

Property, plant and equipment held for investment purposes are measured at fair value. Information on the methods of determining the fair value of properties not used for business purposes is provided in Part A.4 of the Notes to the financial statements in the chapter entitled «Methods of determining fair value».

In this regard, it is noted that the Bank does not hold investment assets represented by rights of use acquired through leasing.

Depreciation is provided over the estimated useful lives of the fixed assets concerned, as summarised below:

property, equipment and investment property	depreciation period (years)
properties	33
furniture and fittings	7
electronic equipment	3
miscellaneous machinery and equipment	5
vehicles	3
security counters	3
photovoltaic plants	12
safes	8

In accordance with article 10 of Law No. 72 of 19 March 1983, information on the properties still owned, for which monetary revaluations were carried out in the past, is annexed hereto.

8.9 Commitments for the purchase of property, equipment and investment property

Contractual commitments for the purchase of property, equipment and investment property amount to 4.003 million euro, compared with 2.553 million euro the previous year and mainly refer to furniture and fittings, electronic systems and hardware.

Section 9 *Intangible assets - Item 90*

9.1 Intangible assets: breakdown by type of asset

	31/12/2022		31/12/2021	
Assets/Amounts	Finite life	Indefinite life	Finite life	Indefinite life
A.1 **Goodwill**	**–**	**–**	**–**	**–**
A.2 **Other intangible assets**	**15,242**	**–**	**15,706**	**–**
of which: software	15,242	–	15,706	–
A.2.1 Assets measured at cost:	15,242	–	15,706	–
a) Intangible assets generated internally	–	–	–	–
b) Other assets	15,242	–	15,706	–
A.2.2 Assets measured at fair value:	–	–	–	–
a) Intangible assets generated internally	–	–	–	–
b) Other assets	–	–	–	–
Total	**15,242**	**–**	**15,706**	**–**

Intangible assets comprise the cost of purchasing software with a finite life that is amortised over that period, which is normally 3 years.

These intangible assets are listed below by year of acquisition:

	31/12/2022	31/12/2021
recorded in 2020	1	4,150
recorded in 2021	5,779	11,556
recorded in 2022	9,462	–
Total	**15,242**	**15,706**

9.2 Intangible assets: changes in the year

		Other intangible assets: generated internally		Other intangible assets: others		
	Goodwill	Finite	Indefinite	Finite	Indefinite	Total
A. **Opening balance**	**–**	**–**	**–**	**197,319**	**–**	**197,319**
A.1 Total net reductions in value	–	–	–	(181,613)	–	(181,613)
A.2 Opening net amount	–	–	–	15,706	–	15,706
B. **Increases**	**–**	**–**	**–**	**14,192**	**–**	**14,192**
B.1 Purchases	–	–	–	14,192	–	14,192
B.2 Increases in internally generated intangible assets	–	–	–	–	–	–
B.3 Write-backs	–	–	–	–	–	–
B.4 Positive changes in fair value	–	–	–	–	–	–
– booked to equity	–	–	–	–	–	–
– booked to income statement	–	–	–	–	–	–
B.5 Exchange gains	–	–	–	–	–	–
B.6 Other changes	–	–	–	–	–	–
C. **Decreases**	**–**	**–**	**–**	**14,656**	**–**	**14,656**
C.1 Disposals	–	–	–	–	–	–
C.2 Adjustments	–	–	–	14,656	–	14,656
– Amortisation	–	–	–	14,656	–	14,656
– Write-downs	–	–	–	–	–	–
+ equity	–	–	–	–	–	–
+ income statement	–	–	–	–	–	–
C.3 Negative changes in fair value:	–	–	–	–	–	–
– booked to equity	–	–	–	–	–	–
– booked to income statement	–	–	–	–	–	–
C.4 Transfers to non-current assets held for sale and discontinued operations	–	–	–	–	–	–
C.5 Exchange losses	–	–	–	–	–	–
C.6 Other changes	–	–	–	–	–	–
D. **Closing net amount**	**–**	**–**	**–**	**15,242**	**–**	**15,242**
D.1 Total net reductions in value	–	–	–	(196,269)	–	(196,269)
E. **Closing gross amount**	**–**	**–**	**–**	**211,511**	**–**	**211,511**
F. **Valuation at cost**	**–**	**–**	**–**	**15,242**	**–**	**15,242**

9.3 Other information

Contractual commitments to purchase software user rights amount to 6.306 million euro, compared with 7.229 million euro in the prior year.

Section 10 *Tax assets and liabilities - asset line item 100 and liability line item 60*

10.1 Deferred tax assets: composition

	31/12/2022	31/12/2021
– Value adjustments on loans	208,669	223,815
– Allocations to provisions for risks and charges	33,320	26,349
– Allocations to personnel provisions	11,650	15,405
– Securities and equity investments	36,025	2,203
– Administrative expenses	1,012	12,986
– Amortisation	1,714	1,729
Total	**292,390**	**282,487**

The figures for the previous year have been restated for comparison purposes. The deferred tax assets recorded in relation to the provisions for risks and charges concern the provision for legal disputes, the provision for guarantees given and the provision for personnel charges. Where applicable, deferred tax assets have been recognised in relation to all liabilities generating temporary differences. The recognition and subsequent retention in the financial statements depends on an assessment of their recoverability estimated on the future income forecast in forecast plans approved by the corporate bodies. The Bank recognised Deferred Tax Assets (DTA) of 292.390 million euro, with a balancing entry in equity of 47.675 million euro and a balancing entry in the income statement of 244.715 million euro. Of these, 194.187 million euro comply with the requirements of Law 214 dated 22 December 2011 and may be transformed into tax credits in the event of a «reported loss», a «tax loss» for IRES purposes or a «negative net value» of production» for IRAP purposes; their recovery is therefore certain, as unrelated to the ability to generate future taxable income. The other tax assets not transformable into tax credits, 50.528 million euro, have been recognised after checking their recoverability by performing the so-called probability test. This opinion was expressed after analysing the likelihood that sufficient taxable income will be generated in future. In particular, the estimate of future profitability underling the recoverability opinion was based on reasonable and realistic hypotheses and assumptions, after weighting the degrees of uncertainty. The verification of future taxable income was conducted over a reference period of six years. The economic projections included in the latest 2023-2025 business plan called «Next Step» were used and the expected profitability was estimated for the years 2026 and 2028. The calculation of the impact of permanent IRES and IRAP variations on pre-tax profit and net interest and other banking income was carried out by considering a historical data base referring to the years 2015-2022 and applying rules for the normalisation of tax recoveries from previous years with the aim of achieving a re-expression of taxable income consistent with current tax legislation, eliminating from the taxable income of previous years the variations relating to non-recurring or extraordinary components no longer considered repeatable.

10.2 Deferred tax liabilities: breakdown

	31/12/2022	31/12/2021
Owned and leased buildings	8,275	8,347
Revaluation of property at fair value	4,839	4,851
Revaluation of securities and gains	5,579	14,096
Other administrative expenses	1,256	906
Total	**19,949**	**28,200**

The amount relating to owned buildings comprises the deferred taxation arising on the adoption of IAS, with the elimination of the accumulated depreciation of land and calculated in 2004 on the elimination of «fiscal interference».

10.3 Changes in deferred tax assets (balancing item in income statement)

	31/12/2022	31/12/2021
1. **Opening balance**	**264,878**	**318,396**
2. **Increases**	**19,422**	**13,828**
2.1 Deferred tax assets arisen in the year	18,055	13,828
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) write-backs	–	–
d) other	18,055	13,828
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	1,367	–
3. **Decreases**	**39,585**	**67,346**
3.1 Deferred tax assets eliminated in the year	39,585	59,515
a) reversals	39,585	59,389
b) written down as no longer recoverable	–	–
c) change in accounting policies	–	–
d) other	–	126
3.2 Reduction in tax rates	–	–
3.3 Other decreases:	–	7,831
a) transformation into tax credits of which as per Law 214/2011	–	7,831
b) other	–	–
4. **Closing balance**	**244,715**	**264,878**

10.3 bis Changes in deferred tax assets as per Law 214/2011

	31/12/2022	31/12/2021
1. **Opening balance**	**223,652**	**274,083**
2. **Increases**	**–**	**–**
3. **Decreases**	**29,465**	**50,431**
3.1 Reversals	29,465	42,600
3.2 Transformation into tax credits	–	7,831
a) resulting from operating losses	–	–
b) resulting from tax losses	–	7,831
3.3 Other decreases	–	–
4. **Closing balance**	**194,187**	**223,652**

10.4 Changes in deferred tax liabilities (balancing item in income statement)

	31/12/2022	31/12/2021
1. **Opening balance**	**9,398**	**8,584**
2. **Increases**	**5,803**	**905**
2.1 Deferred tax liabilities arisen in the year	5,803	905
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	5,803	905
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
3. **Decreases**	**686**	**91**
3.1 Deferred tax liabilities eliminated in the year	686	91
a) reversals	686	91
b) due to changes in accounting policies	–	–
c) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	–	–
4. **Closing balance**	**14,515**	**9,398**

10.5 Changes in deferred tax assets (balancing item in shareholders' equity)

	31/12/2022	31/12/2021
1. **Opening balance**	**17,608**	**17,379**
2. **Increases**	**33,849**	**1,978**
2.1 Deferred tax assets arisen in the year	33,849	1,978
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	33,849	1,978
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
3. **Decreases**	**3,782**	**1,749**
3.1 Deferred tax assets eliminated in the year	3,782	1,749
a) reversals	3,782	1,749
b) written down as no longer recoverable	–	–
c) due to changes in accounting policies	–	–
d) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	–	–
4. **Closing balance**	**47,675**	**17,608**

This amount refers for 36.025 million euro to the unrealised losses recognised in equity on securities assigned to the portfolio of financial assets measured at fair value through other comprehensive income, for 11.650 million euro to actuarial losses recognised in relation to long-term employee benefits, consisting of the pension fund and termination indemnities recognised in equity.

10.6 Changes in deferred tax liabilities (balancing item in shareholders' equity)

	31/12/2022	31/12/2021
1. **Opening balance**	**18,802**	**17,594**
2. **Increases**	**389**	**6,037**
2.1 Deferred tax liabilities arisen in the year	389	6,037
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	389	6,037
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
3. **Decreases**	**13,757**	**4,829**
3.1 Deferred tax liabilities eliminated in the year	13,757	4,829
a) reversals	13,757	4,829
b) due to changes in accounting policies	–	–
c) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	–	–
4. **Closing balance**	**5,434**	**18,802**

The amount refers for 5.434 million euro to the taxation related to the capital gains recorded in shareholders' equity relating to the securities allocated to the portfolio of financial assets at fair value with impact on comprehensive income.

Section 12 Other assets - Item 120

12.1 Other assets: breakdown

	31/12/2022	31/12/2021
Advances paid to tax authorities	57,074	56,070
Tax credits and related interest	1,080	1,133
Tax credits "*Cura Italia*" and "Relaunch" Law Decrees	1,451,634	447,570
Current account cheques drawn on third parties	15,237	19,282
Current account cheques drawn on Group banks	685	411
Transactions in customers' securities	23,463	30,479
Advances to suppliers	539	667
Advances to customers awaiting collections	27,221	21,923
Miscellaneous debits in transit	21,001	30,952
Liquid assets serving pension and similar obligations	19,310	253
Accrued income not allocated	52,309	47,051
Prepayments not allocated	11,242	10,117
Residual items	105,981	144,821
Total	**1,786,776**	**810,729**

The large increase in item 120 «Other assets» is attributable to tax credits related to the «*Cura Italia*» and «Relaunch» Decree-Laws acquired as a result of transfers by direct beneficiaries or previous purchasers. On the basis of «Bank of Italy/Consob/IVASS Document No. 9 of 5 January 2021» in the presence of tax credits introduced by Decrees No. 18/2020 (so-called «Cura Italia») and No. 34/2020 (so-called «Relaunch»), these receivables have been classified under the residual item «other assets» in the balance sheet, in line with paragraphs 54 and 55 of IAS 1 «Presentation of Financial Statements». For further details, reference should be made to Section 16, «Other information», of these Notes.

Accrued income and prepayments mainly relate to commission income and costs that cannot be allocated to specific asset accounts.

Liabilities

Section 1 Financial liabilities measured at amortised cost - Item 10

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

	Total 31/12/2022				Total 31/12/2021			
		Fair Value				Fair Value		
Type of transaction/Amounts	Book value	Level 1	Level 2	Level 3	Book value	Level 1	Level 2	Level 3
1. **Due to central banks**	**9,053,525**	**–**	**–**	**–**	**8,891,078**	**–**	**–**	**–**
2. **Due to banks**	**1,297,406**	**–**	**–**	**–**	**798,048**	**–**	**–**	**–**
2.1 Current accounts and sight deposits	384,113	–	–	–	295,740	–	–	–
2.2 Term deposits	213,259	–	–	–	431,021	–	–	–
2.3 Loans	680,257	–	–	–	66,743	–	–	–
2.3.1 Repurchase agreements	627,940	–	–	–	–	–	–	–
2.3.2 Others	52,317	–	–	–	66,743	–	–	–
2.4 Payables for commitments to repurchase own equity instruments	–	–	–	–	–	–	–	–
2.5 Lease payables	–	–	–	–	60	–	–	–
2.6 Other payables	19,777	–	–	–	4,484	–	–	–
Total	**10,350,931**	**–**	**–**	**10,350,931**	**9,689,126**	**–**	**–**	**9,689,126**

Amounts due to central banks comprise three loans from the ECB totalling 8,874 million as part of its «Targeted Longer-Term refinancing operations» (TLTRO III).

The first was granted in June 2020 for 4,368 million euro with maturity on 28 June 2023, the second during the first quarter of 2021 for 806 million euro with maturity on 27 March 2024, and the third on 29 September 2021 for 3,700 million euro with maturity on 25 September 2024. These loans payable are secured by bonds, consisting mainly of Government bonds and loans receivable.

«Other loans» are made up principally of funding set up by EIB in connection with loans granted by this institution on the basis of the convention stipulated with it.

Since these payables are predominantly on demand or short-term, the book value is considered a good approximation of fair value.

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

	Total 31/12/2022				Total 31/12/2021			
		Fair Value				Fair Value		
Type of transaction/Amounts	Book value	Level 1	Level 2	Level 3	Book value	Level 1	Level 2	Level 3
1. **Current accounts and sight deposits**	**30,387,299**	**–**	**–**	**–**	**31,578,608**	**–**	**–**	**–**
2. **Fixed-term deposits**	**2,362,448**	**–**	**–**	**–**	**352,795**	**–**	**–**	**–**
3. **Loans**	**1,576,069**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
3.1 Repurchase agreements	1,576,069	–	–	–	–	–	–	–
3.2 Other	–	–	–	–	–	–	–	–
4. **Payables for commitments to repurchase own equity instruments**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
5. **Payables for leases**	**174,169**	**–**	**–**	**–**	**186,304**	**–**	**–**	**–**
6. **Other payables**	**41,023**	**–**	**–**	**–**	**58,794**	**–**	**–**	**–**
Total	**34,541,008**	**–**	**–**	**34,541,008**	**32,176,501**	**–**	**–**	**32,176,501**

These payables are not specifically hedged.

Their fair value corresponds to their book value as they are amounts due on demand or with short-term restrictions.

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

	Total 31/12/2022				Total 31/12/2021			
		Fair Value				Fair Value		
Type of securities/Amounts	Book value	Level 1	Level 2	Level 3	Book value	Level 1	Level 2	Level 3
A. **Securities**								
1. bonds	3,501,215	3,262,887	75,085	–	3,546,868	3,504,257	87,219	–
1.1 structured	1,588,521	1,387,208	65,101	–	1,591,067	1,540,107	77,107	–
1.2 others	1,912,694	1,875,679	9,984	–	1,955,801	1,964,150	10,112	–
2. other securities	116,749	–	116,749	–	126,837	–	126,837	–
2.1 structured	–	–	–	–	–	–	–	–
2.2 other	116,749	–	116,749	–	126,837	–	126,837	–
Total	**3,617,964**	**3,262,887**	**191,834**	**–**	**3,673,705**	**3,504,257**	**214,056**	**–**

The fair value of the sub-item other securities is equal to the book value as this item includes short-term bankers' drafts and similar documents.

The level 1 securities relate to covered bonds and subordinated bonds listed on the HI-MTF market (Multilateral Trading Facility).

1.4 Detail of subordinated payables/securities

Subordinated securities amount to 513.904 million euro and are made up of the loans indicated below:

- a bond of 309.084 million euro from 25/11/2021 and maturity on 25/02/2032 with repayment in full on maturity. It bears a fixed interest rate of 3.875%.
- a bond of 204.820 million euro from 30/07/2019 and maturity on 30/07/2029 with repayment in full on maturity. It bears a fixed interest rate of 6.25%.

1.6 Payables for leases

Financial outflows for leasing

	31/12/2022				31/12/2021
	Properties	Cars	Other	**Total**	**Total**
Opening Lease Liability	186,151	60	153	186,364	193,761
Financial flows	(21,824)	(24)	(82)	(21,930)	(21,120)
Interest	3,267	–	1	3,268	3,436
Other changes	6,387	14	67	6,468	10,287
Closing carrying amount	**173,981**	**50**	**139**	**174,170**	**186,364**

As regards the Other changes during the year, the impact is mainly due to recalculation of the Lease Liability following the ISTAT index changes and the opening and closing of contracts.

At 31.12.2022, the lessee weighted average marginal borrowing rate of the rates used to discount the lease liabilities is 1.86%.

Analysis of lease liability maturities

	within 1 year	1 to 5 years	5 to 10 years	over 10 years
Properties	22,031	80,336	63,674	25,690
Cars	19	18	–	–
Other types	55	87	–	–
Total	**22,105**	**80,441**	**63,674**	**25,690**

The amounts shown refer to non-discounted cash flows.

Section 2 *Financial liabilities held for trading - Item 20*

2.1 Financial liabilities held for trading: breakdown

	Total 31/12/2022					Total 31/12/2021				
		Fair Value			Fair		Fair Value			Fair
Type of transaction/Amounts	NV	Level 1	Level 2	Level 3	Value*	NV	Level 1	Level 2	Level 3	Value*
A. **Cash liabilities**										
1. Due to banks	–	–	–	–	–	–	–	–	–	–
2. Due to customers	–	–	–	–	–	–	–	–	–	–
3. Fixed-yield securities	–	–	–	–	–	–	–	–	–	–
3.1 Bonds	–	–	–	–	–	–	–	–	–	–
3.1.1 Structured	–	–	–	–	–	–	–	–	–	–
3.1.2 Other bonds	–	–	–	–	–	–	–	–	–	–
3.2 Other securities	–	–	–	–	–	–	–	–	–	–
3.2.1 Structured	–	–	–	–	–	–	–	–	–	–
3.2.2 Others	–	–	–	–	–	–	–	–	–	–
Total (A)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
B. **Derivative instruments**										
1. Financial derivatives	–	9	47,570	–	–	–	–	22,796	–	–
1.1 For trading	–	9	47,570	–	–	–	–	22,796	–	–
1.2 Associated with the fair value option	–	–	–	–	–	–	–	–	–	–
1.3 Other	–	–	–	–	–	–	–	–	–	–
2. Credit derivatives	–	–	–	–	–	–	–	–	–	–
2.1 For trading	–	–	–	–	–	–	–	–	–	–
2.2 Associated with the fair value option	–	–	–	–	–	–	–	–	–	–
2.3 Other	–	–	–	–	–	–	–	–	–	–
Total (B)	**–**	**9**	**47,570**	**–**	**–**	**–**	**–**	**22,796**	**–**	**–**
Total (A+B)	**–**	**9**	**47,570**	**–**	**–**	**–**	**–**	**22,796**	**–**	**–**

FV* = Fair Value calculated excluding the differences in value due to changes in the issuer's credit rating since the issue date
VN = Nominal or notional value

Section 4 *Hedge derivatives - Item 40*

4.1 Hedging derivatives: breakdown by hedge type and hierarchical levels

	Fair value 31/12/2022			NV	Fair value 31/12/2021			NV
	Level 1	Level 2	Level 3	31/12/2022	Level 1	Level 2	Level 3	31/12/2021
A. **Financial derivatives**	**–**	**116**	**–**	**36,925**	**–**	**–**	**–**	**–**
1) Fair value	–	116	–	36,925	–	–	–	–
2) Financial flows	–	–	–	–	–	–	–	–
3) Foreign investments	–	–	–	–	–	–	–	–
B. **Credit derivatives**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1) Fair value	–	–	–	–	–	–	–	–
2) Financial flows	–	–	–	–	–	–	–	–
Total	**–**	**116**	**–**	**36,925**	**–**	**–**	**–**	**–**

4.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge

Transactions/Type of hedge	Fair Value								Financial flows	
	Micro									
	titoli di debito e tassi di interesse	titoli di capitale e indici azionari	valute e oro	credito	merci	altri	Generica	Specifica	Generica	Investim. esteri
1. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-	-
2. Financial assets measured at amortised cost	-	-	-	-	-	-	-	-	-	-
3. Portfolio	-	-	-	-	-	-	116	-	-	-
4. Other transactions	-	-	-	-	-	-	-	-	-	-
Total assets	**-**	**-**	**-**	**-**	**-**	**-**	**116**	**-**	**-**	**-**
1. Financial liabilities	-	-	-	-	-	-	-	-	-	-
2. Portfolio	-	-	-	-	-	-	-	-	-	-
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Expected transactions	-	-	-	-	-	-	-	-	-	-
2. Portfolio of financial assets and liabilities	-	-	-	-	-	-	-	-	-	-

Section 6 *Tax liabilities - Item 60*

The balance of 19.949 million euro relates to deferred tax liabilities. As regards the breakdown and amount of deferred taxes, please read «Assets - Section 10» of these Notes. With regard to the Bank's tax position, it should be noted that the Bank's taxable income through the year ended 31 December 2016 is fiscally defined. Decree Law 59/2016, converted by Law No. 119 of 30/06/2016, introduced the possibility by paying a fee, subject to certain conditions, of transforming D.T.A. (Deferred Tax Assets) into tax credits. In 2016, the Bank applied to retain this right also in the future; no fee has been paid as the conditions for payment did not apply. The Bank has made the tax group election in relation to the subsidiaries Factorit S.p.a., BNT Banca S.p.a. and Pirovano S.p.a.

Section 8 *Other liabilities - Item 80*

8.1 Other liabilities: breakdown

	31/12/2022	31/12/2021
Amounts at the disposal of third parties	441,592	419,429
Taxes to be paid on behalf of third parties	83,526	85,130
Taxes to be paid	1,313	3,802
Employee salaries and contributions	16,922	16,133
Suppliers	20,146	17,984
Transit accounts for sundry entities	3,299	6,724
Invoices to be received	17,473	18,859
Credits in transit for financial transactions	5	2,490
Value date differentials on portfolio transactions	31,132	223,620
Directors' and statutory auditors' emoluments	1,170	1,168
Loans granted to customers to be finalised	9,750	4,998
Miscellaneous credit items being settled	45,785	49,305
Accrued expenses not allocated	3,765	931
Deferred income not allocated	14,348	13,016
Residual items	64,969	53,216
Total	**755,195**	**916,805**

The «value date differentials on portfolio transactions» relate to the notes received and sent for collection with recourse or for crediting after collection, which are only recognised in the balance sheet on settlement.

Section 9 *Termination indemnities - Item 90*

9.1 Termination indemnities: changes in the year

	Total 31/12/2022	Total 31/12/2021
A. **Opening balance**	**37,822**	**39,854**
B. **Increases**	**8,512**	**7,935**
B.1 Provisions for the year	8,512	7,935
B.2 Other changes	-	-
C. **Decreases**	**13,095**	**9,967**
C.1 Payments made	1,868	1,760
C.2 Other changes	11,227	8,207
D. **Closing balance**	**33,239**	**37,822**
Total	**33,239**	**37,822**

9.2 Other information

Other decreases relate to payments to the Arca Previdenza Fund for a total of 6.385 million euro, compared with 6.183 million euro the previous year, payments to INPS of 1.668 million euro, compared with 1.760 million euro and tax on the annual revaluation of 0.371 million euro, compared with 0.060 million euro the previous year. For the determination of the technical discount rate of the fund, account was taken of the ESMA recommendation set out in document No. 725/2012 of 12 November 2012. High-quality corporate securities with an AA rating were used as reference. A rate curve was then used that takes into account the expected average term of the obligation to be paid by the Bank.

The provision for termination indemnities required under Italian regulations amounts to 33.836 million euro. The actuarial measurement of the provision for termination indemnities was carried out on a closed group. The actuarial simulations were carried out according to the Projected Unit Credit Method.

The Projected Unit Credit Method lays down that the costs to be incurred during the year to build up the termination indemnity are determined according to the proportion of services rendered during the same period. According to the accrued benefits method, the company's obligation to the individual employee is based on the services already rendered at the measurement date.

The actuarial calculations were made on the following assumptions:

	31/12/2022	31/12/2021
Discount rate	2.97%	0.31%
Annual inflation rate:		1.50%
2023	5.90%	
2024	2.30%	
Annual rate of increase in termination indemnities	2.50%	1.50%

The discount rate was calculated according to the I-Boxx Corporates Financial EUR AA 7–10 on 5 December 2022.

Section 10 Provisions for risk and charges - Item 100

10.1 Provisions for risks and charges: breakdown

Items/Values	Total 31/12/2022	Total 31/12/2021
1. **Provisions for credit risk related to commitments and financial guarantees given**	**32,151**	**26,865**
2. **Provisions on other commitments and other guarantees given**	**30,621**	**16,039**
3. **Corporate retirement funds**	**158,508**	**164,887**
4. **Other provisions for risks and charges**	**59,178**	**51,065**
4.1 legal and tax disputes	40,545	33,253
4.2 personnel expenses	17,847	17,136
4.3 other	786	676
Total	**280,458**	**258,856**

At year-end, the Bank is not aware of being exposed to any other risks that might result in future charges, other than those covered by the provisions referred to above.

10.2 Provisions for risks and charges: changes in the year

	Provisions on other commitments and other guarantees given	Pension and similar obligations	Other provisions for risks and charges	Total
A. **Opening balance**	**16,039**	**164,887**	**51,065**	**231,991**
B. **Increases**	**20,009**	**4,732**	**31,267**	**56,008**
B.1 Provisions during the year	20,009	1,977	31,267	53,253
B.2 Changes due to the passage of time	–	–	–	–
B.3 Changes due to variations in the discount rate	–	–	–	–
B.4 Other changes	–	2,755	–	2,755
C. **Decreases**	**5,427**	**11,111**	**23,154**	**39,692**
C.1 Utilisations during the year	–	4,276	18,593	22,869
C.2 Changes due to variations in the discount rate	–	6,830	1,088	7,918
C.3 Other changes	5,427	5	3,473	8,905
D. **Closing balance**	**30,621**	**158,508**	**59,178**	**248,307**

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

	Provisions for credit risk related to commitments and financial guarantees given				
	First stage	Second stage	Third stage	Impaired purchased or originated	**Total**
Commitments to grant loans	8,678	8,516	106	21	17,321
Financial guarantees issued	1,460	1,112	12,258	–	14,830
Total	**10,138**	**9,628**	**12,364**	**21**	**32,151**

10.4 Provisions on other commitments and other guarantees given

The item does not have any materiality requirements.

10.5 Defined-benefit company pension funds

10.5.1. Characteristics of the plans and related risks

The Bank's pension plan for employees is an internal defined-benefit plan intended to supplement the pension paid to retired employees by the State. The plan is funded by contributions from the Bank and from employees which are determined on a percentage of income basis and credited each month. This plan is also a separate fund pursuant to art. 2117 of the Italian Civil Code.

The amount of the fund is adjusted taking into account the closed group of members referred to 28/04/1993. This closed group consists of 304 employees and 330 pensioners.

The adequacy of the fund with respect to the present value of the obligation at the reference date was verified periodically using calculations prepared by an independent actuary, making demographic assumptions that distinguish between age and gender, as well as technical-economic assumptions that reflect the theoretical changes in earnings and payments. The technical assessments made reference to dynamic economic and financial assumptions. The discounting rate reflects the yield on prime bonds.

10.5.2 Changes in net (assets) liabilities and redemption rights

	31/12/2022	**31/12/2021**
Opening balance	**164,887**	**162,296**
Service cost	2,142	2,404
Interest cost	1,160	528
Actuarial gains/losses	(6,830)	(4,474)
Payments	(4,276)	(4,050)
Other provisions	1,425	8,183
Closing balance	**158,508**	**164,887**

10.5.3 Other information on the fair value of plan assets

Details of the assets of the pension plan are summarised in the following table:

	31/12/2022	31/12/2021
fixed-yield securities	100,551	120,666
equity securities	1,122	3,647
Mutual funds invested in bonds	8,811	9,735
Mutual funds invested in shares	11,748	13,614
Mutual funds invested in property	16,966	16,972
Other assets	19,310	253
Total	**158,508**	**164,887**

The amount of the fund decreases by 6.379 million euro - 3.87%.

Payments of benefits amount to 4.275 million euro compared with 4.050 million euro in 2021. The contributions paid by the employees totalled 0.199 million euro (0.209 million euro in the prior year).

10.5.4 Description of the principal actuarial assumptions

The actuarial calculations were made on the following assumptions:

	2022	2021
discount rate	3.03%	0.82%
expected increase in salaries	0.25%	0.25%
annual inflation rate:		1.50%
- for 2023	5.90%	
- for 2024	2.30%	
- for the following years	2.00%	

The average discount rate was determined with reference to the value of the I-Boxx Corporates Financial EUR AA 10+ index at 5 December 2022.

10.5.5 Information on the amount, timing and uncertainties of cash flows

As required by the relevant IAS/IFRS, a sensitivity analysis has been carried out to determine the effect of changes in the principal actuarial assumptions used for the calculations. For this purpose, the one used for the valuation was used as the base scenario and from that the two parameters considered most significant were modified, i.e. the average annual discount rate and the inflation rate. Below are the results obtained.

Sensitivity Analysis

- +0.25% change in the discount rate, the liability amounted to 129.231 million euro;
- -0.25% change in the discount rate, the liability amounted to 138.888 million euro;
- +0.25% change in the inflation rate, the liability amounted to 136.678 million euro;
- -0.25% change in the inflation rate, the liability amounted to 131.249 million euro.

In addition, the liability in the coming years was also analysed; as a result, the payments for the next five years were estimated, as shown in the following table:

Future payments (millions of euro)

year	0–1	1–2	2–3	3–4	4–5
Cash flow	4.809	4.692	4.577	4.511	4.443

10.6 Provisions for risks and charges – other provisions

Items/Values	**31/12/2022**	**31/12/2021**
Provision for legal disputes	40,545	33,253
Provision for personnel expenses	17,847	17,136
Other provisions	786	676
Total	**59,178**	**51,065**

The provision for legal disputes covers outstanding disputes regarding, in particular, claims for repayment from the liquidators of bankrupt customers, concerning positions classified as doubtful or which have already been written off for 3.014 million euro, and other disputes that have arisen in the ordinary course of business for 37.531 million euro. The duration of such disputes is difficult to assess, given the extended time required in order to obtain justice.

The expected payments have been stated at their present value, considering the average time taken to complete bankruptcy claims, civil judgements and using market rates at 31/12/2022.

The provision for legal disputes increased by 7.292 million euro due to the difference between the provisions for the period for 15.221 million euro and the release of provisions made in previous years for 7.929 million euro.

At 31 December 2022, about 150 non-tax-related disputes were pending, with a total *petitum* of about 504 million. This amount related to all existing disputes, is regardless of the estimate of the risk of disbursement of economic resources deriving from the potential loss. It therefore also includes the petitum of disputes that have remote risk.

The following paragraphs provide brief information on the disputes considered significant – mainly those with claims exceeding 5 million euro and with the risk of disbursement deemed «possible» – as well as on cases considered significant.

Claims for «indemnification» relating to loans sold as part of the securitisation transactions called «Diana», «Pop NPLs 2020» and «Pop NPLs 2021»

The assignee companies have the contractual right to make claims for compensation for alleged breaches of the guarantees given by the Bank on the portfolio of assigned receivables. As regards the «Diana» transaction, 143 requests for a potential amount of 44.50 million euro are pending, for which a provision of 9.81 million euro has been made. On the other hand, with regard to the «PopSo NPLs 2020» transaction, 41 requests are pending for a potential amount of 5.45 million euro, for which a provision of 2.96 million euro has been set aside, while for the «PopSo NPLs 2021» transaction, 11 requests are pending for a potential amount of 0.5 million euro, for which a provision of 0.39 million euro has been set aside.

Disputes relating to compound interest and usury

The disputes falling within this line of litigation for years represented a significant part of the litigation brought against the Italian banking system. For disputes relating to compound interest, the *petitum* is equal to approximately 5.06 million, with provisions for 0.48 million, while for those relating to usury, the petitum is equal to 4.57 million, with provisions for 0.48 million.

Clawback actions in insolvency proceedings

12 disputes were pending for a petitum of 8.66 million, with a provision of 3.01 million. None with a request for a refund of a particularly significant amount.

AMA - Azienda Municipale Ambiente s.p.a.

In December 2020, the Bank was notified of the summons before the Court of Rome, concerning the requests for assessment and declaration of the nullity or cancellation of the transaction in financial instruments called «Interest Rate Swap» stipulated on 30 September 2010 and the repayment of amounts unduly received by the Bank for 20.67 million euro. The bank entered an appearance and the case is called to a hearing on 29 November 2024 for closing arguments. The risk of losing appears «possible».

Bankruptcy of Interservice s.r.l. in liquidation

In February 2015, the bankruptcy procedure sued the Bank before the Court of Milan with a request for compensation for the damage caused to the company by the illegal conduct of its director, quantified at 14.65 million euro. With a sentence published on 26 May 2020, the Court rejected the plaintiff's request, but the plaintiff has filed an appeal. Having filed final pleadings, the Bank is awaiting judgment. The risk of losing appears «possible».

Ginevra s.r.l.

In January 2019, the company and the shareholders Giuliana Piovan and Gianpiero De Luca sued the Bank before the Court of Genoa with a request for compensation, quantified at 11.40 million euro, for contractual liability for failure to grant credit, compound interest and usury. The case shall be called to a hearing on 13 June 2023 for closing arguments. The risk of losing appears «possible».

Società Italiana per le Condotte d'Acqua s.p.a.

In December 2022, a writ of summons was served concerning the damage caused to the Company by the Bank for having granted credit despite the alleged state of crisis and the lack of concrete prospects of overcoming the crisis. The amount of the application, carried out jointly with other credit institutions, is 389 million euro. The bank appeared in court rejecting the charge as unfounded and lacking evidentiary support. The risk of losing appears «possible».

The provision for personnel expenses essentially relates to the cost of untaken holidays and the potential cost of employee long-service bonuses. It increases by 0.711 million euro, +4.15%.

The provision for charitable donations of 0.786 million euro comprises an allocation from profits authorised by the Shareholders' Meeting due to donations made during the year. It increases by 0.300 million euro in the 2021 profit distribution and decreases by 0.190 million euro due to donations made during the year.

Section 12 *Company equity - Items 110, 130, 140, 150, 160, 170 and 180*

12.1 «Share capital» and «Treasury shares»: breakdown

Share capital comprises 453,385,777 issued and fully-paid ordinary shares, without par value, totalling 1,360.157 million euro, unchanged on last year. Shares in circulation have dividend and voting rights from 1 January 2022.

At the year-end, the Bank held treasury shares with a carrying value of 25.264 million euro.

12.2 Share capital – Number of shares: changes in the year

Items/Types	Ordinary	Other
A. **Shares at the beginning of the year**	**449,735,777**	**–**
– fully paid	435,385,777	–
– not fully paid	–	–
A.1 Treasury shares (–)	(3,650,000)	–
A.2 Shares in circulation opening balance	449,735,777	–
B. **Increases**	**8,282**	**–**
B.1 New issues	–	–
– for payment:	–	–
– business combinations	–	–
– conversion of bonds	–	–
– exercise of warrants	–	–
– other	–	–
– free of charge:	–	–
– to employees	–	–
– to directors	–	–
– other	–	–
B.2 Sale of treasury shares	–	–
B.3 Other changes	8,282	–
C. **Decreases**	–	–
C.1 Derecognition	–	–
C.2 Purchase of treasury shares	–	–
C.3 Disposal of businesses	–	–
C.4 Other changes	–	–
D. **Shares outstanding: closing balance**	**449,744,059**	**–**
D.1 Treasury shares (+)	3,641,718	–
D.2 Shares at the end of the year	453,385,777	–
– fully paid	453,385,777	–
– not fully paid	–	–

12.3 Share capital: other information

Share premium accounts

Amounts to 78.978 million, slightly down due to the recognition of negative differences between the discharge price and the corresponding book value of the shares sold.

12.4 Profit reserves: other information

The Schedule of distributable and available shareholders' equity pursuant to article 2427, paragraph 1, No. 7-bis of the Italian Civil Code is presented below.

Items	31/12/2022	Possibility of use*	Portion available	Uses in the last 3 financial years: Loss coverage	Uses in the last 3 financial years: Other uses
Share capital	**1,360,157**		–	–	–
Share premium accounts	**78,978**	A,B,C(3)	–	–	–
Treasury shares	**(25,264)**	–	–	–	–
Equity instruments	–	–	–	–	–
Reserves:	**1,276,171**		–	–	–
Legal Reserve	573,659	B	573,659	–	–
Pre-transformation Statutory Reserve S.p.A	590,411	A,B,C	590,411	–	–
Treasury shares reserve	30,000	–	–	–	–
Unavailable reserve pursuant to Art. 6 of Legislative Decree 38/2005	64,103	B(1)	64,103	–	–
IAS/IFRS First-Time Adoption Reserves	(63,530)	–	–	–	–
Reserve pursuant to Article 13 of Legislative Decree No. 124/93	142	–	–	–	–
Other Reserves	**81,386**	–	–	–	–
Valuation reserves:	**(30,086)**	–	–	–	–
Financial assets measured at fair value through other comprehensive income	(1,978)	–	–	–	–
Actuarial losses related to defined benefit plans	(38,557)	–	–	–	–
Revaluation reserves due to adoption of FV on real estate IAS 40	10,448	(2)	–	–	–
Total	**2,659,956**	–	–	–	–
Profit (loss) for the year	212,902	–	–	–	–
Total Equity	**2,872,858**	–	–	–	

Notes:

(*) A: for capital increase; B: for coverage of losses; C: for distribution to Shareholders.

(1) The reserve may be used to cover losses for the year only after utilising the available profit reserves and the legal reserve as set forth in Art. 6 of Legislative Decree No. 38/05. In that case, it is replenished by setting aside the profits of subsequent years.

(2) Reserves are subject to a restriction of unavailability pursuant to Art. 6 para. 1 letter b) of Legislative Decree No. 38/2005

(3) The «share premium accounts» may only be distributed in full if the legal reserve has reached one-fifth of the share capital (Art. 2431 of the Italian Civil Code).

Profit reserves contribute to the capital adequacy of the Bank, considering both current and future operations. They amount to 1,276.171 million euro, +10.59% on the prior year figure and comprise:

- Legal reserve, consisting of profits allocated pursuant to art. 2430 c.c. and art. 49 of the Articles of Association, which amounts to 573.659 million euro, +26.97%, following the allocation of 121.852 million euro from 2021 profit.
- Statutory reserve before transformation into S.p.a., amounting to 590.411 million euro.
- Reserve for the purchase of treasury shares, already provided for by art. 60 of the Articles of Association prior to transformation into S.p.a., which is available to the directors under art. 8 of the Articles of Association for the purchase or sale of treasury shares on market terms, as part of normal trading to support the liquidity of the shares. This reserve amounts to 30 million euro (used for 25.264 million euro), unchanged compared with the previous year.

- Reserve set up pursuant to art. 13 of Legislative Decree 124/93 for 0.142 million euro.
- Other reserves of 81.959 million euro increased by 0.359 million euro, compared to the previous year.

12.5 Capital instruments: breakdown and changes in the year

No equity instruments other than capital and reserves as defined by IAS 32 were issued.

Other information

1. Commitments and financial guarantees given (excluding those designated at fair value)

	Nominal value on commitments and financial guarantees given			**31/12/2022**	**31/12/2021**
	First stage	Second stage	Third stage	**Total**	**Total**
1. **Commitments to grant loans**	**13,031,470**	**1,166,319**	**66,754**	**14,264,543**	**13,117,684**
a) Central banks	–	–	–	–	–
b) Public administrations	588,977	16,951	–	605,928	616,253
c) Banks	218,194	5,508	–	223,702	66,832
d) Other financial companies	2,137,561	9,208	21	2,146,790	1,859,264
e) Non-financial companies	8,980,157	973,118	60,461	10,013,736	9,207,807
f) Households	1,106,581	161,534	6,272	1,274,387	1,367,528
2. **Financial guarantees issued**	**1,875,610**	**49,340**	**16,033**	**1,940,983**	**1,700,964**
a) Central banks	–	–	–	–	–
b) Public administrations	6,389	52	–	6,441	6,766
c) Banks	637,564	3,186	–	640,750	633,531
d) Other financial companies	719,634	6	210	719,850	495,732
e) Non-financial companies	461,996	39,624	15,110	516,730	506,453
f) Households	50,027	6,472	713	57,212	58,482

2. Other commitments and other guarantees given

	Nominal value	
	31/12/2022	**31/12/2021**
Other guarantees given	**3,979,598**	**3,524,558**
of which: non-performing	57,083	33,315
a) Central banks	–	–
b) Public administrations	68,753	36,915
c) Banks	158,887	144,434
d) Other financial companies	108,696	30,948
e) Non-financial companies	3,461,803	3,129,207
f) Households	181,459	183,054
Other commitments	**4,121,347**	**3,356,386**
of which: non-performing	33,890	48,142
a) Central banks	50,000	–
b) Public administrations	64,496	61,664
c) Banks	517,183	248,848
d) Other financial companies	69,781	67,967
e) Non-financial companies	3,332,891	2,907,638
f) Households	86,996	70,269

3. Assets lodged to guarantee the bank's liabilities and commitments

Portfolios	31/12/2022	31/12/2021
1. Financial assets measured at fair value through profit or loss	108,722	80,023
2. Financial assets measured at fair value through other comprehensive income	1,311,977	615,294
3. Financial assets measured at amortised cost	13,739,806	11,532,794
4. Property, equipment and investment property	–	–
of which: property, plant and equipment held as inventories	–	–

The assets measured at fair value through other comprehensive income and those measured at amortised include securities assigned to customers under repurchase agreements, assigned to guarantee loans from central banks (TLTRO) and to guarantee the operations of the Swiss subsidiary.

The assets measured at amortised cost also include loans that guarantee the funding provided by the Central Bank (ABACO loans) and residential mortgages guaranteeing the covered bonds issued by the Bank.

4. Management and intermediation for third parties

Type of services	Amount
1. **Execution of orders on behalf of customers**	**32,077**
a) purchases	–
1. settled	–
2. not settled	–
b) sales	32,077
1. settled	32,077
2. not settled	–
2. **Individual portfolio management**	**1,342,274**
3. **Custody and administration of securities**	**61,961,719**
a) third-party securities on deposit: associated with activities as a custodian bank (excluding portfolio management)	5,132,914
1. securities issued by the reporting bank	–
2. other securities	5,132,914
b) third-party securities on deposit (excluding portfolio management): other	19,582,003
1. securities issued by the reporting bank	1,991,519
2. other securities	17,590,484
c) third-party securities on deposit with third parties	22,598,601
d) own securities held by other custodians	14,648,201
4. **Other transactions**	**–**

5. Financial assets subject to offsetting in the financial statements, or subject to compensation framework agreements or similar agreements

Technical forms	Gross amount of financial assets (a)	Amount of financial liabilities offset in the financial statements (b)	Net financial assets reported in the balance sheet (c=a-b)	Correlated amounts not netted in the balance sheet: Financial instruments (d)	Correlated amounts not netted in the balance sheet: Cash deposits received in guarantee (e)	Net amount (f=c–d–e) **31/12/2022**	Net amount **31/12/2021**
1. Derivatives	30,549	–	30,549	11,027	17,855	1,667	547
2. Repo transactions	–	–	–	–	–	–	–
3. Securities lending	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–
Total 31/12/2022	**30,549**	**–**	**30,549**	**11,027**	**17,855**	**1,667**	**–**
Total 31/12/2021	**11,599**	**–**	**11,599**	**7,311**	**3,741**	**–**	**547**

IFRS 7 requires specific disclosures about the financial instruments that are netted or nettable in the balance sheet pursuant to IAS 32, given the application of framework netting agreements or similar arrangements.

There are no netting agreements whereby balances must be netted in the balance sheet pursuant to IAS 32.

With regard to potentially nettable instruments, the following tables indicate those derivative financial instruments governed by «ISDA Master Agreements».

In particular, Credit Support Annex (CSA) agreements have been signed with certain counterparties, under which the parties agree to give and accept assets in guarantee (in the Bank's case, amounts of cash denominated in euro), which are redetermined periodically depending on changes in the fair value of the underlying derivatives.

The derivatives subject to agreements of this type and reported herein are measured at fair value.

6. Financial liabilities subject to offsetting in the financial statements, or subject to compensation framework agreements or similar agreements

Technical forms	Gross amount of financial liabilities (a)	Amount of financial assets netted in the balance sheet (b)	Net financial assets reported in the balance sheet (c=a–b)	Correlated amounts not netted in the balance sheet: Financial instruments (d)	Correlated amounts not netted in the balance sheet: Cash deposits placed as collateral (e)	**Net amount (f=c–d–e) 31/12/2022**	**Net amount 31/12/2021**
1. Derivatives	20,300	–	20,300	11,027	8,246	1,027	122
2. Repo transactions	627,940	–	627,940	627,940	–	–	–
3. Securities lending	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–
Total 31/12/2022	**648,240**	**–**	**648,240**	**638,967**	**8,246**	**1,027**	**–**
Total 31/12/2021	**14,681**	**–**	**14,681**	**7,311**	**7,248**	**–**	**122**

Repurchase agreements indicated are subject to netting agreements governed by Global Master Repurchase Agreements (GMRA). The gross amounts (a) shown in the table relating to repo transactions are recorded in item 10 a) «Amounts owed to Banks»; the related financial instruments (d) are represented by the value of the securities involved in the transactions.

PART C *Information on the income statement*

Section 1 *Interest - Items 10 and 20*

1.1 Interest and similar income: breakdown

Items/Technical forms	Fixed-yield securities	Loans	Other transactions	**Total 31/12/2022**	**Total 31/12/2021**
1. **Financial assets measured at fair value through profit or loss**:	**1,380**	**8,272**	**–**	**9,652**	**8,151**
1.1 Financial assets held for trading	231	–	–	231	115
1.2 Financial assets designated at fair value	–	–	–	–	–
1.3 Other financial assets mandatorily measured at fair value	1,149	8,272	–	9,421	8,036
2. **Financial assets measured at fair value through other comprehensive income**	**18,234**	**–**	**–**	**18,234**	**10,311**
3. **Financial assets measured at amortised cost**:	**130,402**	**482,927**	**–**	**613,329**	**440,481**
3.1 Loans and receivables with banks	12,213	31,990	–	44,203	13,233
3.2 Loans and receivables with customers	118,189	450,937	–	569,126	427,248
4. **Hedging derivatives**	**–**	**–**	**2**	**2**	**–**
5. **Other assets**	**–**	**–**	**39,981**	**39,981**	**5,585**
6. **Financial liabilities**	**–**	**–**	**–**	**45,306**	**89,554**
Total	**150,016**	**491,199**	**39,983**	**726,504**	**554,082**
of which: interest income on impaired financial assets	–	24,961	–	24,961	26,143
of which: interest income on financial lease	–	–	–	–	–

1.2 Interest and similar income: other information

Interest income showed a good increase, +31.12 %, going from 554.082 million euro to 726.504 million euro. Interest accrued on financial liabilities for 45 million euro mainly refers to negative interest rates applied on longer-term refinancing operations (T-LTRO III) outstanding with the ECB.

1.2.1 Interest income on financial assets in foreign currency

Items	**31/12/2022**	**31/12/2021**
Interest and similar income on foreign currency assets	21,947	9,677

1.3 Interest and similar expense: breakdown

Items/technical forms	Payables	Securities	Other transactions	**Total 31/12/2022**	**Total 31/12/2021**
1. **Financial liabilities measured at amortised cost**	**(56,410)**	**(77,977)**	**–**	**(134,387)**	**(79,297)**
1.1 Due to central banks	(354)	–	–	(354)	(4)
1.2 Due to banks	(7,288)	–	–	(7,288)	(692)
1.3 Due to customers	(48,768)	–	–	(48,768)	(11,476)
1.4 Securities issued	–	(77,977)	–	(77,977)	(67,125)
2. **Financial liabilities held for trading**	**–**	**–**	**–**	**–**	**–**
3. **Financial liabilities designated at fair value**	**–**	**–**	**–**	**–**	**–**
4. **Other liabilities and provisions**	**–**	**–**	**–**	**–**	**–**
5. **Hedging derivatives**	**–**	**–**	**(170)**	**(170)**	**–**
6. **Financial assets**	**–**	**–**	**–**	**(9,739)**	**(27,941)**
Total	**(56,410)**	**(77,977)**	**(170)**	**(144,296)**	**(107,238)**
of which: interest expense on lease payables	(3,268)	–	–	(3,268)	(3,437)

1.4 Interest and similar expense: other information

Interest expense went from 107.238 million euro to 144.296 million euro +34.56% with an increase of 37.058 million euro. The increase is due to the rise in interest rates and involved both the cost of funding from customers in the various forms of short-term funding and bond issues and the amount of negative interest on deposits with the ECB decreased.

1.4.1 Interest and similar expense on foreign currency liabilities

Items	**31/12/2022**	**31/12/2021**
Interest expense on foreign currency liabilities	(6,914)	(629)

1.5 Differentials relating to hedging transactions

Items	**31/12/2022**	**31/12/2021**
A. Positive differentials relating to hedging transactions	2	–
B. Negative differentials relating to hedging transactions	(170)	–
C. **Balance (A–B)**	**(168)**	**–**

Section 2 *Commissions - Items 40 and 50*

2.1 Fee and commission income: breakdown

Type of services/Values	Total 31/12/2022	Total 31/12/2021
a) **Financial instruments**	**61,878**	**61,348**
1. Placement of securities	38,661	38,340
1.1 On a firm and/or irrevocable commitment basis	-	-
1.2 Without irrevocable commitment	38,661	38,340
2. Receiving and sending orders and execution of orders on behalf of customers	11,814	11,690
2.1 Receiving and sending orders for one or more financial instruments	11,814	11,690
2.2 Execution of orders on behalf of customers	-	-
3. Other commissions related to activities linked to financial instruments	11,403	11,318
of which: trading on own account	-	-
of which: individual portfolio management	11,403	11,318
b) **Corporate Finance**	**-**	**-**
1. Mergers and acquisitions advisory services	-	-
2. Treasury services	-	-
3. Other commissions related to corporate finance services	-	-
c) **Investment advisory activities**	**-**	**-**
d) **Compensation and settlement**	**-**	**-**
e) **Custody and administration**	**8,208**	**8,409**
1. Custodian bank	5,938	6,091
2. Other commissions related to custody and administration activities	2,270	2,318
f) **Central administrative services for collective portfolio management**	**-**	**-**
g) **Fiduciary business**	**-**	**-**
h) **Payment services**	**140,029**	**130,834**
1. Current accounts	40,720	37,921
2. Credit cards	20,143	16,395
3. Debit cards and other payment cards	18,549	16,779
4. Bank transfers and other payment orders	48,935	48,683
5. Other fees related to payment services	11,682	11,056
i) **Distribution of third-party services**	**29,636**	**28,042**
1. Collective portfolio management	-	-
2. Insurance products	25,390	24,402
3. Other products	4,246	3,640
of which: individual portfolio management	-	-
j) **Structured finance**	**-**	**-**
k) **Servicing for securitisation transactions**	**-**	**-**
l) **Commitments to grant loans**	**-**	**-**
m) **Financial guarantees issued**	**32,454**	**28,340**
of which: credit derivatives	-	-
n) **Financing operations**	**53,091**	**48,406**
of which: for factoring transactions	-	-
o) **Trading in foreign currencies**	**-**	**-**
p) **Commodities**	**-**	**-**
q) **Other commission income**	**21,491**	**17,118**
of which: for management of multilateral trading systems	-	-
of which: for management of organised trading systems	-	-
Total	**346,787**	**322,497**

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

Channels/Values	Total 31/12/2022	Total 31/12/2021
a) **bank branches:**	**79,699**	**77,700**
1. portfolio management	11,403	11,318
2. placement of securities	38,661	38,340
3. third-party services and products	29,635	28,042
b) **door-to-door sales:**	**–**	**–**
1. portfolio management	–	–
2. placement of securities	–	–
3. third-party services and products	–	–
c) **other distribution channels:**	**–**	**–**
1. portfolio management	–	–
2. placement of securities	–	–
3. third-party services and products	–	–

2.3 Fee and commission expense: breakdown

Type of service/amounts	Total 31/12/2022	Total 31/12/2021
a) **Financial instruments**	**(1,675)**	**(1,805)**
of which: trading of financial instruments	(1,675)	(1,805)
of which: placement of financial instruments	–	–
of which: individual portfolio management	–	–
– Own	–	–
– Delegated to third parties	–	–
b) **Compensation and settlement**	**–**	**–**
c) **Custody and administration**	**(3,074)**	**(2,942)**
d) **Collection and payment services**	**(5,296)**	**(6,262)**
of which: credit cards, debit cards and other payment cards	(2,569)	(2,689)
e) **Servicing for securitisation transactions**	**–**	**–**
f) **Commitments to receive funds**	**–**	**–**
g) **Financial guarantees received**	**(3,677)**	**(159)**
of which: credit derivatives	–	–
h) **Door-to-door distribution of financial instruments, products and services**	**–**	**–**
i) **Trading in foreign currencies**	**–**	**–**
j) **Other commission expenses**	**(1,874)**	**(1,502)**
Total	**(15,596)**	**(12,670)**

Section 3 Dividends and similar income - Item 70

3.1 Dividends and similar income: breakdown

	Total 31/12/2022		Total 31/12/2021	
Items/Income	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	2,691	308	1,693	171
B. Other financial assets mandatorily measured at fair value	–	2,521	–	3,330
C. Financial assets measured at fair value through other comprehensive income	2,354	–	2,489	–
D. Equity investments	27,669	–	14,580	–
Total	**32,714**	**2,829**	**18,762**	**3,501**

Dividends on equity investments were paid for 11.050 million euro by Factorit Spa, for 3.894 million euro by BPS Suisse, for 7.468 million euro by Arca Vita spa, for 5.207 million euro by Arca Holding Spa and for 0.050 million euro by Rajna Immobiliare S.r.l.

Section 4 *Net trading income - Item 80*

4.1 Net trading income: breakdown

Transactions/Income items	Gains (A)	Trading profits (B)	Losses (C)	Trading losses (D)	Profit (loss) [(A+B) - (C+D)]
1. **Financial assets held for trading**	**827**	**36,713**	**(18,379)**	**(4,089)**	**15,072**
1.1 Fixed-yield securities	–	444	–	(2,845)	(2,401)
1.2 Equity securities	444	4,462	(8,826)	(748)	(4,668)
1.3 Mutual funds	–	1,836	(9,248)	(496)	(7,908)
1.4 Loans	–	–	–	–	–
1.5 Others	383	29,971	(305)	–	30,049
2. **Financial liabilities held for trading**	**–**	**–**	**–**	**–**	**–**
2.1 Fixed-yield securities	–	–	–	–	–
2.2 Payables	–	–	–	–	–
2.3 Others	–	–	–	–	–
3. **Financial assets and liabilities: exchange differences**	**–**	**–**	**–**	**–**	**4,284**
4. **Derivatives**	**10,107**	**36,451**	**(9,372)**	**(38,187)**	**(842)**
4.1 Financial derivatives:	10,107	36,451	(9,372)	(38,187)	(842)
– On fixed-yield securities and interest rates	7,659	8,080	(7,224)	(7,199)	1,316
– On equity securities and equity indices	881	15,764	(572)	(18,566)	(2,493)
– On currency and gold	–	–	–	–	159
– Other	1,567	12,607	(1,576)	(12,422)	176
4.2 Credit derivatives	–	–	–	–	–
of which: natural hedges related to the fair value option	–	–	–	–	–
Total	**10,934**	**73,164**	**(27,751)**	**(42,276)**	**18,514**

The net result from trading activities was positive for 18.514 million euro compared to a positive result for 50.590 million euro in the previous year. It recorded total profits from trading of 2.653 million euro compared to 11.485 million euro; the net result on other financial assets of 30.049 million euro is mainly made up of exchange gains. The difference between capital gains and losses on securities and mutual fund units is negative for 17.630 million euro. The net result of derivative trading is negative for 0.842 million euro. Exchange rate differences, amounting to 4.284 million euro, are positive, and increasing due to rate trends, compared to negative exchange rate differences of 0.052 million euro in 2021.

Section 5 *Net hedging gain (loss) - Item 90*

5.1 Net hedging gain (loss): breakdown

Income Components/Values	31/12/2022	31/12/2021
A. **Income related to:**		
A.1 Fair value hedging derivatives	255	–
A.2 Hedged financial assets (fair value)	46	–
A.3 Hedged financial liabilities (fair value)	–	–
A.4 Financial derivatives - Cash-flow hedges	–	–
A.5 Assets and liabilities denominated in foreign currencies	–	–
Total income from hedging activities (A)	**301**	**–**
B. **Charges relating to:**		
B.1 Fair value hedging derivatives	(89)	–
B.2 Hedged financial assets (fair value)	(244)	–
B.3 Hedged financial liabilities (fair value)	–	–
B.4 Financial derivatives - Cash-flow hedges	–	–
B.5 Assets and liabilities denominated in foreign currencies	–	–
Total hedging charges (B)	**(333)**	**–**
C. **Net hedging gain (loss) (A – B)**	**(32)**	**–**
of which: result of hedging on net positions	–	–

Section 6 *Gains (losses) from sales/repurchases - Item 100*

6.1 Gains (losses) from sales/repurchases: breakdown

	Total 31/12/2022			Total 31/12/2021		
Items/Income items	Gains	Losses	Profit (loss)	Gains	Losses	Profit (loss)
A. **Financial assets**						
1. Financial assets measured at amortised cost	33,877	(4,906)	28,971	35,580	(2,702)	32,878
1.1 Loans and receivables with banks	72	(1)	71	–	–	–
1.2 Loans and receivables with customers	33,805	(4,905)	28,900	35,580	(2,702)	32,878
2. **Financial assets measured at fair value through other comprehensive income**	**12,154**	**(306)**	**11,848**	**16,179**	**(2,423)**	**13,756**
2.1 Fixed-yield securities	12,154	(94)	12,060	16,179	(2,423)	13,756
2.2 Loans	–	(212)	(212)	–	–	–
Total assets (A)	**46,031**	**(5,212)**	**40,819**	**51,759**	**(5,125)**	**46,634**
B. **Financial liabilities measured at amortised cost**						
1. Due to banks	–	–	–	–	–	–
2. Due to customers	–	–	–	–	–	–
3. Securities issued	5	–	5	9	(27)	(18)
Total liabilities (B)	**5**	**–**	**5**	**9**	**(27)**	**(18)**

The losses shown in line «1.2 Loans to customers», totalling 4.905 million euro, mainly refer to the effects of the derisking actions carried out in 2022 with the transfer of NPL carried out in December (4.194 million euro).

During 2022, transactions were also carried out to sell exposures classified as probable defaults, which resulted in the recognition of disposal gains of about 3.2 million euro. For further details reference should be made to part E of these Notes, section «C. Securitisation transactions» sub-paragraph «C. Financial assets sold and fully derecognised».

Section 7 *Net gains/losses on financial assets and liabilities measured at fair value through profit or loss - Item 110*

7.2 Net change in value of other financial assets and liabilities measured at fair value through profit or loss: breakdown of other financial assets mandatorily measured at fair value

Transactions/Income items	Gains (A)	Realised gains (B)	Losses (C)	Realised losses (D)	Profit (loss) [(A+B)-(C+D)]
1. **Financial assets**	**17,334**	**1,771**	**(78,463)**	**(9,557)**	**(68,915)**
1.1 Fixed-yield securities	–	1,771	(5,366)	–	(3,595)
1.2 Equity securities	–	–	–	–	–
1.3 Mutual funds	3,384	–	(48,686)	(9,557)	(54,859)
1.4 Loans	13,950	–	(24,411)	–	(10,461)
2. **Financial assets in currency: exchange differences**	**–**	**–**	**–**	**–**	**2,615**
Total	**17,334**	**1,771**	**(78,463)**	**(9,557)**	**(66,300)**

Gains, losses, proceeds from disposals concern mutual fund units and Italian Government securities. This item also includes the change in fair value of loans which did not pass the SPPI test.

Section 8 *Net adjustments/write-backs for credit risk - Item 130*

8.1 Net value adjustments for credit risk related to financial assets measured at amortised cost: breakdown

	Adjustments (1)						Write-backs (2)					
			Third stage		Impaired purchased or originated							
Transactions/Income items	First stage	Second stage	Write-off	Other	Write-off	Other	First stage	Second stage	Third stage	Impaired purchased or originated	**Total 31/12/2022**	**Total 31/12/2021**
A. **Loans and receivables with banks**	**(901)**	**(449)**	**-**	**-**	**-**	**-**	**5,531**	**-**	**-**	**-**	**4,181**	**2,782**
- Loans	(655)	(257)	-	-	-	-	649	-	-	-	(263)	1,326
- Fixed-yield securities	(246)	(192)	-	-	-	-	4,882	-	-	-	4,444	1,456
B **Loans and receivables with customers**	**(19,801)**	**(72,808)**	**(33,307)**	**(230,419)**	**(7,315)**	**(16,565)**	**54,913**	**18,709**	**122,376**	**21,988**	**(162,229)**	**(144,031)**
- Loans	(15,536)	(69,835)	(33,307)	(230,419)	(7,315)	(16,565)	53,217	18,709	122,376	21,988	(156,687)	(145,013)
- Fixed-yield securities	(4,265)	(2,973)	-	-	-	-	1,696	-	-	-	(5,542)	982
Total	**(20,702)**	**(73,257)**	**(33,307)**	**(230,419)**	**(7,315)**	**(16,565)**	**60,444**	**18,709**	**122,376**	**21,988**	**(158,048)**	**(141,251)**

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

	Net value adjustments							
			Third stage		Impaired purchased or originated			
Transactions/Income items	First stage	Second stage	Write-off	Other	Write-off	Other	**Total 31/12/2022**	**Total 31/12/2021**
1. Loans subject to forbearance complying with the GL	–	12	–	–	–	–	12	(11)
2. Loans subject to outstanding moratoria measures no longer in compliance with GL and not evaluated as subject to forbearance measures	1	168	–	(52)	–	–	117	(274)
3. Loans subject to other forbearance measures	–	2,761	–	2,502	–	235	5,498	(3,745)
4. New loans	290	(4,036)	–	(7,665)	–	(515)	(11,926)	(7,406)
Total 31/12/2022	**291**	**(1,095)**	**–**	**(5,215)**	**–**	**(280)**	**(6,299)**	**(11,436)**
Total 31/12/2021	**287**	**(2,813)**	**–**	**(8,479)**	**–**	**(431)**	**(11,436)**	**–**

8.2 Net adjustments for credit risk relating to financial assets measured at fair value through other comprehensive income: breakdown

	Adjustments (1)						Write-backs (2)					
			Third stage		Impaired acquisite o originate							
Transactions/Income items	First stage	Second stage	Write-off	Other	Write-off	Other	Primo stadio	Secondo stadio	Terzo stadio	Impaired acquisite o originate	**Total 31/12/2022**	**Total 31/12/2021**
A. Fixed-yield securities	(743)	(9)	-	-	-	-	392	-	-	-	(360)	1,009
B. Loans	-	-	-	-	-	-	-	-	-	-	-	-
- Customers	-	--	-	-	-	-	-	-	-	-	-	-
- Banks	-	-	-	-	-	-	-	-	-	-	-	-
Total	**(743)**	**(9)**	**-**	**-**	**-**	**-**	**392**	**-**	**-**	**-**	**(360)**	**1,009**

8.2a Net adjustments for credit risk relating to loans measured at fair value through other comprehensive income subject to Covid-19 support measures: breakdown

There are no loans measured at fair value through comprehensive income subject to Covid-19 support measures.

Section 9 *Gains/losses on contractual changes not resulting in derecognition - Item 140*

The gains on contractual changes without derecognition amounted to 3.565 million euro, compared to a loss of 6.099 million euro in the previous year.

This line item principally includes the economic impact of contractual changes that do not qualify for the derecognition of financial assets and, therefore, that result in a change in the related amortised cost to reflect the discounting to present value of the new contractual cash flows using the original internal rate of return.

The total reflects losses from changes of 3.145 million euro, and profits from changes of 6.710 million euro.

Section 10 *Administrative expenses - Item 160*

10.1 Personnel expenses: breakdown

Type of expense/Values	Total 31/12/2022	Total 31/12/2021
1) **Employees**	**(202,895)**	**(206,686)**
a) wages and salaries	(126,160)	(124,028)
b) social security contributions	(35,695)	(35,484)
c) termination indemnities	–	–
d) pension expenses	–	–
e) provision for employee termination indemnities	(8,487)	(7,896)
f) provision for pension and similar obligations:	(6,101)	(14,103)
– defined contribution	–	–
– defined benefits	(6,101)	(14,103)
g) payments to external supplementary pension funds:	(3,386)	(3,291)
– defined contribution	(3,386)	(3,291)
– defined benefits	–	–
h) costs deriving from payment agreements based on own capital instruments	–	–
i) other personnel benefits	(23,066)	(21,884)
2) **Other working personnel**	**(415)**	**(278)**
3) **Directors and Statutory Auditors**	**(2,058)**	**(2,100)**
4) **Retired personnel**	**–**	**–**
5) **Recovery of expenses for personnel on secondment to other firms**	**1,009**	**1,062**
6) **Reimbursement of expenses for personnel on secondment to the company**	**(1,184)**	**(573)**
Total	**(205,543)**	**(208,575)**

10.2 Average number of employees by category

	31/12/2022	31/12/2021
1) **Employees**	**2,876**	**2,823**
a) managers	25	26
b) officials	596	574
c) other employees	2,255	2,223
2) **Other personnel**	**8**	**4**
Total	**2,884**	**2,827**

	Total 31/12/2022	Total 31/12/2021
– Number of employees at year-end	2,916	2,866
– Other personnel	6	5

10.3 Company pension plans with defined benefits: total costs

Income Components/Values	31/12/2022	31/12/2021
Service cost	2,142	2,404
Interest cost	1,160	528
Contributions from employees	(199)	(209)
Reductions and payments	2,998	11,380
Total charge to income statement (A)	6,101	14,103
Yield from assets servicing the fund (B)	3,185	11,199
Total charge (A-B)	**2,916**	**2,904**

The costs have been recorded as personnel expenses.

Information regarding the outstanding obligations and related changes during the year, the assets servicing the fund and principal actuarial assumptions made is provided in the tables reported in Part B Section 10.5 of the notes to the financial statements. The cost for the Bank consists of the contributions that it has to pay into the fund in accordance with the Fund Regulations. An additional provision of 3.185 million euro has been recorded, representing the return on the assets servicing the fund, which is recognised as «other operating income». A positive change of 6.830 million euro corresponding to the actuarial profit was recognised in compliance with the provisions of the IAS 19 accounting standard, as balancing entry in equity as shown in the statement of comprehensive income.

10.4 Other employee benefits

The item essentially comprises the cost of expenses and salaries of personnel allocated to a specific fund, and related to meal vouchers, scholarships, insurance costs, the reimbursement of expenses, training costs and other benefits.

10.5 Other administrative expenses: breakdown

Type of services/Values	31/12/2022	31/12/2021
Telephone, post and data transmission	(11,427)	(11,446)
Maintenance of property, equipment and investment property	(8,000)	(6,944)
Rent of buildings	(129)	(213)
Security	(4,290)	(3,877)
Transportation	(1,589)	(1,624)
Professional fees	(42,518)	(42,490)
Office materials	(1,489)	(1,450)
Electricity, heating and water	(3,939)	(4,658)
Advertising and entertainment	(2,500)	(2,237)
Legal	(9,924)	(11,289)
Insurance	(1,512)	(1,453)
Company searches and information	(8,214)	(7,922)
Indirect taxes and dues	(58,021)	(57,251)
Software and hardware rental and maintenance	(20,120)	(19,005)
Data entry by third parties	(3,165)	(2,452)
Cleaning	(6,027)	(5,908)
Membership fees	(1,783)	(1,638)
Services received from third parties	(6,261)	(7,591)
Outsourced activities	(23,456)	(22,722)
Deferred charges	(1,350)	(1,258)
Goods and services for employees	(745)	(637)
Contributions to resolution and guarantee funds	(45,878)	(43,066)
Other	(6,417)	(5,903)
Total	**(268,754)**	**(263,034)**

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

11.1 Net provisions for credit risk related to commitments to disburse funds and financial guarantees provided: breakdown

The line item is negative for 5.286 million euro made up of the difference between provisions for the year and reallocations.

11.2 Net provisions related to other commitments and other guarantees provided: breakdown

The line item is negative for 14.582 million euro made up of the difference between provisions for the year and reallocations.

11.3 net provisions to other funds for other: breakdown

The balance of 10.660 million euro is made up of the difference between provisions for the year for 15.221 million euro to the provision for legal disputes and reallocations for 4.561 million euro.

Section 12 Net adjustments/reversals of property, equipment and investment property - Item 180

12.1. Depreciation and net impairment losses on property, equipment and investment property: breakdown

Assets/Income component	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a + b - c)
A. **Property, equipment and investment property**				
1. For business purposes	(32,391)	–	–	(32,391)
– Owned	(12,427)	–	–	(12,427)
– Rights of use acquired through leases	(19,964)	–	–	(19,964)
2. Held for investment purposes	–	–	–	–
– Owned	–	–	–	–
– Rights of use acquired through leases	–	–	–	–
3. Inventories	–	–	–	–
Total	**(32,391)**	**–**	**–**	**(32,391)**

Section 13 Amortisation and net impairment losses on intangible assets - Item 190

13.1 Amortisation and net impairment losses on intangible assets: breakdown

Assets/Income component	Amortisation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a + b - c)
A. **Intangible assets**				
A.1 Owned	(14,655)	–	–	(14,655)
of which: Software	(14,655)	–	–	(14,655)
– Internally generated	–	–	–	–
– Other	(14,655)	–	–	(14,655)
A.2 Rights of use acquired through leases	–	–	–	–
Total	**(14,655)**	**–**	**–**	**(14,655)**

The adjustments relate to intangible assets with a finite life consisting of rights to use computer software. There were no significant impairment losses relating to intangible assets during the year. Accordingly the information provided pursuant to para. 130 letters a) c) d) f) g) and para. 131 of IAS 36 is not provided.

Section 14 *Other operating income and expense - Item 200*

The item amounts to 62.636 million euro and comprises the difference between other operating income of 68.162 million euro, net of other operating expenses of 5.526 million euro.

14.1 Other operating expenses: breakdown

	31/12/2022	31/12/2021
Contingent liabilities	(4,987)	(4,200)
Other	(539)	(1,835)
Total	**(5,526)**	**(6,035)**

14.2 Other operating income: breakdown

	31/12/2022	31/12/2021
Recovery of charges on deposits and overdrafts	855	945
Rental income from buildings	1,267	1,234
Recovery of taxes	50,729	50,122
Financial income of pension and similar obligations plan	3,185	11,199
Contingent assets - other	3,109	1,732
Other	9,017	8,402
Total	**68,162**	**73,634**

The sub-item «other» includes 1.215 million euro for the rapid enquiry fee, which has been allocated to this item in accordance with the Supervisory Authority’s interpretation as it is merely a recovery of the costs incurred.

Rental income from buildings includes 0.610 million euro from the sub-lease of right-to-use assets.

Section 15 *Net gains (losses) on equity investments - Item 220*

15.1 Net gains (losses) on equity investments: breakdown

Income item/Amounts	Total 31/12/2022	Total 31/12/2021
A. **Income**	**1,401**	**–**
1. Revaluations	–	–
2. Gains on disposal	1,401	–
3. Write-backs	–	–
4. Other income	–	–
B. **Charges**	**(383)**	**(895)**
1. Write-downs	–	–
2. Impairment write-downs	(383)	(895)
3. Losses on disposal	–	–
4. Other charges	–	–
Profit (loss)	**1,018**	**(895)**

Gains on disposal refer to the sale of 18.25% of Cossi Costruzioni, while the write-down concerns the subsidiary Pirovano Stelvio spa for 0.383 million euro.

Section 16 *Net result of Fair Value measurement of property, plant and equipment and intangible assets*

16.1 Net result of the valuation at fair value (or revalued amount) or at the estimated realisable value of property, equipment and investment property and intangible assets: breakdown

Assets/Income component	Revaluations (a)	Write-downs (b)	Exchange differences Positive (c)	Exchange differences Negative (d)	Gains (loss) (a-b+c-d)
A. **Property, equipment and investment property**	**208**	**(90)**	**-**	**-**	**118**
A.1 For business purposes:	-	-	-	-	-
- Owned	-	-	-	-	-
- Rights of use acquired through leases	-	-	-	-	-
A.2 Investment property:	208	(90)	-	-	118
- Owned	208	(90)	-	-	118
- Rights of use acquired through leases	-	-	-	-	-
A.3 Inventories	-	-	-	-	-
B. **Intangible assets**	**-**	**-**	**-**	**-**	**-**
B.1 Owned:	-	-	-	-	-
- Internally generated	-	-	-	-	-
- Other	-	-	-	-	-
B.2 Rights of use acquired through leases	-	-	-	-	-
Total	**208**	**(90)**	**-**	**-**	**118**

Section 18 *Gains (losses) on sale of investments - Item 250*

18.1 Net gains(losses) on sales of investments: breakdown

Income item/Amounts	**Total 31/12/2022**	**Total 31/12/2021**
A. Property	-	107
- Gains on disposal	-	107
- Losses on disposal	-	-
B. Other assets	12	6
- Gains on disposal	12	6
- Losses on disposal	-	-
Profit (loss)	**12**	**113**

Section 19 *Income taxes for the year of ordinary operations - Item 270*

19.1 Income taxes: breakdown

Income Components/Values		Total 31/12/2022	Total 31/12/2021
1.	Current taxes (-)	(66,000)	(47,500)
2.	Change in prior year income taxes (+/-)	-	-
3.	Reduction in current taxes (+)	-	-
3.bis	Reduction in current taxes for tax credits under Law 214/2011 (+)	-	-
4.	Change in deferred tax assets (+/–)	(20,164)	(40,966)
5.	Change in deferred tax liabilities (+/–)	46	(815)
6.	Income taxes for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(86,118)	(89,281)

The tax rate, i.e. the ratio of income taxes recognised to the profit on current operations before tax, is 28.80%.

19.2 Reconciliation between the theoretical and current tax burden

Profit before tax	**299,020**
IRES (corporate income taxes)	
Theoretical rate and theoretical tax	**82,230**
Dividends (–)	(7,843)
Gains/losses on sale of equity investments (PEX) (+/–)	(366)
Valuation losses on investments	105
Irap deductibility 10 % and labour costs (-)	(250)
Maxi depreciation	(229)
ACE	(3,727)
Other changes (+/–)	(139)
TOTAL IRES	**69,781**
IRAP (Regional business tax)	
Theoretical rate and theoretical tax	**16,655**
Dividends	(911)
Net value adjustments	(3,728)
Personnel expenses	953
Administrative expenses	1,610
Depreciation and amortisation	262
Other operating income/expense	1,152
Gains (losses) on equity investments	(57)
Other items	401
TOTAL IRAP	**16,337**
TOTAL TAXES	**86,118**

Income taxes are calculated at 27.50% for IRES and 5.57% for IRAP.

Section 22 *Earnings per share*

Reference should be made to the information contained in the same section of the Consolidated Notes.

PART D *Information on comprehensive income*

Statement of comprehensive income

Items	31/12/2022	31/12/2021
10. **Profit (loss) for the year**	**212,902**	**212,099**
Other income items without reversal to the income statement	**2,317**	**14,414**
20. **Equity securities measured at fair value through other comprehensive income:**	**(5,965)**	**286**
a) change in fair value	(4,752)	3,460
b) transfer to other components of equity	(1,213)	(3,174)
30. **Financial liabilities measured at fair value through profit or loss (changes in own creditworthiness):**	**–**	**–**
a) change in fair value	–	–
b) transfer to other components of equity	–	–
40. **Hedges 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, equipment and investment property**	**942**	**14,669**
60. **Intangible assets**	**–**	**–**
70. **Defined-benefit plans**	**10,993**	**5,982**
80. **Non-current assets and groups of assets held for sale**	**–**	**–**
90. **Share of valuation reserves of equity investments measured at equity**	**–**	**–**
100. **Income tax relating to other income components without reversal to the income statement**	**(3,653)**	**(6,523)**
Other income components with reversal to the income statement	**(84,491)**	**(12,232)**
110. **Hedges of foreign investments:**	**–**	**–**
a) changes in fair value	–	–
b) transfer to income statement	–	–
c) other changes	–	–
120. **Exchange differences:**	**–**	**–**
a) changes in value	–	–
b) transfer to income statement	–	–
c) other changes	–	–
130. **Cash flow hedging:**	**–**	**–**
a) changes in fair value	–	–
b) transfer to income statement	–	–
c) other changes	–	–
of which: result of net positions	–	–
140. **Hedging instruments (non-designated elements):**	**–**	**–**
a) changes in value	–	–
b) transfer to income statement	–	–
c) other changes	–	–
150. **Financial assets (other than equity securities) measured at fair value through other comprehensive income:**	**(126,416)**	**(17,778)**
a) changes in fair value	(116,454)	(1,901)
b) transfer to income statement	(9,962)	(15,877)
– adjustments for credit risk	360	(1,009)
– gains/losses on disposals	(10,322)	(14,868)
c) other changes	–	–
160. **Non-current assets and disposal groups held for sale:**	**–**	**–**
a) changes in fair value	–	–
b) transfer to income statement	–	–
c) other changes	–	–
170. **Share of valuation reserves on investments accounted for by the equity method:**	**–**	**–**
a) changes in fair value	–	–
b) transfer to income statement	–	–
– adjustments for impairment	–	–
– gains/losses on disposals	–	–
c) other changes	–	–
180. **Income tax relating to other income components with reversal to the income statement**	**41,925**	**5,545**
190. **Total other income components**	**(82,174)**	**2,181**
200. **Other comprehensive income (Item 10+190)**	**130,728**	**214,281**

PART E *Information on risks and related hedging policy*

The information contained in this section is based on internal data prepared for management purposes, which means that it may differ from those reported in sections B and C of these notes, except where the book value specifically has to be shown.

The information to be disclosed to the public under Sections Eight and Ten, Title I, Chapter 3 of the Regulation (EU) 575/2013 is provided by the required deadlines in the «Investor relations» section of the Bank's website.

Introduction

The purpose of managing and controlling risks is to ensure the reliable and sustainable generation of value, safeguard the financial solidity and reputation of the Bank, and provide transparent disclosure about the risks accepted. In particular, this activity seeks to verify compliance with the limits placed on the acceptance of risk, to identify criteria and methodologies for the measurement/assessment of risk, to check the consistency of the work performed in each operational area with the risk objectives assigned, if any, and to monitor current and future capital adequacy.

The Board of Directors is responsible for establishing guidelines, the strategic direction and policies for the governance of business risks, in order to ensure that the principal risks to which the Bank is exposed are correctly identified and managed. Consistent with this, the Board establishes the propensity to accept risk and obtains information about the actual exposures recorded, checking that the risk profiles are monitored appropriately by the units made responsible for internal control. In addition, with support from senior management, the Board promotes the development and spread at all levels of a «risk culture», capable of recognising the importance of healthy and prudent business management and facilitating a consistent, integrated and complete understanding of the types of risk that are important for the Bank.

Based on their specific responsibilities, the managing director and the members of general management supervise implementation of the guidance, direction and instructions provided by the Board, translating them into a system of exposure limits, procedures and operations designed to ensure the moderate acceptance of risk; the practical application of significant risk policies is delegated to the central services, offices and branches, depending on how they are organised.

The Board of Statutory Auditors monitors the adequacy of the risk management processes and their consistency with regulatory requirements.

The measurement and control of risks are performed by separate functions that are organisationally independent of the units authorised to accept them. The Risk Control Department plays a primary role by constantly supervising operations via the Risk Control Offices, making use of systems, instruments, procedures and methodologies for the identification, assessment and monitoring of risk. The department manager reports to senior management, in an objective and impartial manner, on the outcome of these control activities.

The high-level information describing the risks accepted, prepared by the above department, is organised so that senior management – having regard for the duties and responsibilities of each person – can make an informed, complete and documented assessment of the various types of risk and the related management, control and mitigation mechanisms, as well as of the adequacy of the capital held to cover such risks. The changes in the risk profiles are also communicated to the operational areas, via operational reports designed to make personnel aware of the need to intensify efforts to prevent and attenuate risk.

ESG risks (Environmental, Social and Governance)

Banca Popolare di Sondrio recognises that the integration of risks associated with environmental, social and corporate governance factors (so-called «ESG risks» - Environmental, Social, Governance) in strategic processes and risk management systems is essential for an ever better understanding of the context in which it operates, for a more aware and considered assumption of risk and, ultimately, for greater effectiveness in responding to the needs of customers and communities.

ESG risk factors have an impact on economic activities, affecting the financial system through various transmission channels. As determining or accentuating factors of various existing risk categories, their occurrence could affect the ability of the Bank's business model to hold up over the medium and long term, compromising its capital stability, competitive potential and reputational credibility.

Also taking into account the growing attention of regulatory authorities and public opinion, the Bank is progressively incorporating the assessment of risks associated with climate change and environmental, social and governance issues in the formulation and implementation of its lending, financial and investment policies as well as in the provision of services to customers, through structured paths of analysis of exposure to more vulnerable sectors, markets and counterparties, understanding of potential impacts in the short and longer term, identification and integration of these factors in ordinary risk management practices.

In addition to being an important driving force and Financier of the system, the Bank is aware that it plays a significant role as a social operator and, as such, intends to participate with its business activities in the transition towards a «human scale» economy, aimed at achieving «carbon neutrality» objectives and respecting the principles of inclusiveness, equity and social sustainability, for the benefit of future generations.

This awareness is primarily embodied in the implementation of appropriate internal policies aimed at identifying ways of directing operations with a view to reconverting credit disbursed towards green and sustainable sectors, through the definition of evaluation elements linked to the impact of climate and environmental factors on the economic and financial stability of counterparties.

The Bank is also committed to strengthening communication channels and disclosure of climate and environmental aspects and, in general, of issues related to sustainability factors and the management of related risks, in order to increase market transparency and promote understanding of the financial implications of these factors.

As part of the activities conducted on issues related to ESG factors, following the publication by the European Central Bank, in November 2020, of its «Guidance on Climate and Environmental Risks» - a document that dictated thirteen expectations concerning the integration of such risks in typical banking contexts - a dedicated project structure is governing the executive and monitoring activities of the adaptation programmes, in line with the Bank's strategic guidelines on «sustainability».

The Action Plan, finalised in May 2021, represents the planned initiatives for the development and implementation of a series of organisational, procedural and methodological solutions through which to achieve full alignment with the non-binding indications of the Supervisory Authority over several years. Since its drafting, the Action Plan has been progressively extended to include all the main adjustment initiatives regarding the management of ESG risks considered as a whole, for the purposes of a complete and coordinated monitoring of the issue.

In the course of 2022, a targeted survey of supervised institutions sponsored by the ECB was aimed at assessing the level of integration of climate and environmental risks into banks' management paradigms and evaluating the progress made in implementing multi-year adaptation plans. As part of this survey, intermediaries were asked to carry out a new state of the art assessment with regard to the following main areas to verify the degree of integration achieved: (i) climate-environmental risk materiality assessments; (ii) business model and strategy; (iii) governance, organisation and risk appetite; (iv) risk management system; (v) credit operating procedures and credit risk management.

The following is a summary of the main activities carried out by the Bank in the last financial year, grouping them, for the sake of brevity, into the five areas covered by the supervisory thematic analysis.

A. *Materiality analysis of climatic and environmental factors*: new processes were defined to perform a more complex and in-depth assessment of the materiality of exposure to climatic and environmental risks, accompanied by more advanced methodologies and analysis tools as well as more granular data availability. The coverage of «traditional» risk categories, portfolios and asset segments potentially impacted by such factors also increased, thanks to a more accurate mapping of risk events and their transmission channels, and the use of metrics representative of the risk drivers faced by individual counterparties or single physical assets.

B. *Business context and strategy*: with regard to this line of action, a number of initiatives stand out in particular. In terms of internal policies, a new policy dedicated to sustainable credit («ESG Credit Policy») was drafted. The document, in line with European «sustainable finance» regulations and market trends, identifies the approach and general principles for formulating ESG-sensitive credit granting and monitoring processes. From the point of view of strategy, first measurable targets related to the carbon neutrality pathway undertaken by the Bank were identified, expressed by means of direct and indirect greenhouse gas emission reduction indicators (i.e. the so-called GHG Scope I and Scope II), with plans to set environmental sustainability targets and metrics for 2023 that also relate to the containment of carbon emissions generated by asset portfolios (so-called GHG Scope III). Efforts have also been made to launch specific sustainable credit products aimed at assisting individuals, professionals and businesses wishing to invest in reducing their «carbon footprint» by, for example, installing renewable energy systems, purchasing environmentally friendly means of transport or improving the efficiency of their homes or workplaces.

C. *Corporate governance, risk appetite, reporting and data governance*: significant changes were made last year to the «Risk Appetite Frameworks». The qualitative ESG objectives already in place were integrated, as a guideline for the promotion of further and new ESG risk assessments aimed at orienting strategic choices with a view to limiting the impact of these factors on credit and investment, strategic, reputational and legal risk exposures. Also of note is the introduction of a new quantitative parameter for measuring climate and environmental risks in the context of the credit risk exposure of the «corporate» portfolio based on a newly developed counterparty scoring system. From the point of view of data management infrastructures and processes, the wealth of data on sustainability risks has been further enriched through the use of specialised info-providers, creating the architectural prerequisites so that information systems increasingly respond to the need to systematically collect, process and aggregate the data required for assessing exposure to ESG risks, acquiring the information in an orderly manner through interchange channels and placing it in dedicated ICT environments, available to multiple processes and users. A data dictionary is also being developed to collect all information needs related to the integration of ESG considerations into business processes to enable any user to understand the provenance and granularity of the available data. On the subject of internal reporting, the Bank has set up a periodic reporting apparatus on the evolution of ESG risk, which is now part of the reporting system to senior management on the Bank's general risk trend, through which the board is regularly informed about the status of ESG risks - and, in particular, those of a climatic and environmental nature - that characterise the Bank's exposures and counterparties, by measuring metrics and conducting quantitative analyses of the incidence of these particular risk factors.

D. *Risk management system*: in this regard, the Bank is committed to the systematic integration of sustainability risks into the corporate risk management system, since these risks - with particular attention to climatic and environmental factors - are likely to have an impact on the exposure to traditional prudential risks (in particular, credit, market, operational and liquidity risks). The methodological kit for quantifying the level of risk exposure, also in prospective terms, is being enriched day by day, increasingly incorporating ESG factors in the assessment of exposure to the various risks and in their monitoring, through the elaboration of analyses on the type and level of materiality of the sustainability risks to which the Bank and its portfolios are most vulnerable. In addition and as an evolution to the previous tools for mapping and classifying ESG riskiness at the sector level (the so-called «ESG Heat Map»), an internal methodology was developed for the construction of synthetic scores representative of ESG riskiness at the level of individual counterparties. This scoring system, which was developed primarily to measure individual vulnerability to climate and environmental risk factors, will make it possible to prospectively estimate the potential financial impacts associated with the exposure of credit counterparties, first to transitional and physical risks, and then to overall ESG risks. The monitoring of ESG risks associated with portfolios of credit risk exposures and investments in financial instruments is also supported by external tools and information services (e.g., non-proprietary ESG rating systems for assessing the riskiness of investments and issuers of financial assets in the portfolio) useful for ensuring a systematic determination of the degree of exposure through the adoption of tools, metrics and algorithms for measuring risk levels that can feed into internal monitoring and reporting systems. Climate and environmental risks in particular, based on the findings of the materiality analyses performed, will be incorporated into the upcoming internal capital adequacy assessment (ICAAP) and liquidity assessment (ILAAP) processes by means of dedicated impact quantifications (e.g. on the traditional risk parameters of the loan portfolio and collateral) based on the application of prospective climate transition scenarios and/or assumptions on the severity of the effects of relevant physical risks. Specific activities to verify the alignment of owned credit and financial portfolios against climate scenarios related to the achievement of global carbon emission reduction targets dictated by the «Paris Climate Agreements» have already been carried out in the past financial year. More attention has also been paid to the integration of environmental, social and governance factors in the monitoring of market, operational and reputational risks; initial analyses of the impact on liquidity risks are underway. Lastly, it is worth mentioning the Bank’s participation in the ECB Climate Stress Test exercise promoted by the European Central Bank in the first half of 2022, the first large-scale simulative test aimed at assessing the degree of preparedness of significant European institutions to deal with economic and financial «shocks» arising from physical and transition risks, and to obtain initial indications on the vulnerabilities and main challenges that banks might face in managing climate change-related risks. For information on the materiality of the financial impacts of climate change risks in the short, medium and long term, please refer to the TCFD Report annexed to the Consolidated Non-Financial Statement 2022.

E. *Credit risk*: supervisory guidelines call for the integration of ESG risks, and in particular of risk factors related to environmental and climate aspects, into credit processes and related risk measures with increasing vigour. With regard to the development of methodologies for analysing and measuring the potential impacts of species risks, the Bank has made significant progress. All this mainly relates to the definition of quantitative ESG scoring systems that are necessary to assess customers by also taking into account relevant ESG risk factors in the context of the instructional processes supporting lending decisions. A first matrix tool (so-called «Heat Map») developed with a proprietary methodology in 2021 offered a sectoral classification of economic activities from the perspective of their ESG riskiness through the assignment of specific scores and risk bands, useful, in addition to portfolio analyses, for carrying out preliminary activities to determine the significance of ESG factors for exposure to credit and market risks. During 2022, the Bank, compared to the sector-level scoring system described above, further evolved its quantitative ESG metrics: starting from the sector mapping, a proprietary modelling solution was developed to assign a synthetic score calibrated at the level of individual borrowers, aimed at quantifying the individual exposure of borrower «companies» to sources of risk related to environmental and climate factors (both physical and transitional). Currently, the calculation model for the new score is based on the combination of data acquired mainly through the use of external companies specialised in the provision of financial and sustainability information; to this end, the Bank has set up partnerships with qualified ESG data providers in order to retrieve all the necessary information (point information and/or appropriate proxies or estimates in the absence of reliable point data). All of the elements that make up the scoring have forward-looking features that involve the use of scenarios that are representative of the evolution of the counterparty's physical and transitional climatic and environmental risks over short-, medium- and long-term horizons, as well as geographic or sectoral assessments. The methodology developed also envisages the possibility of defining more accurate scoring by administering specific questionnaires to counterparties, on the occasion of the granting of new credit as well as on other potential occasions of contact with them, in order to collect additional or more up-to-date ESG information than that provided by external providers. In relation to this, engagement activities are being undertaken with an initial target of counterparty companies from which to proceed with a direct retrieval of sustainability information, which is also functional to test the tools and processes for the collection of the identified ESG data as well as to verify the response times and modalities of the companies approached.

It is expected that the described quantitative ESG risk metrics will be used in key internal processes, such as:

a. *Risk appetite target*: these metrics were used to define the current ESG risk indicators mentioned above, which are included in the Bank's Risk Appetite Framework;
b. *Credit policies*: during 2022, sectoral ESG scoring was included in the credit policy-making tools, weighting it within the attractiveness analysis of economic sectors;
c. *Credit granting and monitoring procedures*: individual counterparty scoring is being progressively integrated into the decision-making processes with the consequent redefinition of the escalation logics of the mandated bodies/subjects, of the related delegated powers as well as of the lending pricing models to be applied to credit transactions with companies.

At present, climate and environmental risks are not explicitly modelled in the IFRS 9 methodological framework used by the Bank to determine collective impairment losses on its performing exposures; however, there are elements in it - such as the use of geo-sectoral considerations in the estimation of risk parameters and in the quantification of management overlays considered in the final level of write-downs - that allow for the capture, albeit indirectly, of certain elements of risk attributable to differentiation variables influenced by climatic-environmental factors (e.g. the economic sector of a counterparty and the geo-location of its main activities).

The framework for the measurement, control and monitoring of risks related to climate-environmental, social and governance factors and the related integration activities into strategic processes and risk management systems will be gradually completed and refined in line with the still planned upgrades, aimed at: (i) the refinement of processes and investigations of the significance of climate and environmental risks with respect to their potential occurrence within traditional risk categories; (ii) a greater integration of climate/environmental change objectives into the corporate business model through the provision of performance indicators and targets based on the containment of indirect emissions of harmful gases (GHG Scope 3); (iii) a better formalisation of roles and responsibilities related to the management of ESG risks along the so-called «three lines of defence»; (iv) the enrichment of risk propensity parameters, metrics and scenario-based analyses for quantifying the impacts of climatic and environmental factors; (v) the refinement of assessment techniques and tools, and the fine-tuning of technical-architectural solutions for the collection and management of ESG information assets; (vi) increasing integration of climate and environmental assessments within credit policies and procedures (new loan granting processes, monitoring of sectoral and geographic concentration levels of the credit portfolio, evaluation of the collateral backing loans, mitigation of borrowers' climate-environmental risks, etc.) as well as the engineering of supporting IT, infrastructure and data management solutions.

Section 1 *Credit risk*

QUALITATIVE INFORMATION

1. General aspects

The Bank's Credit policy aims to provide support to local economies in the areas that we serve, by granting financial resources to applicants that are pursuing admirable objectives and who meet suitable parameters of credit-worthiness.

The size and composition of the loan portfolio reflect the financial needs of two specific customer segments: small and medium-sized businesses, mainly located in the areas where the Bank operates, and households. The Bank prefers to lend to SMEs since they do not move in broader financial circles and, consequently, need a point of reference that can understand their requirements and meet them with skill, efficiency and speed, following the evolution of the business over time. However, the needs of bigger counterparties, such as large enterprises and public entities, are not overlooked, providing their credit rating following a rigorous preliminary investigation shows that they are solid and reliable.

In this context, the lending activity is based on principles of healthy and prudent management, fair remuneration of risk and professional, efficient operational conduct, with a view to establishing two-way communications with borrowers based on reciprocal trust and transparency; this in order to enhance the Bank's particular aptitude for building long-term customised relationships with local business owners.

In consideration of the Bank's strategic objectives and approach to operations, its lending strategy is based on a low propensity for risk and full awareness of the risks that are taken on; this involves:

- measuring the current and prospective risk of the credit portfolio, both as a whole and/or at various levels of disaggregation;
- diversifying the exposure, so as to reduce concentration;
- refusing to get involved in operations that could jeopardise the Bank's profitability and solidity.

These strategies and policies have not changed since last year.

For more details on the impact of the pandemic and related support measures on credit risk, please refer to the Third Pillar public disclosure.

2. Credit risk management policies

2.1 Organisational aspects

The Bank's approach to credit risk management is based on maximum involvement at all levels of the organisation to ensure timely processing of customers' applications, combined with an analytical assessment of the risk involved in lending money to them. The various stages that make up the lending process include the planning of credit policies, the preliminary investigation, granting of the loan, periodic review, monitoring and management of «non-performing» loans.

Implementing the strategic guidelines established by the Corporate Bodies during the planning process and in compliance with the risk limits set, the lending policy defines the size and composition of the loan book, in order to guarantee an adequate balance between the risk profile accepted and the return earned. The guidelines cover the products, segments, sectors and categories of counterparties that maximise forecast profitability while, at the same time, governing the quality of the portfolio and ensuring capital adequacy on a prospective basis. For planning purposes, the guidelines establish objectives for the operational offices, covering the quality of the portfolio, as well as its growth and profitability. These objectives must be achieved while respecting the capital adequacy requirements and risk limits.

The procedures and organisational structure in place have been formalised clearly specifying activities, roles and responsibilities.

In order to avoid potential conflicts of interest, the separation between operating functions and control functions is ensured.

The system of decision-making powers approved by the Board of Directors is based on the principle of «cascade delegation», which means assigning limited powers to the branches, giving preference to control by specialist central units.

The following is an explanation of the bodies and the main corporate functions that are involved in supervising the lending process, also specifying their principal duties.

- *Board of Directors*. The Board of Directors supervises and oversees the proper allocation of financial resources and, in particular:
  - establishes the strategic direction and lending policies;
  - sets criteria for the identification;
  - ensures risk management and assessment;
  - approves the decision-making and signature powers attributable to the other corporate bodies and organisational units for the granting and revision of lines of credit;
  - checks that the structure of the control functions is defined in line with the strategic guidelines;
  - makes sure that they have an appropriate degree of independent judgement and are equipped with qualitatively and quantitatively adequate resources;
  - gains a general knowledge of rating systems, proposes their application during the various stages of the process and assesses how effective they are with the help of the internal control and internal audit functions.
- Managing Director. The Managing Director supervises implementation of the decisions taken by the Board of Directors with regard to the management of lending and the related risks. In addition, exercises the powers to grant loans granted under the Bank's regulations.
- *General Management*. General Management implements the strategies and policies established by the Board of Directors and, in particular:
  - prepares regulations, activities, procedures and organisational structures for the adoption and application of an efficient lending process, of an adequate rating system and of a solid system for the control of the related risks;
  - verifies the adequacy and functional capacity of these various elements, also in light of the internal and external changes that are affecting the Bank;
  - takes the necessary action to eliminate any weaknesses and inefficiencies that are identified.

  In addition, General Management adopts resolutions to the extent of the autonomy granted.
- *Branches*. The branches are assigned the fundamental task of handling the relationship with the customer who is borrowing or who would like to borrow money from the Bank. They acquire the documentation, make an initial selection of the applications and directly approve those within the scope of their powers, and monitor the credit report on a day-to-day basis, checking for potentially anomalous situations.
- *Coordination functions*. They give the branches fundamental support in handling more complex loan positions and/or those that are looking critical. They examine requests for loans to be presented to the central functions and express an opinion, while approving directly those within the scope of their powers.
- *Loans Department*. The Credit Assessment office supports the work of the central committees by receiving applications from branches, checking their completeness and accuracy, and completing the assessment.

The Medium-term and Special Loans Office assesses mortgages, leases, factoring arrangements, artisan and agricultural loans, loans under framework agreements and personal loans from a technical and legal point of view. Through the Risk Office, it finalises the guarantees and then activates the loan.

- *Corporate Finance Department*. The Corporate Finance Department analyses, structures and coordinates corporate finance operations and identifies the best types of financing for complex investment projects. It makes a preliminary evaluation of project financing transactions, directly structuring the intervention or proposing the Bank's participation in a lending syndicate.
- *The NPE Unit*. This Unit oversees the performance of credit quality and verifies the effectiveness of the actions taken to settle credit anomalies and recover the debt. In particular, the current structure involves the following organisational units:
  - *Problem Loans Management*. Oversees the performance of credit quality and verifies the effectiveness of the actions implemented to settle credit anomalies and recover the debt. Monitors, in particular, critical performing, non-performing and past due positions classified as unlikely-to-pay and implements, either directly or via the network, the appropriate actions to minimise the risks and prepare appropriate initiatives to protect the Bank's credit. It also supports the network in managing positions subject to restructuring and insolvency procedures, searching for negotiated solutions to business crises.
  - *In-court and out-of-court debt collection and bad debt*. For credit positions classified as bad loans, it takes legal action, in and out of court, to recover them, organising the necessary interventions directly and/or through external lawyers.
  - *Performance monitoring and support.* Monitors the NPE portfolio for management purposes and early warning purposes. Monitors operational and management performance of impaired loan recovery activities. Manages the status changes and provisions, investigation of the NPE chain, regulations and relevant processes. This organisational unit is also responsible for managing and coordinating the various processes involved in outsourcing non-performing loans.
- *Risk Control Department*. Designs, develops and manages measurement systems of a regulatory and managerial nature, ensures full implementation of risk taking, management and monitoring policies. With particular reference to credit risk, the activities carried out by the following organisational units are of note:
- *Credit Risk Office.* Monitors the exposure to credit risk through the use of methodologies and tools suitable for identifying the criticality of the underlying processes and the interventions aimed at overcoming them, contributing to assessing the consistency of the NPL portfolio management strategies with the RAF parameters, estimating the impacts of the reduction and recovery objectives of problem loans on profitability and capital profiles; overseeing and coordinating the activities related to the evolution of the AIRB models, providing for the appropriate measurements; overseeing the second level controls through the assessment of the consistency of the classifications and the adequacy of the provisions related to performing and impaired credit items.
  - *Credit Models Development Office*. In charge of designing, developing and maintaining the quantitative models and metrics adopted to measure credit risk for both regulatory and management purposes (AIRB rating system), as well as defining and updating the credit risk parameters used to determine accounting provisions.
  - Pricing and valuation models. Responsible for developing and monitoring quantitative methodologies and models for risk (i.e. IFRS 9 stage allocation and impairment, measurement of operational and counterparty risk, analysis of macroeconomic scenarios) and for valuation (i.e. pricing models, independent price verification methodologies, calculation of fair value and related adjustments).
  - *Office of Risk Data Management.* Oversees the governance of risk data and the related data quality controls, guaranteeing integration with the company's data governance

processes, as well as overseeing the IT architecture supporting the internal rating system.

- Integrated Risk Office. Oversees the definition and monitoring of the risk objectives established by the RAF, fulfils the obligations of the Second (ICAAP) and Third Pillar (Public Disclosure) and those relating to the Recovery Plan, governs the execution of the stress exercises to verify the resilience of the Group's capital and financial conditions in adverse scenarios, contributes to the Resolution Plan and the monitoring of risks not covered by other specialist units (Integrated Risk Office).

In addition, the following organisational units report to the Chief Risk Officer*:*

- *Large Exposures Office and Rating Desk*. Responsible for assessing the riskiness of major credit exposures, for validating the internal rating judgements assigned to customers belonging to the «major customers» management segment and for carrying out verification and validation activities for exceptions to rating judgements requested by the competent operational structures.
- *Validation Office*. Responsible for overseeing the validation processes of the internal models for measuring and managing Pillar I and II risks, the main risk management and monitoring systems, the assessment of corporate activities and other risk measurement methods used for management and accounting purposes.

– *Internal Audit Department.* Checks the proper functioning of controls and compliance with rules and procedures. In particular, this department checks that the criteria for the proper classification of loans are correctly applied.

2.2 Management, measurement and control systems

Control over credit risk has the support of rating models that have been specifically developed by the Bank. The Bank has models for the following segments: Private Customers (resident and non-resident consumer households), Small Economic Operators (family businesses, personal businesses and practising professionals), Small Businesses (non-financial partnerships and companies with sales unknown or less than 1.5 million euro and total credit lines at Group level of less than 1 million euro), SMEs (non-financial partnerships and companies with sales between 1.5 million euro and 100 million euro, or sales unknown or less than 1.5 million euro and total credit lines at Group level of 1 million euro or more), Corporate non-profit institutions (non-profit entities and associations with sales of 1.5 million euro or more or, if less or unknown, with total credit lines of 1 million euro or more), Retail non-profit institutions, Large Enterprises (non-financial partnerships and companies with sales in excess of 100 million euro), Public Enterprises and Non-resident, non-financial companies.

These models are designed to create a counterparty rating and an associated probability of default (PD), representing the estimated likelihood that the borrower will become insolvent within one year. The rating depends solely on the characteristics of the counterparty and is not influenced by any guarantees that the Bank has acquired. The rating assessments are produced by qualitative statistical models and are split into 14 categories for «performing» counterparties and one for those that are insolvent. They are then summarised in eight risk ratings: «Excellent», «Good», «Medium», «Uncertain», «Bad», «Very bad», «Insolvent» and «Not classified».

Ratings are used in the credit process all the way from policy planning through to performance control. For monitoring purposes, the rating is calculated monthly with reference to the entire population of interest, whereas it is determined on an ad hoc basis when considering new loans or reviewing existing loans.

In addition to the rating and PD, the Bank estimates and adopts two other important risk factors: the loss given default (LGD) rate and the estimated exposure at default (EAD). These estimates for counterparties also derive from internal models, and they are heavily influenced by the presence and type of guarantees acquired by the Bank and by the technical form by which the loan is granted.

Lastly, the PD, LGD and EAD results make it possible to determine the Expected Loss, which is an estimate of the potential loss associated with a particular loan exposure; and as an element of cost, it also provides useful input for determining prudent loan loss provisions.

Having input on such risk factors, updated on a monthly basis, contributes towards a complete assessment of the risk profile, helping to improve the amount of information available to support the lending process.

Together with the valuations obtained through internal models, the ratings granted by leading international agencies are gathered automatically. These are used in determining the capital requirements for credit and counterparty risk, for which the Bank adopts, for segments not covered by internal models, the so-called «standardised approach»; this involves weighting the exposures on the basis of ratings, where available, assigned to each counterparty by a specialist firm (rating agencies such as Standard & Poor's, Moody's, Fitch Ratings, DBRS and Cerved Group).

As regards counterparty risk, in addition to continuously monitoring the main banking groups with credit lines, we periodically carry out a specific analysis of each position that has been taken on. This is performed by taking various indicators into consideration, such as their rating, accounting information and market data.

The internal rating system represents a fundamental element of the Bank's credit processes and procedures. It is fully integrated with them in accordance with regulatory requirements. Specifically, IRB risk metrics are used in the following areas: lending and decision-making, credit monitoring, credit quality, management and branch network reporting, risk-adjusted pricing, credit policies and impairment.

The preliminary investigation, which aims to establish whether applicants satisfy certain conditions for credit-worthiness, includes consideration of whether the characteristics of the loan are consistent with its purpose, a check on whether any guarantees being provided are suitable to cover the risk of non-repayment, and a review of the economic aspects of the loan. In this context, the opinion expressed by the internal rating system, if available, and the associated estimates of default are taken into due consideration as essential elements for an overall evaluation of the customer.

The decision whether to grant a loan or not is taken by the competent decision-making bodies prior to disbursement, carefully assessing all of the information that emerged during the preliminary investigation, as well as any other element that might be available. In order to ensure greater control of credit risk, the mechanism for defining the autonomy limits for the decision-making bodies at the base of the hierarchical scale combines the use of the nominal value of the transaction to be resolved with the risk profile of the same, of the counterpart applicant, any related counterparties and related exposures. In addition, the Loss Given Default (LGD) parameter is integrated into the resolution body determination model.

Credit lines are then made operative and the funds made available to the borrower, but only after all matters foreseen in the approval have been dealt with, particular emphasis being put on the acquisition of guarantees and their verification and assessment in terms of being suitable to lower the credit risk.

After disbursement, loans of whatever amount are reviewed periodically to check whether all of the conditions established during the preliminary investigation and taken into consideration when granting the loan still exist. Particular attention is paid to reviewing the reasons that led to changes in ratings.

Lines of credit can also be reviewed automatically in the case of positions with low levels of risk, ascertained through a rigorous examination of suitable indicators that are established in advance, where the rating takes on a great deal of importance. The risk parameters are also assessed upon the renewal/revision of outstanding loans, allowing for automatic revision in the presence of specific solvency criteria, including maximum thresholds for the counterparty's probability of default, differentiated by risk segment.

Outstanding loans and guarantees are constantly monitored to ensure that the borrower and any guarantors remain solvent and that the general and specific requisites still apply and that the guarantees are still valid, to ensure that they can be fully and effectively enforced in the event of the debtor's insolvency. This monitoring, which is carried out in accordance with formal company procedures, is designed to spot any negative symptoms as early as possible and to take rapid and effective action to avoid any further deterioration. In this regard, the home branches of the loans concerned play an important role since, by maintaining direct customer relations, they are able to identify any signs of impairment immediately. Operating units are supported in these activities by a series of reports produced internally or by external contributors; with regard to the Parent Company, particular importance is attached to the report on changes in the risk factors at counterparty level calculated by the rating system. Specific head office units are dedicated to analysing the different information available, in order to assess continuously the merit class of each exposure and identify those potentially subject to excessive risk. The depth of this analysis is linked to the needs expressed.

The Bank uses risk-adjusted value creation (EVA) indicators when determining the spread and margin on loans. Using a specific application already integrated within the electronic credit line system, it is in fact possible to determine a measure of profitability that is adjusted for credit risk (expected loss based on the customer's rating) and for the opportunity cost of the regulatory capital absorbed. This is applied to the individual lending relationship, thus resulting in an estimate of the value added by current or potential exposures. By consolidating the controls applied to contain risk in the selection, management and monitoring phases, this tool makes it possible to identify poorly performing accounts more precisely and, therefore, take action to restore profitability.

The Bank also has a process of identification, resolution and monitoring of forborne exposures (i.e. credit exposures for which changes in contractual conditions or refinancing have been granted due to financial difficulties on the part of the debtor); forborne as an attribute is transversal to all loans, regardless of their administrative status.

In addition, a range of management information is generated periodically in order to monitor better, via meaningful analysis, the changes in portfolio risk.

With regard to the monitoring of loans that appear anomalous, all overdrawn situations are analysed carefully with a view to taking timely action in relation to problem positions. The Problem Loans Management Department makes use of performance measurement and control methodologies that take into consideration internal and industry data, together with the opinion given by the rating system, if available, to build up the identification of potentially problematic counterparties and promotes actions to mitigate credit risk. These positions are appropriately analysed and, where there are clear signs of difficulty, they are classified as «non-performing», depending on how serious the situation is.

The task of monitoring and managing anomalous loans is given to specific central offices, which make use of «corporate managers» located throughout the territory and who carry on their activity with a view to returning the position to «performing», if this is possible; otherwise, with a view to recovering the loan in the event of insolvency, operating in close collaboration with the home branches of the problem loans concerned.

Within the Risk Control Department, a separate unit supports the Loans Department by identifying «performing» customers that show initial anomalies and signs of difficulty, as well as those counterparties that are persistently overdrawn. In order to deal with deteriorating relationships promptly and effectively supervise the overall quality of the loans portfolio, the Bank has adopted monitoring processes and support tools that promote actions leading to the regularisation of the relationships.

With reference to the controls adopted for the control and mitigation of concentration risk, it should be noted that, in the preliminary, disbursement, review and monitoring phases, in-depth controls are carried out relating to the concentration of risks for significant exposures to individual counterparties or groups of counterparties between which there are connections of a legal and/or economic nature. In particular, in accordance with the above regulations, specific procedures are followed for loan applications deemed to be "of major relevance"

(OMR), based on the size of the exposure and the amount of the request for new lines of credit. In particular, these applications and the related investigation report prepared by the Loan Investigation Office are sent to the Large exposures office and rating desk, which assesses the consistency of the operation, at both the individual and consolidated levels, with the system of risk objectives identified in the RAF (Risk Appetite Framework). In addition to the normal analysis by the loan investigation office, large exposures are also examined by the Large exposures office and rating desk in order to provide additional support for the approval process.

2.3 Methods for measuring expected losses

The purpose of this section is to describe the methodological framework implemented by the Bank to calculate the Expected Credit Loss (ECL) of its loan portfolio, in accordance with the requirements of the IFRS 9.

The Bank has defined a specific methodological framework. Building on the models already used in other business areas and processes, this activity involved developing various methodologies and aspects relevant to the calculation of impairment, such as stage allocation methodologies, as well as the micro-modelling of scenario-dependency and the calculation of a multi-period ECL that takes account of the key aspects mentioned.

These methodologies are considered optimal with regard to the rationale underlying the standard (including the avoidance of undue cost and effort), the current and prospective taxonomy and complexity of the portfolio, the materiality of the impact of specific modelling decisions and the following drivers of analysis considered important:

- Disclosure and consistency, with particular reference to the ease with which the approach can be explained to the various types of stakeholder, and consistency with the methodological framework currently used for stress testing.
- Conformity with current regulations, with particular reference to integration of the forward-looking element and the move from a «Through-the-Cycle» to a «Point-in-Time» approach.
- Maintenance effort, particularly in relation to the frequency with which the model is recalibrated under the point-in-time approach*time*.
- Representativeness of the composition of the portfolio, considering the level of specialisation with respect to the clusters within the portfolio and the essential duration of the portfolio.
- Adequacy with respect to the depth and frequency of the available data, specifically considering aspects of data availability and methodological requirements, as well as the stability of the estimates and the number of parameters to be estimated.

Finally, it is important to remember that, for the purposes of determining the expected credit loss, the current models include the effects of the new definition of default (new DoD), and at the same time include prudential overlays aimed at ensuring that the overall level of collective provisions is fully aligned with the current and prospective risk profile of the counterparties and the macroeconomic, geopolitical and business context in which the Bank operates.

Scope of calculation

The above methodologies are used to calculate impairment write-downs for the loan portfolio of the Bank, in accordance with IFRS 9. More precisely, these methodologies are applied to the portfolios classified in accordance with the Held To Collect business model (portfolios measured at amortised cost if they pass the «Solely Payment of Principal and Interest» (SPPI) test and are reported in the «Due from customers» and «Loans and receivables with banks» line items) and the Held To Collect and Sell business model (portfolios measured at fair value through other comprehensive income (FVOCI), in order to determine the change in fair value that is attributable to credit risk).

In addition to the above, applicable to the «on–balance sheet» component, IFRS 9 also applies to the financial instruments associated with «off–balance sheet» categories, such as revocable margins, non-revocable margins and financial guarantees.

Credit risk parameters under IFRS 9

The process of modelling credit risk parameters started with the internal models developed for regulatory purposes. Based on these, the Bank defined a set of refined methodologies and adjustments to model in a specific and appropriate manner the point-in-time and forward-looking components, in order to ensure maximum consistency between the overall methodology adopted and the rationale underlying the standard. The probability of default (PD) was modelled on adaptation of the default rates, applying a variable scale approach. As discussed earlier regarding internal consistency with other methodologies already developed and used in other business areas, the set of AIRB models is the starting point for the methodological framework used to model the probability of default (PD).

On this basis, the Bank defined a series of specific methodological approaches, essentially covering the aspects described below, in order to develop a precise model that embodies as closely as possible the rationale and requirements of the new standard:

- Transition matrices, used to model the PD dynamics needed to calculate the IFRS 9-compliant ECLs over essentially long-term time horizons;
- Econometric models, defined for various customer segments and sectors of business activity, that make it possible to differentiate the above forward-looking dynamics by examining different macroeconomic scenarios over a long time horizon;
- Convergence dynamics towards long-term equilibrium that make it possible to extend the above-mentioned forward-looking and scenario-dependent dynamics over longer time horizons than those covered by the econometric models;
- Methodologies for estimating the long-term PD by adopting a suitable methodological framework;
- Methodologies for defining appropriate PDs for segments not covered by ratings, including the corporate and retail segments for which no models are available, as well as the exposures to those types of counterparty (e.g. banks, public administrations) that do not fall within the scope of the AIRB models. The approach in these cases uses the ECAI transition matrices and the internal default rates.

  In order to develop a model for the LGD component under IFRS 9 that embodies as closely as possible the requirements of the new standard, the Bank sought to make methodological choices and/or adopt definitions that differed from those developed in the AIRB context, as well as to develop IFRS 9-specific methodologies that model changes in the metric more precisely over long-term time horizons under different macroeconomic conditions.

  More precisely, the LGD parameter used under IFRS 9 differs from those considered by the internal models in the following ways:
- Definition of LGD by state of impairment (LGS). Although the starting point for the definition of LGD by state of impairment (LGS) uses the same concept as that used in the AIRB context, in order to maximise internal consistency among the models adopted, the Bank defined a different set of underlying methodologies for the calculation of that metric, in order to ensure greater consistency with the rationale underlying the standard.
- Development of econometric models for LGD by state of impairment. The Bank has developed a specific methodological module that renders LGD by state of impairment (LGS) dependent on the macroeconomic scenario selected.
- Definition of the danger rate parameter. The Bank has defined an alternative version of the danger rate parameter, which is estimated over a shorter time horizon than that considered in the AIRB context, achieving greater alignment with the point-in-time calibration logic touched on in the standard.
- Parameters for segments other than Corporate and Retail not covered by the AIRB model. The Bank has defined specific methodologies for estimating the LGD for those portfolio

segments that, while falling within the scope of the IFRS 9 simulation, are not currently covered by the internal LGD models.

The Exposure at Default component is modelled using different methodological approaches depending on the segment to which the counterparties belong; in particular:

- for counterparties in the Retail segment, the EAD model developed by the Bank within the A-IRB framework and already validated is used;
- for counterparties in the Corporate segment, the EAD model developed by the Bank under A-IRB management is used;
- for counterparties not covered by the internal model, a standard CCF value is used.

With specific reference to the 2022 accounting year, it should be noted that the credit risk parameters (namely PD and Danger Rate) calibrated in accordance with the new definition of default (New DoD) and already used by the Bank for regulatory purposes were also adopted under IFRS 9, and the simultaneous introduction of specific in-model adjustments aimed at ensuring that the new values were fully aligned to the current and prospective risk profile of the counterparties in the portfolio.

Stage allocation

The standard requires the classification of all financial instruments subject to impairment into three different stages, considering the level of impairment of the exposure at the analysis date with respect to an initial recognition date:

- Stage 1: performing positions for which no significant increase in credit risk is found at the analysis date with respect to that at the date of initial recognition;
- Stage 2: performing positions for which a significant increase in credit risk is found with respect to that at the date of initial recognition;
- Stage 3: positions in default.

The principal innovation relates to the need, for financial instruments classified in stage 2, to calculate the expected loss over their entire residual lives, based on the increase in default risk with respect to that found on «initial recognition». The standard requires the change in credit risk to be assessed with reference to both qualitative and quantitative information.

For this purpose, the Bank has developed a series of methodologies for classifying the exposures to be analysed into the above stages that use both qualitative and quantitative information and approaches, as well as both absolute and relative staging criteria.

The following absolute criteria are considered for staging purposes:

- Low Credit Risk Exemption. Consistent with the standard, which accepts the presumption that credit risk has not increased significantly since initial recognition if the risk level of the exposure is deemed to be «low», the Bank has identified the following types of transaction for which, given their nature, it is appropriate to make this election by classifying them automatically in stage 1: transactions with the Bank of Italy and central banks, repurchase agreements expiring within one month and sovereign securities whose issuers have an investment grade rating.
- Past due by 30 days. The standard makes explicit reference to the case in which a relationship is late in meeting its contractual obligations, as a possible indicator for classification in stage 2, given the deterioration of the relationship.
- State of forbearance. Forborne exposures comprise loans that have benefited from special concessions, marked by changes in the contractual conditions or refinancing arrangements, following a substantial change in economic condition that is considered somewhat compromised. The methodology defined by the Bank for determining stage allocation only considers that condition appropriate for classification in stage 2 in the case of Performing exposures.
- Purchased or originated credit-impaired (POCI) loans. These comprise all those positions defined as non-performing loans at the time of initial recognition, which are subject to

specific regulations regarding the measurement of the credit risk. The methodology defined by the Bank for determining stage allocation only considers that condition appropriate for classification in stage 2 in the case of Performing exposures.

- Positions originated in the month prior to the reporting date. These are all those positions that originated or entered the portfolio in the month prior to the reporting date for which none of the absolute criteria entailing classification in Stage 02 exist, and which are therefore classified in Stage 01.
- Intra-group positions. These are transactions in which an exchange of goods and services takes place between the Parent Company and its subsidiaries, which may be entered into for many different purposes and which, due to their nature and special risk profile, are consequently classified as Stage 01.
- Watchlist. This includes criteria to identify additional positions and/or counterparties which, as a result of various quantitative and qualitative considerations and analyses, are characterised at the reporting date by a high or significantly increased risk profile with respect to the date of origination, or which, more generally, it is deemed appropriate to make subject to particular attention and monitoring, and for which, therefore, classification in Stage 02 is deemed appropriate.

On the other hand, with regard to the use of relative staging criteria, the Bank has selected a metric based on the lifetime PD that, although requiring more effort to implement, allows the achievement of greater consistency with the requirements of the standard (in particular, the use of relative measurements for the assessment and adoption of a point-in-time logic). In fact, assessment of the change in creditworthiness of a generic position by comparing a suitable metric based on the lifetime PD – relating to the residual life of the relationship – determined at the reporting date, with the lifetime forward PD – relating to the same point in time – estimated with reference to the curve at the origination date of the position.

The above methodology therefore requires the availability of a series of information and suitable methodologies for constructing lifetime cumulative PD curves, at both the reporting date and the origination date, for all counterparties included in the loan portfolio subject to the impairment calculations.

The lifetime PD curves to be used at the reporting date are calculated by applying non-homogeneous Markovian methodologies to transition matrices estimated using a frequency approach for different portfolio segments/clusters and subsequently rendered point in time and scenario dependent by applying econometric models based on a Merton-type methodological framework commonly found in the literature.

The lifetime PD curves at the origination date, on the other hand, are obtained using a simple Markovian methodology applied to transition matrices estimated over a long-term time horizon if it is prior to first-time adoption of the accounting standard, while for subsequent dates the lifetime PD curves calculated on that date are used.

The lifetime PD curves at the reporting and origination dates for positions associated with counterparties for which no internal rating is available, or that belong to segments not covered by internal models, are constructed using transition matrices estimated by external rating agencies (the so-called ECAI) appropriately elaborated for those bank counterparties for which an ECAI rating is available. Said rating is applied a homogeneous Markovian methodology to obtain lifetime curves, and/or using internal new default rates analysed by portfolio cluster and macroclasses of creditworthiness in all other situations. More precisely, the internal new default rates are used to reconstruct a simplified transition dynamic that, together with the econometric models and the long-term convergence mechanisms described earlier, is used to obtain lifetime cumulated PD curves.

At the same time as selecting the stage allocation approach to use and defining an appropriate metric, the Bank also devised and applied a series of analytical methodologies in order to first identify appropriate levels of detail for segmenting the loan portfolio and, subsequently, to calibrate the corresponding threshold levels for assigning a given position to either Stage 1 or Stage 2.

In general terms, the definition of different levels of detail for segmenting the loan portfolio and the calibration of the corresponding threshold levels involved the use of purely statistical or, more generally, data-driven techniques for the analyses of impact and sensitivity (using certain metrics of greatest interest to analyse the impact of applying a given set of thresholds defined for a specific level of detail and/or a specific change in them) and for benchmarking purposes (calculation and comparison of a set of metrics deriving from the application of a given set of thresholds defined for a specific level of detail with the same quantities that would be obtained using alternative staging methodologies).

Based on the information obtained following the initial analyses carried out using the above methodologies, the Bank decided to calculate the write-downs using different thresholds for the following levels of detail:

- the portfolio covered by an internal model is segmented by operational macro-segment and rating class. In order to consider appropriately the flattening dynamics of the lifetime PD curve and their effect on the values of the metric, the above criteria were used to identify the segments in which that phenomenon is significant, for which the threshold levels were further differentiated with reference to the residual lives of the positions segmented into appropriate buckets;
- for portfolios not covered by an internal model, a distinction is made between banking counterparties, whose PD-based metric is estimated using lifetime PD curves generated by the ECAI transition matrices, applying the methodology described earlier, and other types of customer, whose PD-based metric is calculated with reference to the lifetime PD curves obtained via appropriate processing, in the manner described earlier, of the corresponding new default rates estimated internally, which are further segmented into appropriate macro-segments.

The threshold values for the various portfolio segments indicated above are, in the most general case, calibrated at the level of macro-segment, rating class and residual life of the position, taking as the threshold value the one corresponding to the assigned percentile, taken from the metric, of the empirical observed distribution of the underlying estimation pool. This value is determined with reference to the percentage of positions in the segment analysed that, considering their trends over the observable period, have transitioned to lower classes of creditworthiness under a notching-down approach with variable scale; at this level it is possible to apply adjustments and corrections due to rounding, the application of prudential add-ons or consideration of the impact of the threshold values concerned on the final write-down calculations.

Modelling of the scenario-dependency component

One of the key points of the IFRS 9 standard relates to the use of forecasts that contain forward-looking and, in particular, scenario-dependent elements.

In order to guarantee maximum alignment with these requirements, the Bank has explicitly and specifically included that component in many aspects of the methodological framework; more precisely, modelling of the scenario-dependency component by the Bank involved the selection and definition of macroeconomic scenarios, their parametrisation in a suitable manner and the interpretation of their dynamics in order to identify scenario-dependent risk parameters and methods for calculating the ECL.

In general, the Bank uses for the adoption of three different macro-scenarios that make it possible to develop, in accordance with the requirements of the standard, a sufficiently detailed and precise forecast estimate, and at the same time adequate to the size, structure and complexity of the Bank and its business:

- a baseline scenario, based on «central» trends in the macroeconomic variables with respect to the value observed when making the initial forecast that, generally, should therefore represent the outcome considered most likely;
- a moderately adverse scenario that, while undeniably representing an unfavourable but

plausible development of the macroeconomic situation, should not normally result in conditions that are particularly stressed;

- a moderately favourable scenario that, conversely, should represent a positive but completely plausible development of the macroeconomic situation, based on the conditions observed at the time of the forecast.

For this purpose, an external supplier with recognised specific experience in the field of forecasting scenarios and a consolidated reputation at a national level is used, by providing forecasts of macro-economic, financial and banking variables, in the activities which assume, in a forecasting or simulation perspective, the anticipation of future events, both for strategic purposes and for sound and prudent management.

With regard to the frequency of these macro-economic forecasts, it should be noted that they are updated by the external provider on a quarterly basis under market conditions considered to be standard; however, these estimates are updated more frequently if the provider identifies elements of atypicality and/or particular turbulence in the general macro-economic context.

The parametrisation of the above scenarios results in the supply, for each scenario considered, of hundreds of forecast variables of different types. These include quarterly forecasts covering strictly macroeconomic factors – such as Italian and EU GDP, the inflation rate, the unemployment rate, the level of Italian public debt – as well as strictly financial variables – mainly stock indices, money market and swap rates, the yields on government securities, the yield spreads on securities with different credit ratings, the prices of such commodities as gold and oil, the exchange rates between the Euro and other major currencies over a three-year time horizon.

In order to be considered properly within the multi-period ECL, the dynamics of the macro-economic scenarios described above must be translated appropriately into scenario-dependent credit risk parameters, specifically PD and LGS, using the econometric models also mentioned above. The statistical relations on which these are based are differentiated at the level, respectively, of portfolio cluster and type of guarantee, making use of meaningful variables that statistical tests and economic intuition have identified as significant, plausible and representative.

The dynamics generated initially cover a three-year time horizon that, in order to cover the residual contractual lives of all positions in the portfolio, is then extended on a lifetime basis by developing geometric convergence dynamics driven by suitably calibrated parameters, considering the nature and severity of the scenarios modelled.

Notably, given the intrinsic risk associated with these forecasts and the potential bias that would derive from the blind adoption of estimates provided by a single research institution, however reliable and authoritative, the Bank has established a managerial «Scenarios Committee» that meets to:

- examine the results of the analyses carried out internally, in order to confirm – applying economic, financial, statistical and/or data-driven logic – the plausibility, quality and consistency of the scenarios and related «weighting factors», having regard for the benchmarking exercises carried out with alternative, reputable and independent providers;
- arrange for the communication and critical discussion of the forecasts within the organisation, in order to determine how well the wealth of information received fits with the sentiment of participants regarding the macroeconomic situation and the specific business conditions faced by the Bank, as well as to consider whether or not to include these expert-based elements in the macro-economic data used in the calculations.

Calculation of the multi-period, scenario-dependent ECL

The impairment for each position under a given scenario is calculated as the sum, discounted to present value at the measurement date, of the ECL determined by multiplying together the PD (scenario-dependent)and LGD (scenario-dependent) and the EAD associated with each contractual cash flow generated by the instrument over a time horizon that depends on the staging (i.e. positions classified in stage 1 are written down over a maximum of one year, while those classified in stage 2 are written down considering the entire residual duration of the contract).

Subsequently, these estimates are aggregated appropriately to obtain the best estimate of a final value that gives due weight to the likelihood of the various macro-economic scenarios considered. The aggregation mechanism used by the Bank in fact determines the weighted average of the various ECL, applying weighting factors linked to the probability of occurrence of each scenario.

The Bank basically uses a «hybrid» methodology to estimate these factors, balancing the results of a purely macro-economic and/or data-driven approach with considerations of a more qualitative and expert-based nature. This approach involves obtaining the estimated probability of occurrence of the scenarios presented by the provider, analysing their plausibility and using them as a starting point for formal discussion within the Bank (Scenarios Committee). This process, which also involves other persons drawn from different business functions, considers the results of the internal analyses carried out, reviews them critically and determines, if deemed appropriate, any adjustments or corrections to be made on the basis of judgemental and expert-based input.

IFRS 9 methodology for other portfolios

The write-downs required in accordance with the logic indicated in the new IFRS 9 are also calculated in relation to the securities portfolio, although it is less material than the loans portfolio discussed above.

In this case, the scope of the calculation includes the securities classified under the new C&M model as Held to Collect (which corresponds to the IAS «held to maturity» classification) and as Held to Collect & Sell (which corresponds to the IAS «available for sale» classification). The ECL must be calculated on the exposures classified in one of the above categories that have passed the solely payment of principal and interest (SPPI) test. In particular, the scope of application under the new C&M model comprises the securities measured at: amortised cost and at FVOCI.

The calculation framework is developed using methodological logic consistent with that described above, with a number of differences (e.g. estimation of the term structures of risk parameters and their segmentation, statistical and econometric models and micro-factors used as predictors) made necessary by the different type and risk profile of the positions included in the portfolio.

Changes due to the current post-pandemic, geopolitical and macro-economic context

In order to adequately incorporate in the quantification of its provisions the effects of the crisis induced by the emergence of the pandemic and post-pandemic context, especially following the outbreak of the Russian-Ukrainian conflict and its geopolitical and economic consequences (with particular reference to the energy crisis and the most recent inflationary dynamics), the Bank has introduced a series of evolutionary specifications within its methodological framework.

More precisely, during the year, steps were taken for the following:

– periodic calibration and fine-tuning of so-called «management overlay», corrective elements applied to model-based estimates aimed at proactively incorporating the effects of the crisis and ensuring that the overall level of collective provisions is fully aligned with the current and prospective risk profile in light of the macroeconomic, geopolitical and business context in which the Bank operates, with particular regard to both the asymmetry of the impact of the crisis observed between economic sectors and geographic areas through a set of multipliers (so-called ECL multipliers) calibrated by means of an eminently data-driven approach, than to the adequate consideration of the effects - direct and indirect - of the current environment on the write-downs of Stage 02 exposures (so-called «prudential add-on»). In general, the aforementioned overlays are quantified on the basis of the evolutionary dynamics of geo-sectoral risk indicators developed from a forward-looking perspective with reference to a plurality of appropriately weighted macroeconomic scenarios, which contribute, for approximately 85 million (39 million in FY2021), to the determination/quantification of the collective write-down provision;

– the periodic updating of the lists of customers deemed to be «high risk» positions due to their particular exposure to the geopolitical context and the current energy and inflationary crisis, for which a prudential reclassification to Stage 2 has been temporarily considered. The so-called high risk positions as at December 2022 involved more than 1,100 positions, for a total exposure of about 363 million, with an impact on the collective write-downs of these positions of about 6 million;
– the specific modelling of forward-looking information (FLI). Worthy of mention in this context are the definition of so-called in-model adjustments for the suite of statistical-econometric models, developed according to a data-driven methodology, aimed at modelling in an explicitly prospective manner the evolutionary dynamics of risk parameters for all macroeconomic scenarios that contribute to the calculation of collective write-downs, as well as the introduction of explicit aspects of dependence on a plurality of macro-scenarios in both the modelling of the prepayment component and the stage allocation methodology;
– the periodic performance – and further extension – of a set of quantitative and, more in general, data-driven analyses aimed at certifying the soundness, plausibility and accuracy of the macroeconomic forecasts periodically provided to the Bank by the appointed provider, prior to their use in the procedures for determining the accounting adjustments with the purpose of «conditioning» the factors for estimating the collective impairment to the performance of alternative macroeconomic scenarios; it is also worth mentioning, in this context, the further extension of the analysis and reporting structure – subject to enrichment and improvement during the year – aimed at reporting the results of the analyses carried out during the periodic meetings of the dedicated management committee (Scenarios Committee), to which a periodic and systematic activity of monitoring, analysis and reporting (so-called third party data analysis) of the publications of the most authoritative national and international research bodies and institutions, such as, by way of example but not limited to, the Bank of Italy, the European Central Bank, the European Commission, the International Monetary Fund, Confindustria, the Italian Banking Association (ABI), Oxford Economics, the National Institute of Statistics (ISTAT), the Ministry of the Economy and Finance (MEF), and Consensus Forecast;
– the direct and constant involvement of senior management in relation to the parametrisation of the scenario-dependency components and their effects in the quantification of the collective write-downs, as well as in the calibration activities of the previously mentioned managerial overlays in order to obtain a level of overall collective write-downs.

ECL sensitivity analyses

Generally speaking, macro-economic scenarios contain forecasts for the evolutionary dynamics of dozens of macro-economic variables, developed over multi-year time horizons and updated on a generally quarterly basis in market conditions considered standard[1] and are made the object of specific analysis, discussion and approval in dedicated management committees. The scenarios examined address different degrees of adverse/favourable conditions affecting the overall macro-economic situation.

The estimation of write-downs generally considers a baseline scenario that applies

1. These estimates are, however, subject to ad-hoc updates should the provider identify elements of atypicality and/or particular turbulence in the general macroeconomic context.

«central» trends to the macroeconomic variables, with respect to their initial values at the time of the estimate, in order to derive an overall most likely outcome; in addition, two «alternative» scenarios are considered – «adverse» and «favourable» – that address outcomes deemed somewhat plausible and not extreme in the macroeconomic context identified. The importance of the above scenarios in the final determination of the write-downs is defined using an appropriate set of weighting coefficients that, in general, reflect the estimated severity assigned to each scenario by the external provider, as adjusted after specific internal analysis and processing.

However, the resurgence of the Russian-Ukrainian conflict and the worrying escalation at the international diplomatic level that we have been witnessing since the end of February 2022, as well as the significant and pervasive repercussions of the aforementioned on the international macro-economic and financial context, have configured the need for the Bank to revise, from a prudential perspective, the parametrisation of the scenarios used to calculate the accounting write-downs according to IFRS 9 of its loan portfolio. As of that date, the «favourable» scenario was replaced by the «extremely adverse» scenario. In order to ensure optimal monitoring of these aspects given the particular importance they have acquired in light of the pandemic context, the Bank has maintained its specific oversight in this area, as well as its analysis, benchmarking and use of nearly monthly updates issued released by the supplier with specific reference to the baseline scenario developed in the last official forecast report.

In this regard, it should be noted that, when calculating write-downs at the end of December 2022, the Bank adopted the following three different macro-scenarios and their respective weightings:

- a baseline scenario, being the same as the one issued by the official supplier on the occasion of the last forecast report available at the date of calculating collective write-downs, to which a probability of 60% is attributed;
- a (slightly) adverse scenario, being the same as the one issued by the official supplier on the occasion of the last forecast report available at the date of calculating collective write-downs, to which a probability of 35% is attributed;
- an extremely adverse scenario, being the same as the one issued by the official supplier on the occasion of the last forecast report available at the date of calculating collective write-downs, to which a probability of 5% is attributed.

Finally, with regard to the weighting with which the above-mentioned scenarios contribute to the final calculation of the write-downs, the baseline scenario - which, in accordance with its name, represents the evolution of the macro-economic context considered most plausible and likely at the time of formulating the forecasts - is assigned the highest probability coefficient, while the so-called alternative scenarios, due to their «residual» nature, are assigned lower weighting factors.

Table 1 shows the evolutionary dynamics of the main macro-economic variables for each of the above scenarios with reference to a three-year forecast horizon.

Table 1 – Annual forecasts for the main macro-economic variables

	Base Scen. Dec. 2022			Adv. Scen. Dec. 2022			Extr. Scen. Dec. 2022		
Macro-economic variable	2023	2024	2025	2023	2024	2025	2023	2024	2025
Italy's GDP (% on an annual basis)	0.3%	1.1%	1.3%	-0.9%	0.5%	1.0%	-2.5%	0.0%	0.7%
Italy's unemployment	8.4%	8.3%	8.3%	8.7%	9.3%	9.8%	9.3%	10.7%	12.1%
Italy's inflation (% on an annual basis)	5.1%	1.8%	1.5%	4.9%	1.9%	1.3%	5.9%	2.2%	0.9%
Italy's equity index (% on an annual basis)	2.9%	6.3%	5.3%	-27.2%	3.6%	4.1%	-31.7%	-4.1%	2.9%
10-year BTP interest rate (%)	4.7%	4.7%	4.6%	4.9%	4.8%	4.9%	5.5%	5.5%	5.3%
Italian residential property price index (% on annual basis)	2.9%	1.9%	1.8%	1.9%	0.9%	0.8%	1.5%	-0.6%	-0.9%
Euro/dollar exchange rate	0.99	1.03	1.05	0.99	1.03	1.05	0.99	1.00	1.01
Brent oil: $ per barrel	90	86	84	100	95	90	125	111	100
Euribor 3 months	2.4%	2.5%	2.2%	2.1%	2.1%	1.8%	1.8%	1.8%	1.6%

For further information on the inclusion of the so-called forward-looking information (FLI) in the impairment model, reference should be made to the preceding paragraphs.

In order to quantify the variability to which the final write-downs are subject, given all the scenario-dependent factors considered explicitly in its methodological framework, the Bank has also carried out, in accordance with sector best practices and the most recent recommendations of the Supervisory Authorities, specific sensitivity analyses on the level of write-down of its performing exposures, the results of which are summarised in the tables below.

In particular, Table 2 analyses by operational macro-segment and stage the different levels of write-down corresponding to the three scenarios identified – baseline, adverse and extreme – used to calculate the official amount, as well as the weighted outcome determined after applying the probabilities indicated above.

Table 2 – Write-downs [in €/million] at 31 December 2022 of the performing loans of the Parent Company associated with different macroeconomic scenarios

Management macro-segment	Stage	Base scen.	Adv. scen.	Extr. scen.	Weight. scen.
Corporate & Large Corporate	Stage 01	13.0	11.9	13.5	12.7
	Stage 02	55.2	53.4	60.1	54.8
	Total	**68.2**	**65.3**	**73.6**	**67.5**
Small Business	Stage 01	4.6	4.2	4.6	4.5
	Stage 02	17.2	17.1	18.8	17.3
	Total	**21.8**	**21.3**	**23.4**	**21.7**
Small Economic Operators	Stage 01	3.5	3.6	4.0	3.6
	Stage 02	12.0	12.6	14.0	12.3
	Total	**15.5**	**16.2**	**18.0**	**15.9**
Individuals	Stage 01	6.0	6.1	6.8	6.1
	Stage 02	26.0	26.6	29.7	26.4
	Total	**32.0**	**32.7**	**36.6**	**32.5**
Other	Stage 01	16.1	17.1	19.5	16.6
	Stage 02	1.3	1.5	1.8	1.4
	Total	**17.4**	**18.5**	**21.3**	**18.0**
Total	Stage 01	43.2	43.0	48.4	43.4
	Stage 02	111.7	111.1	124.4	112.1
	Total	**154.9**	**154.0**	**172.8**	**155.5**

Dually, Table 3 provides a representation of the value of depreciation that would be obtained in correspondence of four different choices of probabilistic coefficients regarding the official one adopted.

Table 3 – Write-downs [in €/million] at 31 December 2022 of the Parent Company's performing loans associated with different weightings of the macro-economic scenarios

Management macro-segment	Stage	Weight. scen. 1	Weight. scen. 2	Weight. scen. 3	Weight. scen. 4
Corporate & Large Corporate	Stage 01	12.9	12.7	12.8	12.8
	Stage 02	55.4	54.5	55.4	55.0
	Total	**68.3**	**67.2**	**68.1**	**67.7**
Small Business	Stage 01	4.5	4.5	4.5	4.5
	Stage 02	17.4	17.2	17.4	17.3
	Total	**21.9**	**21.6**	**21.9**	**21.8**
Small Economic Operators	Stage 01	3.6	3.5	3.6	3.6
	Stage 02	12.3	12.2	12.5	12.2
	Total	**15.9**	**15.8**	**16.1**	**15.8**
Individuals	Stage 01	6.1	6.0	6.2	6.1
	Stage 02	26.4	26.2	26.7	26.3
	Total	**32.5**	**32.2**	**32.9**	**32.4**
Other	Stage 01	16.6	16.4	16.9	16.5
	Stage 02	1.4	1.4	1.4	1.4
	Total	**18.0**	**17.8**	**18.3**	**17.9**
Total	Stage 01	43.7	43.1	43.9	43.4
	Stage 02	112.9	111.5	113.4	112.2
	Total	**156.6**	**154.6**	**157.3**	**155.6**

Lastly, Table 4, Table 5 and Table 6 show the different levels of collective write-downs corresponding to the baseline, adverse and favourable scenarios respectively, in the event that their parameters were used not only to calculate the ECL, but also in the stage allocation.

Table 4 – Write-downs [in €/million] at 31 December 2022 for the performing positions of the Parent Company's loan portfolio if the parameters of the baseline scenario were used both to calculate the ECL and for the stage allocation

Management macro-segment	Stage_base	Nr. Pos	EAD	Nr. Pos%	EAD%	Baseline ECL
Corporate & Large Corporate	Stage 01	43,705	14,783.2	89.0%	88.2%	13.2
	Stage 02	5,386	1,986.4	11.0%	11.8%	54.6
	Total	**49,091**	**16,769.7**	**18.9%**	**56.0%**	**67.8**
Small Business	Stage 01	45,854	2,081.4	87.6%	80.6%	4.6
	Stage 02	6,519	501.5	12.4%	19.4%	17.0
	Total	**52,373**	**2,582.9**	**20.2%**	**8.6%**	**21.6**
Small Economic Operators	Stage 01	57,336	2,128.0	91.2%	90.0%	3.6
	Stage 02	5,538	236.5	8.8%	10.0%	11.4
	Total	**62,874**	**2,364.6**	**24.2%**	**7.9%**	**15.1**
Individuals	Stage 01	83,012	4,156.4	89.5%	88.2%	6.4
	Stage 02	9,707	555.5	10.5%	11.8%	23.2
	Total	**92,719**	**4,711.9**	**35.8%**	**15.7%**	**29.5**
Other	Stage 01	1,980	3,462.4	87.2%	98.6%	16.1
	Stage 02	290	48.8	12.8%	1.4%	1.3
	Total	**2,270**	**3,511.2**	**0.9%**	**11.7%**	**17.4**
Total	Stage 01	231,887	26,611.4	89.4%	88.9%	43.9
	Stage 02	27,440	3,328.8	10.6%	11.1%	107.5
	Total	**259,327**	**29,940.2**	**100.0%**	**100.0%**	**151.5**

Table 5 – Write-downs [in €/million] at 31 December 2022 for the performing positions of the Parent Company's loan portfolio if the parameters of the adverse scenario were used both to calculate the ECL and for the stage allocation

Management macro-segment	Stage_adv	Nr. Pos	EAD	Nr. Pos%	EAD%	ECL adv.
Corporate & Large Corporate	Stage 01	44,268	14,921.7	90.2%	89.0%	15.1
	Stage 02	4,823	1,848.0	9.8%	11.0%	50.2
	Total	**49,091**	**16,769.7**	**18.9%**	**56.0%**	**65.3**
Small Business	Stage 01	45,706	2,104.6	87.3%	81.5%	4.6
	Stage 02	6,667	478.2	12.7%	18.5%	16.4
	Total	**52,373**	**2,582.9**	**20.2%**	**8.6%**	**21.0**
Small Economic Operators	Stage 01	56,384	2,087.5	89.7%	88.3%	3.6
	Stage 02	6,490	277.1	10.3%	11.7%	12.9
	Total	**62,874**	**2,364.6**	**24.2%**	**7.9%**	**16.5**
Individuals	Stage 01	79,965	4,036.4	86.2%	85.7%	6.1
	Stage 02	12,754	675.5	13.8%	14.3%	27.1
	Total	**92,719**	**4,711.9**	**35.8%**	**15.7%**	**33.2**
Other	Stage 01	1,978	3,462.4	87.1%	98.6%	17.1
	Stage 02	292	48.9	12.9%	1.4%	1.5
	Total	**2,270**	**3,511.2**	**0.9%**	**11.7%**	**18.5**
Total	Stage 01	228,301	26,612.6	88.0%	88.9%	46.4
	Stage 02	31,026	3,327.6	12.0%	11.1%	108.1
	Total	**259,327**	**29,940.2**	**100.0%**	**100.0%**	**154.5**

Table 6 – Write-downs [in €/million] at 31 December 2022 for the performing positions of the Parent Company's loan portfolio if the parameters of the extreme scenario were used both to calculate the ECL and for the stage allocation

Management macro-segment	Stage_fav	Nr. Pos	EAD	Nr. Pos%	EAD%	ECL fav.
Corporate & Large Corporate	Stage 01	42,918	14,418.6	87.4%	86.0%	13.2
	Stage 02	6,173	2,351.0	12.6%	14.0%	62.3
	Total	**49,091**	**16,769.7**	**18.9%**	**56.0%**	**75.5**
Small Business	Stage 01	44,295	2,030.7	84.6%	78.6%	4.5
	Stage 02	8,078	552.2	15.4%	21.4%	19.1
	Total	**52,373**	**2,582.9**	**20.2%**	**8.6%**	**23.6**
Small Economic Operators	Stage 01	51,724	1,905.3	82.3%	80.6%	3.5
	Stage 02	11,150	459.2	17.7%	19.4%	16.8
	Total	**62,874**	**2,364.6**	**24.2%**	**7.9%**	**20.2**
Individuals	Stage 01	62,880	3,176.3	67.8%	67.4%	5.5
	Stage 02	29,839	1,535.6	32.2%	32.6%	45.4
	Total	**92,719**	**4,711.9**	**35.8%**	**15.7%**	**50.9**
Other	Stage 01	1,972	3,461.9	86.9%	98.6%	19.5
	Stage 02	298	49.4	13.1%	1.4%	1.8
	Total	**2,270**	**3,511.2**	**0.9%**	**11.7%**	**21.3**
Total	Stage 01	203,789	24,992.8	78.6%	83.5%	46.2
	Stage 02	55,538	4,947.4	21.4%	16.5%	145.4
	Total	**259,327**	**29,940.2**	**100.0%**	**100.0%**	**191.6**

See «Part A – Accounting policies» for information about the determination of expected losses on stage 3 exposures i.e. non-performing loans. More specifically, the expected losses on non-performing loans at 31 December 2022 are determined analytically with reference to expected recoveries, which are discounted using the original effective interest rates over the collection period. Given that the expected recoveries are determined with reference to the specific circumstances of each debtor, it is not considered meaningful to analyse the sensitivity of the ECL identified.

2.4 Credit risk mitigation techniques

In order to mitigate credit risk, the guarantees typical of banking activities are acquired: mainly of a real nature, on real estate and financial instruments, and of a personal nature. The latter, represented above all by limited generic sureties, are almost entirely issued by private individuals and manufacturing companies whose creditworthiness, subject to specific assessment, is considered adequate. Clearly it is fundamental with regard to unsecured guarantees to check the quality of the guarantor's assets. This analysis is not limited to the initial phase of the relationship but is repeated over the life of the relationship. If the guarantor is found to be economically unsuitable, the Bank reviews the relationship in order to verify the continued reliability of the borrowing counterparty.

The presence of guarantees is taken into consideration when weighting the overall credit lines to be granted to a customer or to the legal or economic group to which it might belong.

The estimated value of the security offered by counterparties is «discounted» on a prudent basis, having regard for the nature of the instrument made available (mortgages on buildings, pledges of cash or other financial instruments).

With regard to mortgage guarantees, the Bank adopts reliable principles and standards for the valuation of properties in order to obtain realistic and detailed estimates of the value of the assets as collateral. The Bank has also a procedure that is able to ensure efficient management and timely assessment of properties that are subject to real encumbrances, by taking a census of the assets and filing the expert appraisals in a specific IT application. Moreover, residential and commercial/instrumental buildings are assessed at least once a year, partly with a view to complying with the supervisory instructions. Property must meet specific requirements in order to mitigate lending risk (value of the property independent of the creditworthiness of the counterparty, loan repayments independent of cash flows deriving from the asset, and residential property used directly or rented).These requirements are checked by the branches and the electronic credit application is processed for subsequent checks by the investigation office and the approval committees.

The value of collaterals given in the form of financial instruments listed on regulated markets is automatically revised each day with reference to the quoted prices, in order to check that the cover remains within the agreed line of credit or, otherwise, the position is examined by the managers on a timely basis.

The Bank is not party to settlement agreements regarding on- and «off-balance sheet» transactions.

Suitable arrangements are made when obtaining, assessing and verifying guarantees to ensure that they will prevail over third parties and can be enforced, both at the time and in the future.

At this time, there are no contractual restrictions threatening the legal validity of guarantees received.

The central functions that perform the above checks are different to the functions that grant and review lending; the Internal Audit Department carries out periodic checks to ensure that these activities are performed properly and on a prudent basis.

3 Non-performing exposures

3.1 Strategies and operational policies

Credit risk management is carried out during all stages of lending by means of effective surveillance and monitoring, so that timely assessments can be made as soon as any anomalies arise.

Loans for which there are particularly serious signs of stress are classified as «non-performing» (Non-Performing Exposures).

As of 1 January 2021, the new European rules on the classification of counterparties to default for prudential purposes apply. The new discipline, introduced by the European Banking Authority (EBA) and implemented at national level by the Bank of Italy, establishes more restrictive criteria and methods for classifying a credit exposure as default compared to those adopted to date by Italian intermediaries, with the aim of harmonising the approaches for applying the notion of insolvency and identifying the conditions of unlikely fulfilment among financial institutions and the various jurisdictions of EU countries. On the basis of the regulatory framework in force, the Bank classifies non-performing exposures, depending on the type and severity of the impairment, into three categories, corresponding to the same number of administrative statuses of the loan:

- Past due and/or overdrawn non-performing exposures;
- Unlikely to pay;
- Bad loans.

Loans are classified as past due and/or overdrawn non-performing exposures when the following conditions are met:

- the customer has a past due and/or overdue portion of the entire exposure at the reporting date at the banking group level that exceeds both of the following materiality thresholds:
  - Relative materiality threshold: the relative component is represented by a percentage calculated as the ratio between the amount of the credit obligation in arrears and the total amount of all exposures to the same debtor recorded on the institution's financial statements; this threshold is set at one percent (1%) for both retail and non-retail exposures;
  - Absolute Materiality Threshold: the absolute component is the maximum amount that the sum of all overdue amounts owed by a debtor to the institution can reach; the maximum amount does not exceed 100 euro for retail exposures or 500 euro for non-retail exposures;
- Customer has past due or overdrawn amounts of credit as per previous point for 90 days continuously.

Unlikely to pay (UTP) include credit exposures for which the Bank considers it unlikely that the debtor will fulfil its obligations in full, in terms of principal and/or interest, without actions being taken to preserve the credit reasons such as, for example, the enforcement of accessory guarantees.

Finally, bad loans include on- and off-balance sheet exposures to subjects in a state of insolvency (not necessarily ascertained in court) or in substantially comparable situations, regardless of any loss forecasts. Accordingly, no account is taken of any guarantees received in support of such exposures.

The loans not allocated to the above categories are deemed to be performing exposures.

Loans are classified as non-performing exposures, depending on the case, either automatically or on the basis of expert proposals and assessments.

More specifically, the classification of impaired past-due and/or overdue exposures takes place automatically when the conditions provided for by the regulations occur. The classification as unlikely to pay (UTP), on the other hand, is based on a system of triggers which may, depending on the case, generate an automatic classification or an assessment by the reference manager. Finally, the classification as non-performing takes place on the proposal of the manager, as part of the continuous monitoring of the counterparty.

The return to performing status of non-performing exposures, governed by the Supervisory Authority as well as by specific internal regulations, takes place after verification that the critical conditions and the state of insolvency have ceased to exist.

The management of «non-performing» loans involves taking action, based on the gravity of the situation, to restore normality or, otherwise, to commence appropriate recovery procedures.

More precisely, in the event of positions that are classified as:

- bad loans, suitable procedures are implemented to recover the loans; if circumstances permit, recovery plans are drawn up and/or settlements are proposed on an amicable basis in order to terminate the relationship;

- for unlikely to pay loans, an assessment is made of the probability that the debtor will meet its contractual obligations in full, in order to re-establish the original conditions of reliability and profitability of the relationship, or, if this is impossible, steps are taken to transfer the position to the bad loan category. For unlikely to pay loans subject to restructuring agreements, checks are made continuously to ensure that the agreed conditions are met;
- past due and/or impaired overdrawn exposures are monitored and timely attempts are made to get the situation back to normal; if it is seen that the borrower really is in financial difficulty, the necessary steps are taken to transfer the loan to unlikely-to-pay or non-performing, depending on the circumstances.

Adjustments are made in strict compliance with both the primary and secondary regulations and on a highly prudent basis. In particular, having regard for bad loans and unlikely-to-pay loans, the Bank carries out an analysis of each position, which also takes into account the discounting effects of expected recovery.

Overall assessments are made solely with regard to smaller individual loans, being not more than 10,000 euro for bad loans and 350,000 euro for unlikely-to-pay loans. The objective is to adopt a prudent approach to the control of these non-performing assets that, given their intrinsic characteristics (large number of not significant amounts), can be processed rapidly and at low cost on primarily an automated basis, thus ensuring the uniformity of the assessments made.

With reference to non-performing past due and/or overdrawn exposures, the adjustment is determined with reference to the historical experience of losses on loans with that type of anomaly.

For the purposes of managing non-performing loans and the possible impacts arising from the application of the «Addendum to the ECB Guidelines for Banks on Impaired Loans (NPL): supervisory expectations regarding prudential provisions for non-performing exposures», the Bank carried out an update of the NPL strategy over the 2022-2024 horizon envisaging the combined use of ordinary and extraordinary initiatives. The combination of the above-mentioned levers will also allow for the management of the economic and equity effects (shortfall) deriving from the application of the «calendar mechanisms».

See section 2.2 above for information about the operating policies adopted with regard to non-performing loans.

3.2 Write-off

In line with IFRS 9, a «write-off» is defined as an event that gives rise to a cancellation from the accounting records, when there are no longer reasonable expectations of recovering the cash flows deriving from the asset – in whole or in part – also in cases of a waiver of the receivable, therefore having to reduce directly the gross carrying amount of the asset concerned. This form of write-down constitutes a case of partial or total cancellation of a credit position.

The gross carrying amount of a financial asset is written off if the amount is confirmed to be unrecoverable or there are no realistic prospects of recovery. The timely assessment of non-recoverability is based on certain criteria, such as the inability to enforce mortgage or personal guarantees, the unsuccessful completion of enforcement/court-supervised proceedings, the start of bankruptcy procedures, removal from the register of the business name of the debtor legal entity, the lack of traceability or advanced age of the customer.

The procedure to identify the absence of any reasonable prospects of recovery is focused on the counterparties within the portfolios of non-performing loans and differs depending on the existence or otherwise of mortgage guarantees, the ageing of the position and the progress made with recovery actions and the economic convenience associated with it, the inclusion of a position within a portfolio being sold and the risk of forfeiture of credit rights. During the year, write-offs were made for a total amount of 107 million.

3.3 Financial assets impaired purchased or originated

The category of financial assets impaired purchased or originated (POCI) includes all purchased or originated financial instruments that, already on initial recognition, are found to be credit-impaired.

The accounting rules for POCI apply to the financial instruments classified in asset line item 30. «Financial assets measured at fair value through other comprehensive income» or 40. «Financial assets measured at amortised cost», or to the financial instruments that have passed the SPPI (SPPI – Solely Payments of Principal and Interests) test with reference to the business models whose objective is to hold financial assets representing the right to collect contractual cash flows (HTC – «held to collect») or to both hold and sell them (HTCS – «held to collect and sell»). The «POCI» attribute remains assigned for the entire duration of the relationship and the assets concerned are written down to reflect any losses expected over their residual lifetime.

There are two categories of product associated with POCI financial instruments arising from the granting of finance:

- standard products with instalment repayment plans: in this case, the DelFiWeb procedure recognises the creation of the new relationship that passes the SPPI test, but with an impaired counterparty and automatically assigns the «POCI» attribute for approval by the competent decision-making body;
- standard products managed in the «Current Accounts» and «Foreign» compartments and non-standard contracts originating from Corporate Finance: for these relationships, the unit responsible for monitoring and managing anomalous credit manually proposes the assignment of the «POCI» attribute, which will be subject to approval by the competent body.

Regardless of how assigned (manual or automatic), the «POCI» attribute must always be confirmed by the competent decision-making body and, once approved, remains valid for the entire duration of the relationship.

4. Financial assets subject to trade renegotiation and exposures subject to forbearance

Financial assets subject to commercial renegotiation

This category includes those renegotiations that envisage changes for commercial reasons to the original contractual conditions governing credit exposures to counterparties that are not in financial difficulty. These changes therefore differ from forbearance and are made to align interest levels with current market conditions.

In addition, commercial renegotiations include changes to the economic conditions applied to newly-arranged credit relationships, being those established for not more than 6 months.

Commercial renegotiations are principally agreed in order to maintain the commercial relationship with the customer (retention of loans).

Unlike forbearance measures, renegotiations for commercial reasons relate to debtors without financial difficulties and include all operations designed to align their cost of borrowing with market conditions. Commercial renegotiations involve changing the original contractual conditions at the request of the debtor, considering the cost of borrowing or the duration of the loan, with a resulting benefit for the customer. In general, whenever the Bank agrees to renegotiate in order to avoid losing the customer, the transaction is considered substantial because, in its absence, the customer would obtain funding from other sources and the Bank would the expected future revenue streams. These transactions are comparable with early repayment of the original debt and opening a new contract.

Exposures subject to forbearance

The Group treats as forbearance the concessions granted in relation to any exposure –

loans, fixed-yield securities, revocable and irrevocable commitments to grant loans (excluding the exposures held for trading) – towards debtors that are, or are about to be, in difficulty with regard to their financial commitments (financial difficulties).

A concession is made when the amended contractual conditions are more favourable to the debtor than those applied previously. Consistent with the relevant current regulations, the Bank identifies a series of standardised concessions, distinguishing between short and medium/long-term measures, and periodically monitors their effectiveness in terms of bringing the exposures back into line.

For a relationship to be classified as «forborne», the concession must be agreed in relation to a customer that is experiencing financial difficulties. This situation is objectively verified in the case of a counterparty classified as «non-performing» while it is presumed, and must therefore be assessed following in-depth analyses, in the case of customers in a «performing» state that has a rating at the counterparty level that is identifying a high level of risk, which has expired or would have expired for at least 30 days during the three months prior to the contractual amendment or which has had a deterioration in the internal rating that identifies a rapid increase in risk. During the last financial year, an additional criterion of financial difficulty was introduced, corresponding to the classification of the counterparty in the last three months in the management cluster so-called «high risk».

In order to guarantee the quality of credit exposures and monitor their trends effectively, the Group applies «industrialised» internal processes designed to identify the most suitable concessions for debtors experiencing financial difficulties, as well as to manage the forborne classification of the related exposures.

When a concession is requested, the Operating Unit responsible for the loan determines the most suitable and sustainable measure for the customer, with support from dedicated tools that provide guidance.

As part of this process, the Unit must assess the nature of the financial difficulties (short or long term) and ensure that the expected duration of the concession is consistent with the nature of the related relationship.

Subsequently, the economic sustainability of the measure is analysed with respect to the financial situation of the customer; in particular, the adequacy of the customer assets is analysed on a current and prospective basis, considering the need for credibility and prudence.

On arrangement of the concession, dedicated IT procedures check if the conditions exist for classifying the relationship as «forborne» and, if they do, propose the assignment of this attribute to the competent Operating Unit. Any exceptions made to this classification must be supported by adequate reasons.

Following approval of the concession and the proposed «forborne» classification by the competent decision-making body, specific objectives and deadlines are added to the loan contract, with which the customer must comply when repaying the debt.

These supplementary conditions are determined using prudent criteria and checked as part of the more general monitoring of the position.

The gross exposure associated with «forborne» positions at 31 December 2022 totals 1,046 million euro, as analysed in the following table:

Gross balances at 31/12/2022 €/000	Retail Secured	Retail Unsecured	Corporate Secured	Corporate Unsecured	Large Corporate	Other	Total
Performing "forborne" – First year of probation period	63,579	11,431	34,553	9,571	–	1	119,135
Performing "forborne" – Second year of probation period	123,943	20,492	97,211	31,700	10,074	–	283,421
Non-performing "forborne"	170,848	87,643	244,310	123,324	16,616	661	643,402
Total	**358,370**	**119,566**	**376,074**	**164,596**	**26,690**	**662**	**1,045,958**

Of this amount, about 114 million euro relates to concessions granted during 2022: 43% «performing» and 57% «non-performing» relationships. During the year, about 8% of the opening «non-performing forborne» balance have been cured, while 37% of the opening «performing forborne» balance became «fully performing» and no longer classified as forborne.

The stock of forbearance measures associated with customers classified as performing at the beginning of 2022 which was classified among credit-impaired assets during the year comes to approximately 10% of the gross exposure.

In the event of non-substantial changes to a position, IFRS 9 requires the resulting gain or loss to be determined. A change is deemed non-substantial when it does not result in closure of the pre-existing relationship and/or involve the addition of clauses that might cause the relationship to fail the SPPI test.

The profit or loss on non-substantial changes to forborne relationships is calculated as the difference between the present value of the new contractual cash flows following renegotiation or amendment, discounted using the original effective interest rate (rate before the renegotiation or amendment of the loan contract), and the present value of the original contractual cash flows, also discounted using the original effective interest rate.

Furthermore, in compliance with the «Guidelines on the application of the definition of default pursuant to article 178 of Regulation (EU) No. 575/2013», this calculation (Delta Net Present Value) is performed in the presence of a position that is the subject of a grant measure. In accordance with regulatory requirements, where the NPV delta is greater than 1%, the company is identified as being in financial difficulty and classified as being in default.

The forbearance measures granted during the year resulted in net amendment losses of about 0.7 million euro being charged to the income statement. These losses reduced the carrying amount of the gross exposure and, therefore, the expected future losses.

All performing «forborne» positions are classified in stage 2 and the related adjustments are stated at an amount equal to the lifetime losses expected on the loan. The reduction in credit risk and the allocation of the relationship to stage 1 reflects loss of the «forborne» attribute.

5. Impacts from the Covid-19 pandemic and the Russian-Ukrainian conflict

With reference to credit risk, Banca Popolare di Sondrio has welcomed all of the initiatives implemented by the Government and the EU to support customers during this period and reduce the negative effects of the crisis as much as possible. All concessions are defined to respond to the disadvantage deriving from the temporary slowdown in the economic cycle and the related impacts on liquidity. The potential impact on the Bank’s risk profile is mitigated:

- with the acquisition of public guarantees in line with the mechanisms put in place by the various governments;
- with an ex ante/ex post assessment of the customer’s risk profile.

Banca Popolare di Sondrio has established guidelines (GLs) for the disbursement, monitoring and management of moratoria, in order to identify promptly any potential signs of deterioration in asset quality. With specific reference to the moratorium measures and in order to limit the effects of the restrictions introduced to contain the Covid-19 pandemic, the Bank has made available to customers a series of initiatives that generally allow the deferral of instalment payments and an extension of the residual duration of credit exposures.

Specific rating guidelines were also introduced with a request to adopt a prospective approach with the aim of avoiding significant macro-economic variations in the future.

During 2022, most of the moratoria linked to Covid-19 expired naturally; at 31 December 2022, there was only 7.6 million gross of exposure related to transactions with Covid-19 moratoria still active.

With reference to positions with expired moratoria, a regular resumption of payments was observed; the exposure of relations with irregularities after the end of the suspension is equal to 1.7% of the total of relations with expired moratoria.

In addition to the above activity, the risk control function carried out specific second-level controls to ensure effective monitoring of the risk related to the Covid-19 moratoria and the repercussions on the processes of reclassification and prudential provisions.

The following table shows the volume of loans subject to government guarantees originated by the Bank at 31 December 2022.

	Gross carrying amount (millions of €)	Net carrying amount (millions of €)
Loans subject to government guarantees	2,327	2,304

On the subject of a significant increase in credit risk (SICR), the authorities have specified that the IFRS 9 rules must not be applied mechanically, but that the assessment of SICR should differentiate debtors whose credit quality is significantly affected by the current situation in the long term, from those who will probably restore their creditworthiness, also considering the mitigating interventions in the form of government guarantees. In other words, the moratoria granted would not necessarily entail a reclassification of the loans involved to Stage 2.

Russia's decision to launch a large-scale military invasion of Ukraine resulted in a situation of profound uncertainty at the macroeconomic level, on rates, energy and commodity costs, trade, inflationary expectations, and the cost of debt.

The impact was particularly strong in the natural gas and energy market due to the European Union's high dependence on imports from Russia to cover its energy needs.

In order to detect potential risk profiles arising from the aforementioned situation and identify related mitigation actions, our Group immediately initiated a holistic monitoring activity involving various areas.

In terms of credit risk, the low level of direct exposures to entities resident in Russia, Belarus and Ukraine was noted from the outset. With regard to these entities, careful monitoring of exposures was carried out during the year in order to verify the regularity of payments. At the same time, activities were undertaken to analyse indirect exposures, i.e. relating to companies with significant trade relations with countries involved in the conflict or operating in economic sectors considered more vulnerable. On this set of exposures, defined as «high risk Ukraine», specific credit review activities were conducted, among which the Group identified the exposures for which there may still be elements of potential criticality.

Starting in the summer, as the economic effects of the conflict related in particular to the increase in the price of energy and natural gas became apparent, the Group began specific analysis activities aimed at investigating the credit risk related to so-called energy and gas exposures. Exposures with potential correlated risk were subjected to a «collective assessment» in order to verify the existence of a Significant Increase in Credit Risk (SICR) with a view to staging credit exposures.

This analysis, conducted with reference to the parent company due to the prevalence of exposures, led to the identification of a set of companies defined as «high risk energy-intensive».

The set of exposures identified as «high risk Ukraine» and «high risk energy - gas-intensive» were subjected to the appropriate stage-allocation assessments. In particular, on the basis of the assessments carried out, the application of collective restaging (classification at Stage 2) of positions with potential risk signals was prudently defined.

In the process of calculating provisions on a collective basis, a number of prudential corrections («management overlay») were implemented in this quarter to adjust purely model-based estimates of impairment, to ensure a more adequate oversight of the final results of the models and to introduce greater responsiveness to the context in the quantification of loan provisions. In this regard, mention should be made of the estimation of a specific prudential add-on related to the war and energy crisis, together with the Stage 2 classification of the aforementioned potentially high-risk exposures (so-called «high risk positions»).

QUANTITATIVE INFORMATION

A. Loan quality

A.1 Performing and non-performing exposures: balance, impairment, developments, business and geographical distribution

A.1.1 Distribution of financial assets by portfolio and credit quality (book values)

Portfolio/quality	Bad loans	Unlikely-to-pay loans	Non-performing past due exposures	Performing past due exposures	Other performing exposures	**Total**
1. Financial assets measured at amortised cost	117,813	391,173	24,006	442,834	38,543,553	39,519,379
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	2,460,046	2,460,046
3. Financial assets designated at fair value	–	–	–	–	–	–
4. Other financial assets mandatorily measured at fair value	–	21,333	1,303	7,150	365,353	395,139
5. Financial assets held for sale	–	–	–	–	–	–
Total 31/12/2022	**117,813**	**412,506**	**25,309**	**449,984**	**41,368,952**	**42,374,564**
Total 31/12/2021	**188,922**	**569,654**	**17,631**	**360,294**	**40,549,504**	**41,686,005**

The word exposures is understood as excluding equity securities and mutual funds.

A.1.2 Distribution of financial assets by portfolio and credit quality (gross and net values)

Portfolio/quality	Non-performing				Performing			
	Gross exposure	Total write-downs	Net exposure	Total partial write-offs*	Gross exposure	Total write-downs	Net exposure	Total (net exposure)
1. Financial assets measured at amortised cost	1,333,696	800,704	532,992	81,793	39,129,404	143,017	38,986,387	39,519,379
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	2,461,364	1,318	2,460,046	2,460,046
3. Financial assets designated at fair value	–	–	–	–	–	–	–	–
4. Other financial assets mandatorily measured at fair value	39,314	16,678	22,636	–	–	–	372,503	395,139
5. Financial assets held for sale	–	–	–	–	–	–	–	–
Total 31/12/2022	**1,373,010**	**817,382**	**555,628**	**81,793**	**41,590,768**	**144,335**	**41,818,936**	**42,374,564**
Total 31/12/2021	**1,773,228**	**997,021**	**776,207**	**103,823**	**40,606,532**	**114,382**	**40,909,798**	**41,686,005**

*Value to be reported for information purposes

The gross carrying amount of financial assets measured at fair value at year end includes the credit risk component.

Partial write-offs recorded over the years in relation to the above portfolios total 81.7 million euro, reflecting the bad loans still held on the books.

The following analysis for «Financial assets held for trading and hedging derivatives» shows the accumulated unrealised losses and the net exposures that are obviously of poor quality, as well as the net exposures of the remaining financial assets.

	Assets with evident poor credit quality		Other assets
Portfolio/Quality	Accumulated losses	Net exposure	Net exposure
1. Financial assets held for trading	–	1	50,786
2. Hedging derivatives	–	–	248
Total 31/12/2022	**–**	**1**	**51,034**
Total 31/12/2021	**35**	**122**	**51,531**

A.1.3 Distribution of financial assets by past due categories (book values)

	First stage			Second stage			Third stage			Impaired purchased or originated		
Portfolios/risk stages	From 1 day to 30 days	From over 30 days to 90 days	Over 90 days	From 1 day to 30 days	From over 30 days to 90 days	Over 90 days	From 1 day to 30 days	From over 30 days to 90 days	Over 90 days	From 1 day to 30 days	From over 30 days to 90 days	Over 90 days
1. Financial assets measured at amortised cost	287,453	–	–	110,182	37,993	2,020	29,029	29,364	215,360	5,484	917	16,113
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	–	–	–	–	–	–	–	–
3. Financial assets held for sale	–	–	–	–	–	–	–	–	–	–	–	–
Total 31/12/2022	**287,453**	**–**	**–**	**110,182**	**37,993**	**2,020**	**29,029**	**29,364**	**215,360**	**5,484**	**917**	**16,113**
Total 31/12/2021	**279,487**	**65**	**–**	**50,022**	**17,280**	**851**	**32,778**	**30,363**	**351,212**	**3,177**	**197**	**37,985**

A.1.4 Financial assets, commitments to disburse funds and financial guarantees given: dynamics of total value adjustments and total provisions

	Total write-downs					
	First stage activities					
Reasons/risk stages	Loans with banks and central banks on demand	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which:	of which: collective write-downs
Total opening adjustments	**157**	**48,558**	**958**	**–**	**–**	**49,673**
Increases in financial assets purchased or originated	40	15,485	–	–	–	15,525
Derecognition other than write-offs	(937)	(7,507)	–	–	–	(8,444)
Net adjustments/write-backs for credit risk (+/-)	897	(16,942)	458	–	–	(15,586)
Contractual amendments without derecognition	–	(1)	–	–	–	(1)
Changes in estimation methodology	–	–	–	–	–	–
Write-offs not recognised directly in the income statement	–	–	–	–	–	–
Other changes	9	44	(108)	–	–	(55)
Total closing adjustments	**166**	**39,637**	**1,308**	**–**	**–**	**41,112**
Recoveries from collection on financial assets subject to write-offs	–	–	–	–	–	–
Write-offs recognised directly in the income statement	–	–	–	–	–	–

A.1.4 Financial assets, commitments to disburse funds and financial guarantees given: dynamics of total value adjustments and total provisions

						Total write-downs
	Third stage activities					
Reasons/risk stages	Loans with banks and central banks on demand	Assets financial measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs
Total opening adjustments	**–**	**878,378**	**–**	**–**	**878,378**	**–**
Increases in financial assets purchased or originated	–	38,276	–	–	38,276	–
Derecognition other than write-offs	–	(221,981)	–	–	(221,981)	–
Net adjustments/write-backs for credit risk (+/-)	–	129,274	–	–	129,274	–
Contractual amendments without derecognition	–	(423)	–	–	(423)	–
Changes in estimation methodology	–	–	–	–	–	–
Write-offs not recognised directly in the income statement	–	(56,449)	–	–	(56,449)	–
Other changes	–	(29,490)	–	–	(29,490)	–
Total closing adjustments	**–**	**737,587**	**–**	**–**	**737,587**	**–**
Recoveries from collection on financial assets subject to write-offs	–	17,731	–	–	17,731	–
Write-offs recognised directly in the income statement	–	(33,307)	–	–	(33,307)	–

Total write-downs					
Second stage activities					
Loans with banks and central banks on demand	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs
9	**62,413**	**–**	**–**	**–**	**62,422**
–	33,026	–	–	–	33,026
–	(9,160)	–	–	–	(9,160)
236	15,088	10	–	–	15,334
–	(124)	–	–	–	(124)
–	–	–	–	–	–
–	–	–	–	–	–
–	(202)	–	–	–	(202)
245	**101,041**	**10**	**–**	**–**	**101,296**
–	–	–	–	–	–
–	–	–	–	–	–

Financial assets impaired acquired or originated					Total provisions for commitments to grant loans and financial guarantees given				
Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs	First stage	Second stage	Third stage	Commitments to grant funds and fin. guarantees given impaired acquired or originated	**Total**
108,686	**–**	**–**	**108,404**	**282**	**12,209**	**4,587**	**10,040**	**28**	**1,126,025**
–	–	–	–	–	–	–	–	–	86,827
(9,666)	–	–	(9,637)	(29)	–	–	–	–	(249,251)
(5,272)	–	–	(7,363)	2,091	(2,072)	5,041	2,322	(7)	129,034
(169)	–	–	(162)	(7)	–	–	–	–	(717)
–	–	–	–	–	–	–	–	–	–
(9,720)	–	–	(9,720)	–	–	–	–	–	(66,169)
(18,407)	–	–	(18,407)	–	–	–	–	–	(48,154)
65,452	**–**	**–**	**63,115**	**2,337**	**10,137**	**9,628**	**12,362**	**21**	**977,595**
–	–	–	–	–	–	–	–	–	17,731
(7,315)	–	–	(7,315)	–	–	–	–	–	(40,622)

A.1.5 Financial assets, commitments to grant loans and financial guarantees given: transfers between the various stages of credit risk (gross and nominal values)

	Gross values/nominal value					
	Transfers between first stage and second stage		Transfers between second stage and third stage		Transfers between first stage and third stage	
Portfolios/risk stages	First stage to second stage	Second stage to first stage	Second stage to third stage	Third stage to second stage	First stage to third stage	Third stage to first stage
1. Financial assets measured at amortised cost	1,718,369	852,953	116,564	49,497	100,217	9,267
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	–	–
3. Financial assets held for sale	–	–	–	–	–	–
4. Commitments to grant loans and financial guarantees given	309,792	72,484	4,123	1,347	4,533	1,101
Total 31/12/2022	**2,028,161**	**925,437**	**120,687**	**50,844**	**104,750**	**10,368**
Total 31/12/2021	**890,336**	**1,937,864**	**141,946**	**36,332**	**93,518**	**6,887**

A.1.5a Loans subject to Covid-19 support measures: transfers between the various stages of credit risk (gross values)

	Gross values/nominal value					
	Transfers between first stage and second stage		Transfers between second stage and third stage		Transfers between first stage and third stage	
Portfolio/quality	First stage to second stage	Second stage to first stage	Second stage to third stage	Third stage to second stage	First stage to third stage	Third stage to first stage
A. **Loans measured at amortised cost**	**202,926**	**70,085**	**25,454**	**1,504**	**18,036**	**1,842**
A.1 subject to forbearance compliant with GLs	–	–	–	–	–	–
A.2 subject to outstanding moratorium measures no longer in compliance with GL and not evaluated as subject to forbearance measures	–	–	–	–	–	–
A.3 subject to other forbearance measures	12,463	–	20,546	–	648	–
A.4 new loans	190,463	70,085	4,908	1,504	17,388	1,842
B. **Loans measured at fair value through other comprehensive income**	**–**	**–**	**–**	**–**	**–**	**–**
B.1 subject to forbearance compliant with GLs	–	–	–	–	–	–
B.2 subject to outstanding moratorium measures no longer in compliance with GL and not evaluated as subject to forbearance measures	–	–	–	–	–	–
B.3 subject to other forbearance measures	–	–	–	–	–	–
B.4 new loans	–	–	–	–	–	–
Total 31/12/2022	**202,926**	**70,085**	**25,454**	**1,504**	**18,036**	**1,842**
Total 31/12/2021	**119,027**	**93,091**	**10,374**	**131**	**14,949**	**1,218**

A.1.6 On and off-balance sheet loans to banks: gross and net values

Type of exposure/amounts	Gross exposure				
		First stage	Second stage	Third stage	Impaired purchased or originated
A. **On-balance sheet credit exposures**					
A.1 **Sight**	**5,822,327**	**5,813,516**	**8,811**	**–**	**–**
a) Non-performing	–	–	–	–	–
b) Performing	5,822,327	5,813,516	8,811	–	–
A.2 **Other**	**4,144,905**	**4,073,351**	**71,554**	**–**	**–**
a) Bad loans	–	–	–	–	–
- of which: exposures subject to forbearance	–	–	–	–	–
b) Unlikely-to-pay	–	–	–	–	–
- of which: exposures subject to forbearance	–	–	–	–	–
c) Non-performing past due exposures	–	–	–	–	–
- of which: exposures subject to forbearance	–	–	–	–	–
d) Performing past due exposures	955	151	803	–	–
- of which: exposures subject to forbearance	–	–	–	–	–
e) Other performing exposures	4,143,950	4,073,200	70,751	–	–
- of which: exposures subject to forbearance	–	–	–	–	–
Total (A)	**9,967,232**	**9,886,867**	**80,365**	**–**	**–**
B. **Off-balance sheet credit exposures**					
a) Non-performing	–	–	–	–	–
b) Performing	1,697,778	1,548,367	149,410	–	–
Total (B)	**1,697,778**	**1,548,367**	**149,410**	**–**	**–**
Total (A+B)	**11,665,010**	**11,435,234**	**229,775**	**–**	**–**

* Amount to be shown for information purposes

Cash exposures include loans and receivables with banks shown in item 40 a) and in item 10 as well as other financial assets represented by bank securities included in items 20 c) and 30 of the assets side of the balance sheet, excluding equity securities and mutual funds. Off-balance sheet exposure is represented by guarantees given, commitments and derivatives (except those relating to equity securities and mutual funds).

A.1.7 On and off-balance sheet loans to customers: gross and net values

Type of exposure/amounts	Gross exposure				
		First stage	Second stage	Third stage	Impaired purchased or originated
A. **On-balance sheet credit exposures**					
a) Bad loans	493,762	–	–	469,100	24,661
- of which: exposures subject to forbearance	158,951	–	–	152,899	6,052
b) Unlikely-to-pay loans	851,186	–	–	775,613	75,573
- of which: exposures subject to forbearance	482,188	–	–	433,519	48,669
c) Non-performing past due exposures	28,061	–	–	28,052	8
- of which: exposures subject to forbearance	2,243	–	–	2,243	–
d) Performing past due exposures	457,785	292,911	160,884	–	3,991
- of which: exposures subject to forbearance	20,644	–	20,465	–	179
e) Other performing exposures	37,360,582	34,622,495	2,669,112	–	68,975
- of which: exposures subject to forbearance	381,819	–	353,080	–	28,739
Total (A)	**39,191,376**	**34,915,406**	**2,829,996**	**1,272,765**	**173,208**
B. Off-balance sheet credit exposures					
a) Non-performing	178,133	–	–	173,760	4,373
b) Performing	22,567,317	20,070,201	2,493,948	–	3,168
Total (B)	**22,745,450**	**20,070,201**	**2,493,948**	**173,760**	**7,541**
Total (A+B)	**61,936,826**	**54,985,607**	**5,323,944**	**1,446,525**	**180,749**

* amount to be shown for information purposes

Total adjustments and provisions						
	First stage	Second stage	Third stage	Impaired purchased or originated	Net exposure	Total partial write-offs*
412	**167**	**245**	**–**	**–**	**5,821,915**	**–**
–	–	–	–	–	–	–
412	167	245	–	–	5,821,915	–
1,367	**1,137**	**230**	**–**	**–**	**4,143,538**	**–**
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
25	2	22	–	–	930	–
–	–	–	–	–	–	–
1,342	1,135	208	–	–	4,142,608	–
–	–	–	–	–	–	–
1,779	**1,304**	**475**	**–**	**–**	**9,965,453**	**–**
–	–	–	–	–	–	–
1,420	1,232	187	–	–	1,696,358	–
1,420	**1,232**	**187**	**–**	**–**	**1,696,358**	**–**
3,199	**2,536**	**662**	**–**	**–**	**11,661,811**	**–**

Total adjustments and provisions						
	First stage	Second stage	Third stage	Impaired purchased or originated	Net exposure	Total partial write-offs*
375,949	–	–	359,657	16,292	117,813	81,793
119,603	–	–	114,967	4,636	39,348	9,957
438,680	–	–	391,792	46,888	412,506	–
246,438	–	–	219,964	26,474	235,750	–
2,753	–	–	2,752	1	25,308	–
262	–	–	262	–	1,981	–
8,731	1,258	7,324	–	148	449,054	–
1,152	–	1,143	–	8	19,492	–
134,238	38,553	93,496	–	2,189	37,226,344	–
18,663	–	17,356	–	1,307	363,156	–
960,351	**39,811**	**100,820**	**754,201**	**65,518**	**38,231,025**	**81,793**
36,676	–	–	36,676	–	141,457	–
24,677	9,103	15,553	–	21	22,542,640	–
61,353	**9,103**	**15,553**	**36,676**	**21**	**22,684,097**	**–**
1,021,704	**48,914**	**116,373**	**790,877**	**65,539**	**60,915,122**	**81,793**

Cash exposures include the customer loans shown in item 40b) as well as other financial assets represented by non-bank securities included in items 20c) and 30 of the assets side of the balance sheet, excluding equity securities and mutual funds. Off-balance sheet exposure is represented by guarantees given, commitments and derivatives (except those relating to equity securities and mutual funds).

A.1.7a On-balance sheet credit exposures to customers subject to Covid-19 support measures: gross and net values

	Gross exposure				
Type of exposure/amounts		First stage	Second stage	Third stage	Impaired purchased or originated
A. **Non-performing credit exposures:**	**34**	**–**	**–**	**34**	**–**
a) Subject to forbearance compliant with GLs	–	–	–	–	–
b) Subject to outstanding moratorium measures no longer in compliance with GL and not evaluated as subject to forbearance measures	–	–	–	–	–
c) Subject to other forbearance measures	–	–	–	–	–
d) New loans	34	–	–	34	–
B. **Exposures classified as unlikely-to-pay loans**:	**45,840**	**–**	**–**	**41,568**	**4,271**
a) Subject to forbearance compliant with GLs	–	–	–	–	–
b) Subject to outstanding moratorium measures no longer in compliance with GL and not evaluated as subject to forbearance measures	189	–	–	189	–
c) Subject to other forbearance measures	5,670	–	–	5,559	111
d) New loans	39,981	–	–	35,820	4,160
C. **Non-performing past due exposures**:	**3,551**	**–**	**–**	**3,551**	**–**
a) Subject to forbearance compliant with GLs	–	–	–	–	–
b) Subject to outstanding moratorium measures no longer in compliance with GL and not evaluated as subject to forbearance measures	–	–	–	–	–
c) Subject to other forbearance measures	–	–	–	–	–
d) New loans	3,551	–	–	3,551	–
D. **Performing past due exposures**:	**9,727**	**3,539**	**6,188**	**–**	**–**
a) Subject to forbearance compliant with GLs	–	–	–	–	–
b) Subject to outstanding moratorium measures no longer in compliance with GL and not evaluated as subject to forbearance measures	–	–	–	–	–
c) Subject to other forbearance measures	–	–	–	–	–
d) New loans	9,727	3,539	6,188	–	–
E. **Other performing exposures:**	**2,275,045**	**2,054,937**	**219,077**	**–**	**1,031**
a) Subject to forbearance compliant with GLs	–	–	–	–	–
b) Subject to outstanding moratorium measures no longer in compliance with GL and not evaluated as subject to forbearance measures	1,700	875	825	–	–
c) Subject to other forbearance measures	51	–	51	–	–
d) New loans	2,273,294	2,054,062	218,201	–	1,031
Total (A+B+C+D+E)	**2,334,197**	**2,058,476**	**225,265**	**45,153**	**5,302**

Total write-downs						
	First stage	Second stage	Third stage	Impaired purchased or originated	Net exposure	Total partial write-offs*
20	**–**	**–**	**20**	**–**	**14**	**–**
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
20	–	–	20	–	14	–
19,339	**–**	**–**	**17,443**	**1,896**	**26,501**	**–**
–	–	–	–	–	–	–
81	–	–	81	–	108	–
2,089	–	–	2,042	48	3,581	–
17,169	–	–	15,320	1,848	22,812	–
63	**–**	**–**	**63**	**–**	**3,488**	**–**
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
63	–	–	63	–	3,488	–
126	**1**	**126**	**–**	**–**	**9,601**	**–**
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
126	1	126	–	–	9,601	–
5,521	**269**	**5,231**	**–**	**22**	**2,269,524**	**–**
–	–	–	–	–	–	–
75	2	74	–	–	1,625	–
3	–	3	–	–	48	–
5,443	267	5,154	–	22	2,267,851	–
25,069	**270**	**5,357**	**17,526**	**1,918**	**2,309,128**	**–**

A.1.9 On-balance sheet credit exposures to customers: dynamic of gross non-performing exposures

Reasons/Categories	Bad loans	Unlikely-to-pay loans	Non-performing past due exposures
A. **Opening gross exposure**	**712,064**	**1,041,451**	**19,713**
- of which: exposures sold not derecognised	–	11,476	3,062
B. **Increases**	**152,921**	**337,256**	**18,479**
B.1 transfers from performing loans	16,264	189,534	18,284
B.2 transfers from financial assets impaired purchased or originated	1,811	7,950	–
B.3 transfers from other categories of non-performing exposures	103,046	6,178	195
B.4 contractual amendments without derecognition	–	490	–
B.5 other increases	31,800	133,104	–
C. **Decreases**	**371,223**	**527,521**	**10,131**
C.1 transfers to performing loans	–	77,797	3,765
C.2 write-offs	61,178	45,612	–
C.3 collections	57,372	238,499	5,818
C.4 proceeds from disposals	48,345	26,320	–
C.5 losses on disposal	28,814	2,940	–
C.6 transfers to other categories of non-performing exposures	6,373	103,046	–
C.7 contractual amendments without derecognition	2	1,747	30
C.8 other decreases	169,139	31,560	518
D. **Closing gross exposure**	**493,762**	**851,186**	**28,061**
- of which: exposures sold not derecognised	–	10,026	707

A.1.9bis On-balance sheet credit exposures to customers: changes in gross exposures granted by credit quality

Reasons/Quality	Exposures subject to forbearance: non-performing	Exposures subject to forbearance:
A. **Opening gross exposure**	**834,539**	**667,993**
- of which: exposures sold not derecognised	6,712	34,862
B. **Increases**	**175,507**	**118,942**
B.1 transfers from performing loans not subject to forbearance	20,370	33,913
B.2 transfers from performing loans subject to forbearance	61,265	–
B.3 transfers from exposures subject to forbearance and non-performing	–	60,149
B.4 transfers from non-performing exposures not subject to forbearance	48,608	–
B.5 other increases	45,264	24,880
C. **Decreases**	**366,664**	**384,472**
C.1 transfers to performing loans not subject to forbearance	–	218,318
C.2 transfers to performing loans subject to forbearance	60,149	–
C.3 transfers to loans subject to forbearance and non-performing	–	61,265
C.4 write-offs	36,390	–
C.5 collections	170,400	101,164
C.6 proceeds from disposals	37,480	–
C.7 losses on disposal	10,924	–
C.8 other decreases	51,321	3,725
D. **Closing gross exposure**	**643,382**	**402,463**
- of which: exposures sold not derecognised	5,586	27,198

A.1.11 Non-performing on-balance sheet credit exposures to customers: dynamics of total value adjustments

Reasons/Categories	Bad loans		Unlikely-to-pay loans		Non-performing past due exposures	
	Total	of which: exposures subject to forbearance	Total	of which: exposures subject to forbearance	Total	of which: exposures subject to forbearance
A. **Total opening adjustments**	**523,143**	**140,560**	**471,796**	**280,441**	**2,083**	**315**
- of which: exposures sold not derecognised	–	–	3,906	2,312	305	23
B. **Increases**	**152,005**	**56,817**	**199,314**	**95,201**	**2,701**	**265**
B.1 adjustments to impaired assets purchased or originated	2,435	–	12,325	–	1	–
B.2 other adjustments	72,973	25,176	177,815	90,055	2,038	102
B.3 losses on disposal	28,814	8,708	2,940	1,998	–	–
B.4 transfers from other categories of non-performing exposures	47,542	22,897	623	195	53	–
B.5 contractual amendments without derecognition	–	–	159	–	–	–
B.6 other increases	241	36	5,452	2,953	609	163
C. **Decreases**	**299,198**	**77,773**	**232,430**	**129,205**	**2,030**	**319**
C.1 write-backs on valuation	5,619	1,196	19,647	21,475	191	54
C.2 write-backs due to collections	13,545	3,502	51,193	10,720	347	–
C.3 gains on disposal	15,581	3,450	4,242	2,615	–	–
C.4 write-offs	61,178	7,569	45,612	28,821	–	–
C.5 transfers to other categories of non-performing exposure	676	195	47,543	22,896	–	–
C.6 contractual amendments without derecognition	–	–	740	–	3	–
C.7 other decreases	202,599	61,861	63,453	42,678	1,489	265
D. **Total closing adjustments**	**375,950**	**119,604**	**438,680**	**246,437**	**2,754**	**261**
- of which: exposures sold not derecognised	–	–	4,367	2,398	70	–

A.2 Classification of exposures based on external and internal ratings

A.2.1 Distribution of financial assets, commitments to grant loans and financial guarantees given by external rating classes (gross amounts)

Exposures	External rating classes						Unrated	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. **Financial assets measured at amortised cost**	**7,413,323**	**1,590,038**	**1,758,172**	**442,663**	**59,714**	**-**	**29,199,191**	**40,463,101**
- First stage	7,372,967	1,583,499	1,707,529	440,576	22,337	-	25,106,214	36,233,122
- Second stage	40,356	6,539	50,643	2,047	37,377	-	2,686,581	2,823,543
- Third stage	–	–	–	40	–	–	1,233,575	1,233,615
- Impaired acquired or originated	–	–	–	–	–	–	172,821	172,821
B. **Financial assets measured at fair value through other comprehensive income**	**1,746,881**	**367,092**	**242,798**	**84,953**	**14,677**	**–**	**4,964**	**2,461,365**
- First stage	1,742,416	363,283	242,798	84,953	14,677	–	4,964	2,453,091
- Second stage	4,465	3,809	–	–	–	–	–	8,274
- Third stage	–	–	–	–	–	–	–	-
- Impaired acquired or originated	–	–	–	–	–	–	–	–
C. **Financial assets held for sale**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**-**
- First stage	–	–	–	–	–	–	–	-
- Second stage	–	–	–	–	–	–	–	-
- Third stage	–	–	–	–	–	–	–	-
- Impaired acquired or originated	–	–	–	–	–	–	–	–
Total (A+B+C)	**9,160,204**	**1,957,130**	**2,000,970**	**527,616**	**74,391**	**-**	**29,204,155**	**42,924,466**
D. **Commitments to grant loans and financial guarantees given**	**15,585**	**44,313**	**61,587**	**16,312**	**103,133**	**-**	**15,972,135**	**16,213,065**
- First stage	15,585	43,789	58,194	16,312	102,863	-	14,670,335	14,907,078
- Second stage	–	524	3,393	–	270	-	1,211,472	1,215,659
- Third stage	–	–	–	–	–	–	82,787	82,787
- Impaired acquired or originated	–	–	–	–	–	–	7,541	7,541
Total (D)	**15,585**	**44,313**	**61,587**	**16,312**	**103,133**	**-**	**15,972,135**	**16,213,065**
Total (A+B+C+D)	**9,175,789**	**2,001,443**	**2,062,557**	**543,928**	**177,524**	**-**	**45,176,290**	**59,137,531**

The distribution of exposures other than those in equity securities is reported by classes that reflect the long-term rating awarded to them by leading international agencies, as held in the Bank's database.

The risk classes for external ratings indicated in this table refer to the classes of debtor credit-worthiness mentioned in the prudent supervisory regulations. The following is a reconciliation of these rating classes and the ratings issued by the agencies appointed by the Bank. Specifically, the ratings issued by DBRS are used for exposures to governments and central banks, while those of Standard & Poor's and FitchRatings are used for other exposures.

	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6
DBRS Limited	from AAA to AAL	from AH to AL	from BBBH to BBBL	from BBH to BBL	from BH to BL	CCC
Standard & Poor's Rating Services	from AAA to AA-	from A+ to A-	from BBB+ to BBB-	from BB+ to BB	from B+ to B-	from CCC+ down-
Fitch Ratings	from AAA to AA-	from A+ to A-	from BBB+ to BBB-	from BB+ to BB-	from B+ to B-	from CCC+ down

A.2.2 Distribution of financial assets, commitments to disburse funds and financial guarantees issued by internal rating classes (gross values)

INDIVIDUALS

	Internal rating classes						
Exposures	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Rating 6	Rating 7
A. **Financial assets measured at amortised cost**	**24,085**	**39,796**	**124,946**	**503,216**	**1,026,237**	**872,731**	**764,767**
- First stage	23,674	38,982	121,773	484,887	933,994	782,063	652,863
- Second stage	411	814	3,173	18,329	92,243	90,668	111,904
- Third stage	-	-	-	-	-	-	-
B. **Financial assets measured at fair value through other comprehensive income**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- First stage	-	-	-	-	-	-	-
- Second stage	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	-
Total (A+B)	**24,085**	**39,796**	**124,946**	**503,216**	**1,026,237**	**872,731**	**764,767**
of which: financial assets impaired purchased or originated							
C. **Commitments to grant loans and financial guarantees given**	**25,285**	**32,634**	**43,665**	**62,818**	**83,908**	**46,625**	**70,587**
1. First stage	24,901	31,983	42,785	60,429	70,037	43,009	61,791
2. Second stage	384	651	880	2,389	13,871	3,616	8,796
3. Third stage	-	-	-	-	-	-	-
Total (C)	**25,285**	**32,634**	**43,665**	**62,818**	**83,908**	**46,625**	**70,587**
Total (A+B+C)	**49,370**	**72,430**	**168,611**	**566,034**	**1,110,145**	**919,356**	**835,354**

SMEs

	Internal rating classes						
Exposures	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Rating 6	Rating 7
A. **Financial assets measured at amortised cost**	**191,845**	**607,514**	**1,036,028**	**1,268,106**	**1,445,474**	**1,282,733**	**1,108,546**
- First stage	178,800	600,225	1,013,377	1,165,563	1,325,000	1,115,439	977,097
- Second stage	13,045	7,289	22,651	102,543	120,474	167,294	131,449
- Third stage	-	-	-	-	-	-	-
B. **Financial assets measured at fair value through other comprehensive income**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- First stage	-	-	-	-	-	-	-
- Second stage	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	-
Total (A+B)	**191,845**	**607,514**	**1,036,028**	**1,268,106**	**1,445,474**	**1,282,733**	**1,108,546**
of which: financial assets impaired purchased or originated							
C. **Commitments to grant loans and financial guarantees given**	**363,371**	**816,268**	**971,425**	**683,770**	**647,265**	**396,793**	**366,181**
1. First stage	348,824	766,261	865,386	588,050	596,282	340,117	325,702
2. Second stage	14,547	50,007	106,039	95,720	50,983	56,676	40,479
3. Third stage	-	-	-	-	-	-	-
Total (C)	**363,371**	**816,268**	**971,425**	**683,770**	**647,265**	**396,793**	**366,181**
Total (A+B+C)	**555,216**	**1,423,782**	**2,007,453**	**1,951,876**	**2,092,739**	**1,679,526**	**1,474,727**

Rating 8	Rating 9	Rating 10	Rating 11	Rating 12	Rating 13	Unrated and insolvent	**Total (A+B+C)**
373,738	**252,291**	**98,556**	**101,800**	**82,266**	**48,221**	**168,843**	**4,481,493**
305,279	188,763	62,687	66,890	38,251	4,123	120	3,704,349
68,459	63,528	35,869	34,910	44,015	44,098	104	608,525
-	-	-	-	-	-	168,619	168,619
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
373,738	**252,291**	**98,556**	**101,800**	**82,266**	**48,221**	**168,843**	**4,481,493**
34,849	**14,521**	**4,023**	**5,219**	**2,320**	**1,333**	**5,846**	**433,633**
29,811	11,737	2,473	3,863	1,093	100	3,526	387,539
5,038	2,784	1,550	1,356	1,227	1,233	571	44,346
-	-	-	-	-	-	1,748	1,748
34,849	**14,522**	**4,023**	**5,219**	**2,321**	**1,333**	**5,847**	**433,633**
408,587	**266,812**	**102,579**	**107,019**	**84,586**	**49,554**	**174,689**	**4,915,126**

Rating 8	Rating 9	Rating 10	Rating 11	Rating 12	Rating 13	Unrated and insolvent	**Total (A+B+C)**
563,615	**255,934**	**98,746**	**134,158**	**16,430**	**36,527**	**738,708**	**8,784,364**
464,910	183,922	64,931	20,765	236	-	26,163	7,136,427
98,705	72,012	33,815	113,393	16,194	36,527	5,301	940,692
-	-	-	-	-	-	707,244	707,244
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
563,615	**255,934**	**98,746**	**134,158**	**16,430**	**36,527**	**738,708**	**8,784,364**
127,805	**70,382**	**94,506**	**16,540**	**12,713**	**2,595**	**81,687**	**4,651,301**
112,409	51,564	81,855	6,177	7,428	-	24,943	4,114,998
15,396	18,818	12,651	10,363	5,285	2,595	6,734	486,294
-	-	-	-	-	-	50,010	50,010
127,805	**70,382**	**94,506**	**16,540**	**12,713**	**2,595**	**81,687**	**4,651,301**
691,420	**326,316**	**193,252**	**150,698**	**29,143**	**39,122**	**820,395**	**13,435,665**

SMALL BUSINESS

Exposures	Internal rating classes						
	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Rating 6	Rating 7
A. Financial assets measured at amortised cost	**93,087**	**89,467**	**218,639**	**335,403**	**338,865**	**343,068**	**214,638**
- First stage	91,109	84,393	199,218	277,521	271,462	283,156	157,046
- Second stage	1,978	5,074	19,421	57,882	67,403	59,902	57,592
- Third stage	–	–	–	–	–	10	-
B. Financial assets measured at fair value through other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**-**
- First stage	–	–	–	–	–	–	-
- Second stage	–	–	–	–	–	–	-
- Third stage	–	–	–	–	–	–	-
Total (A+B)	**93,087**	**89,467**	**218,639**	**335,403**	**338,865**	**343,068**	**214,638**
of which: financial assets impaired purchased or originated							
C. Commitments to grant loans and financial guarantees given	**174,478**	**93,407**	**119,259**	**97,650**	**78,750**	**68,602**	**40,731**
1. First stage	172,814	90,250	113,730	82,546	62,424	56,426	33,968
2. Second stage	1,664	3,157	5,529	15,104	16,326	12,176	6,763
3. Third stage	–	–	–	–	–	–	-
Total (C)	**174,478**	**93,407**	**119,259**	**97,650**	**78,750**	**68,602**	**40,731**
Total (A+B+C)	**267,565**	**182,874**	**337,898**	**433,053**	**417,615**	**411,670**	**255,369**

SMALL ECONOMIC OPERATORS

Exposures	Internal rating classes						
	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Rating 6	Rating 7
A. Financial assets measured at amortised cost	**94,181**	**142,317**	**527,746**	**436,370**	**97,272**	**280,371**	**175,765**
- First stage	93,455	138,354	516,103	407,342	83,840	248,011	150,006
- Second stage	726	3,963	11,643	29,028	13,432	32,360	25,759
- Third stage	–	–	–	–	–	–	-
B. Financial assets measured at fair value through other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**-**
- First stage	–	–	–	–	–	–	-
- Second stage	–	–	–	–	–	–	-
- Third stage	–	–	–	–	–	–	-
Total (A+B)	**94,181**	**142,317**	**527,746**	**436,370**	**97,272**	**280,371**	**175,765**
of which: financial assets impaired purchased or originated							
C. Commitments to grant loans and financial guarantees given	**43,845**	**53,811**	**70,732**	**42,370**	**12,774**	**37,426**	**29,279**
1. First stage	43,327	53,497	66,910	38,317	10,071	34,351	25,333
2. Second stage	518	314	3,822	4,053	2,703	3,075	3,946
3. Third stage	–	–	–	–	–	–	-
Total (C)	**43,845**	**53,811**	**70,732**	**42,370**	**12,774**	**37,426**	**29,279**
Total (A+B+C)	**138,026**	**196,128**	**598,478**	**478,740**	**110,046**	**317,797**	**205,044**

Rating 8	Rating 9	Rating 10	Rating 11	Rating 12	Rating 13	Unrated and insolvent	**Total (A+B+C)**
135,743	**83,107**	**62,625**	**33,888**	**24,132**	**13,589**	**246,216**	**2,232,467**
95,226	57,866	36,370	14,398	3,878	295	-	1,571,938
40,517	25,241	26,255	19,490	20,254	13,294	-	414,303
-	-	-	-	-	-	246,216	246,226
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
135,743	**83,107**	**62,625**	**33,888**	**24,132**	**13,589**	**246,216**	**2,232,467**
19,056	**16,272**	**7,439**	**3,995**	**2,143**	**1,097**	**28,079**	**750,958**
12,630	11,100	4,535	1,320	594	217	1,229	643,782
6,426	5,172	2,904	2,675	1,549	880	610	80,936
-	-	-	-	-	-	26,240	26,240
19,056	**16,272**	**7,439**	**3,995**	**2,142**	**1,096**	**28,079**	**750,958**
154,799	**99,379**	**70,064**	**37,883**	**26,275**	**14,686**	**274,295**	**2,983,425**

Rating 8	Rating 9	Rating 10	Rating 11	Rating 12	Rating 13	Unrated and insolvent	**Total (A+B+C)**
181,769	**93,613**	**56,330**	**63,979**	**36,578**	**21,153**	**136,586**	**2,344,030**
152,355	75,340	37,739	28,473	12,363	1,797	308	1,945,486
29,414	18,273	18,591	35,506	24,215	19,356	3	262,269
-	-	-	-	-	-	136,275	136,275
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
181,769	**93,613**	**56,330**	**63,979**	**36,578**	**21,153**	**136,586**	**2,344,030**
21,712	**9,615**	**5,870**	**5,584**	**2,120**	**1,253**	**5,870**	**342,261**
16,560	8,135	3,324	2,031	795	575	1,541	304,767
5,152	1,480	2,546	3,553	1,325	678	758	33,923
-	-	-	-	-	-	3,571	3,571
21,712	**9,615**	**5,870**	**5,584**	**2,120**	**1,253**	**5,870**	**342,261**
203,481	**103,228**	**62,200**	**69,563**	**38,698**	**22,406**	**142,456**	**2,686,291**

LARGE ENTERPRISES; PUBLIC ENTERPRISES

	Internal rating classes						
Exposures	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Rating 6	Rating 7
A. **Financial assets measured at amortised cost**	**30,086**	**469,547**	**662,382**	**864,393**	**619,752**	**411,940**	**289,288**
- First stage	30,086	459,521	550,183	779,321	580,958	381,510	253,680
- Second stage	-	10,026	112,199	85,072	38,794	30,430	35,608
- Third stage	-	-	-	-	-	-	-
B. **Financial assets measured at fair value through other comprehensive income**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- First stage	-	-	-	-	-	-	-
- Second stage	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	-
Total (A+B)	**30,086**	**469,547**	**662,382**	**864,393**	**619,752**	**411,940**	**289,288**
of which: financial assets impaired purchased or originated							
C. **Commitments to grant loans and financial guarantees given**	**174,677**	**443,373**	**1,251,440**	**1,698,506**	**948,902**	**251,867**	**431,479**
1. First stage	174,677	416,236	1,059,403	1,480,397	868,546	219,639	384,608
2. Second stage	-	27,137	192,037	218,109	80,356	32,228	46,871
3. Third stage	-	-	-	-	-	-	-
Total (C)	**174,677**	**443,373**	**1,251,440**	**1,698,506**	**948,902**	**251,867**	**431,479**
Total (A+B+C)	**204,763**	**912,920**	**1,913,822**	**2,562,899**	**1,568,654**	**663,807**	**720,767**

OTHER

	Internal rating classes						
Exposures	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Rating 6	Rating 7
A. **Financial assets measured at amortised cost**	**21,399**	**7,988**	**46,803**	**25,391**	**83,313**	**96,035**	**87,150**
- First stage	21,399	7,037	46,803	21,854	62,565	84,929	55,280
- Second stage	-	951	-	3,537	20,748	11,106	31,870
- Third stage	-	-	-	-	-	-	-
B. **Financial assets measured at fair value through other comprehensive income**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- First stage	-	-	-	-	-	-	-
- Second stage	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	-
Total (A+B)	**21,399**	**7,988**	**46,803**	**25,391**	**83,313**	**96,035**	**87,150**
of which: financial assets impaired purchased or originated							
C. **Commitments to grant loans and financial guarantees given**	**26,708**	**19,645**	**33,576**	**157,597**	**214,268**	**41,930**	**115,254**
1. First stage	15,541	19,612	33,576	147,942	208,836	23,817	81,912
2. Second stage	11,167	33	-	9,655	5,432	18,113	33,342
3. Third stage	-	-	-	-	-	-	-
Total (C)	**26,708**	**19,645**	**33,576**	**157,597**	**214,268**	**41,930**	**115,254**
Total (A+B+C)	**48,107**	**27,633**	**80,379**	**182,988**	**297,581**	**137,965**	**202,404**

Rating 8	Rating 9	Rating 10	Rating 11	Rating 12	Rating 13	Unrated and insolvent	**Total (A+B+C)**
173,642	**63,638**	**12,052**	**-**	**-**	**-**	**63,476**	**3,660,196**
114,923	17,783	-	-	-	-	-	3,167,965
58,719	45,855	12,052	-	-	-	-	428,755
-	-	-	-	-	-	63,476	63,476
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
173,642	**63,638**	**12,052**	**-**	**-**	**-**	**63,476**	**3,660,196**
331,348	**93,724**	**25,020**	**11,803**	**-**	**-**	**48,402**	**5,710,541**
88,456	72,295	9,825	-	-	-	12,670	4,786,752
242,892	21,429	15,195	11,803	-	-	205	888,262
-	-	-	-	-	-	35,527	35,527
331,348	**93,724**	**25,020**	**11,803**	**-**	**-**	**48,402**	**5,710,541**
504,990	**157,362**	**37,072**	**11,803**	**-**	**-**	**111,878**	**9,370,737**

Rating 8	Rating 9	Rating 10	Rating 11	Rating 12	Rating 13	Unrated and insolvent	**Total (A+B+C)**
120,132	**23,775**	**6,000**	**15,030**	**8**	**-**	**18,427,525**	**18,960,549**
110,813	19,701	4	1	1	-	18,276,569	18,706,956
9,319	4,074	5,996	15,029	7	-	139,099	241,736
-	-	-	-	-	-	11,857	11,857
-	**-**	**-**	**-**	**-**	**-**	**2,926,170**	**2,926,170**
-	-	-	-	-	-	2,926,170	2,926,170
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
120,132	**23,775**	**6,000**	**15,030**	**8**	**-**	**21,353,695**	**21,886,719**
21,602	**22,197**	**-**	**11**	**20**	**-**	**3,671,560**	**4,324,368**
12,775	22,051	-	11	20	-	3,525,594	4,091,686
8,827	146	-	-	-	-	144,279	230,995
-	-	-	-	-	-	1,687	1,687
21,602	**22,197**	**-**	**11**	**20**	**-**	**3,671,560**	**4,324,368**
141,734	**45,972**	**6,001**	**15,041**	**28**	**-**	**25,025,255**	**26,211,087**

The table shows, in rising order of risk, the distribution by rating class of exposures in the Customers portfolio for which the internal rating models are operative.

As regards «Customers», the ratings are split into thirteen classes for performing counterparties and one for those that are insolvent. The first class identifies customers with the lowest risk, while the thirteenth class indicates the maximum risk; situations of insolvency go into another category.

The Bank uses internal ratings to calculate the capital requirements in relation to it corporate and retail portfolios, for which the related IRB models have been validated.

A.3 Distribution of secured exposures by type of guarantee

Cash loans shown in the «Net exposure» column are stated net of specific and portfolio adjustments. Exposures are classified between «fully guaranteed» and «partially guaranteed» by comparing the gross exposure with the value of the contractual guarantee. The amounts shown in the «guarantees» columns refer to the actual value of the guarantee («fair value»), with an upper limit represented by the book value of the guaranteed exposure: this means that the actual value of the guarantee may be higher than that shown in the table.

A.3.1 Guaranteed cash and off-balance sheet exposures to banks

			Secured guarantees (1)			
	Gross exposure	Net exposure	Properties Mortgages	Properties Lease financing	Securities	Other real guarantees
1. **Guaranteed cash exposures**:	**147,819**	**147,718**	**–**	**–**	**5,011**	**–**
1.1. fully guaranteed	131,144	131,059	–	–	5,011	–
- of which impaired	–	–	–	–	–	–
1.2. partially guaranteed	16,675	16,659	–	–	–	–
- of which impaired	–	–	–	–	–	–
2. **Guaranteed off-balance sheet exposures**:	**20,993**	**20,993**	**–**	**–**	**5,970**	**1,257**
2.1. fully guaranteed	12,039	12,039	–	–	4,522	621
- of which impaired	–	–	–	–	–	–
2.2. partially guaranteed	8,954	8,954	–	–	1,448	636
- of which impaired	–	–	–	–	–	–

A.3.2 Guaranteed cash and off-balance sheet exposures to customers

			Secured guarantees (1)			
	Gross exposure	Net exposure	Properties Mortgages	Properties Lease financing	Securities	Other real guarantees
1. **Guaranteed cash exposures**:	**16,070,121**	**15,334,992**	**9,080,838**	**–**	**382,366**	**301,538**
1.1. fully guaranteed	13,089,244	12,432,898	9,080,190	–	297,274	201,003
- of which impaired	1,027,855	457,131	383,805	–	2,739	2,752
1.2. partially guaranteed	2,980,877	2,902,094	648	–	85,092	100,535
- of which impaired	108,120	40,444	370	–	4,620	531
2. **Guaranteed off-balance sheet exposures:**	**3,607,219**	**3,585,481**	**377,742**	**–**	**184,538**	**102,651**
2.1. fully guaranteed	2,773,760	2,756,571	368,887	–	104,936	73,215
- of which impaired	55,682	43,020	4,561	–	622	570
2.2. partially guaranteed	833,459	828,910	8,855	–	79,602	29,436
- of which impaired	11,930	8,235	–	–	66	605

Personal guarantees (2)					Personal guarantees (2)				
Derivatives on loans		Derivatives on loans			Endorsement loans				
	Other derivatives	Other derivatives							
CLN	Central counterparties	Banks	Other financial corporations	Other parties	General governments	Banks	Other financial corporations	Other parties	**Total (1)+(2)**
–	**–**	**–**	**–**	**–**	**1,997**	**139,714**	**–**	**–**	**146,722**
–	–	–	–	–	1,872	124,177	–	–	131,060
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	125	15,537	–	–	15,662
–	–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**3,081**	**7,342**	**–**	**–**	**17,650**
–	–	–	–	–	2,541	4,356	–	–	12,040
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	540	2,986	–	–	5,610
–	–	–	–	–	–	–	–	–	–

Personal guarantees (2)					Personal guarantees (2)				
Derivatives on loans		Derivatives on loans			Endorsement loans				
	Other derivatives	Other derivatives							
CLN	Central counterparties	Banks	Other financial corporations	Other parties	General governments	Banks	Other financial corporations	Other parties	**Total (1)+(2)**
–	**–**	**–**	**–**	**–**	**2,765,607**	**11,687**	**303,337**	**1,940,172**	**14,785,545**
–	–	–	–	–	883,928	7,662	241,701	1,703,933	12,415,691
–	–	–	–	–	21,153	39	12,050	34,233	456,771
–	–	–	–	–	1,881,679	4,025	61,636	236,239	2,369,854
–	–	–	–	–	20,651	–	3,387	8,764	38,323
–	**–**	**–**	**–**	**–**	**7,710**	**29,942**	**129,246**	**2,420,518**	**3,252,347**
–	–	–	–	–	2,553	24,586	104,591	1,999,529	2,678,297
–	–	–	–	–	48	1	4,457	32,698	42,957
–	–	–	–	–	5,157	5,356	24,655	420,989	574,050
–	–	–	–	–	320	–	–	6,817	7,808

A.4 Financial and non-financial assets obtained by enforcing guarantees received

	Credit exposure cancelled	Gross value	Total write-downs	Book value	of which obtained during the year
A. **Property, equipment and investment property**	**–**	**–**	**–**	**–**	**–**
A.1. For business purposes	–	–	–	–	–
A.2. For investment purposes	–	–	–	–	–
A.3. Inventories	–	–	–	–	–
B. **Equity securities and fixed-yield securities**	**–**	**–**	**–**	**–**	**–**
C. **Other assets**	**84,126**	**32,698**	**–**	**32,698**	**32,698**
D. **Non-current assets and groups of assets held for sale**	**–**	**–**	**–**	**–**	**–**
D.1. Property, equipment and investment property	–	–	–	–	–
D.2. Other assets	–	–	–	–	–
Total 31/12/2022	**84,126**	**32,698**	**–**	**32,698**	**32,698**
Total 31/12/2021	**72,625**	**32,694**	**–**	**32,694**	**32,694**

B. Distribution and concentration of exposures

Preparation of this section has excluded in the exposures reported in tables A.1.6. and A.1.7., exposures to counterparty risk relating to loans of securities or goods, granted or received.

B.1 Distribution by sector of the cash and off-balance sheet exposures to customers (book value)

	General governments		Financial companies	
Exposures/Counterparties	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. **On-balance sheet credit exposures**				
A.1 Non-performing	–	–	159	3,552
- of which: exposures subject to forbearance	–	–	–	–
A.2 Unlikely-to-pay loans	19	21	5,904	14,180
- of which: exposures subject to forbearance	–	–	3,415	10,941
A.3 Non-performing past due exposure	3	–	–	–
- of which: exposures subject to forbearance	–	–	–	–
A.4 Performing exposures	10,969,945	8,277	5,875,746	15,341
- of which: exposures subject to forbearance	–	1	365	12
Total (A)	**10,969,967**	**8,298**	**5,881,809**	**33,073**
B. **Off-balance sheet credit exposures**				
B.1 Non-performing exposures	1,417	21	21	402
B.2 Performing exposures	758,789	301	3,041,526	3,043
Total (B)	**760,206**	**322**	**3,041,547**	**3,445**
Total (A+B) 31/12/2022	**11,730,173**	**8,620**	**8,923,356**	**36,518**
Total (A+B) 31/12/2021	**11,625,534**	**3,569**	**7,791,633**	**41,440**

Financial companies (of which: insurance companies)		Non-financial corporations		Households	
Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
–	–	96,495	278,032	21,159	94,365
–	–	31,492	78,159	7,855	41,444
–	–	318,159	337,439	88,424	87,040
–	–	174,632	179,303	57,704	56,193
–	–	6,380	644	18,925	2,109
–	–	907	131	1,074	131
2,029	–	13,789,394	67,720	7,040,313	51,631
–	–	222,844	9,952	159,440	9,850
2,029	**–**	**14,210,428**	**683,835**	**7,168,821**	**235,145**
–	–	132,719	35,020	7,300	1,233
114,488	21	17,153,492	17,508	1,588,833	3,825
114,488	**21**	**17,286,211**	**52,528**	**1,596,133**	**5,058**
116,517	**21**	**31,496,639**	**736,363**	**8,764,954**	**240,203**
21,745	**2**	**29,445,267**	**847,359**	**8,285,783**	**255,774**

B.2 Territorial distribution of cash and off-balance sheet exposures to customers

	Italy		Other European countries	
Exposures/Geographical areas	Net exposures	Total value adjustments	Net exposures	Total value adjustments
A. **On-balance sheet credit exposures**				
A.1 Non-performing	117,539	373,742	121	2,092
A.2 Unlikely-to-pay loans	407,837	436,206	4,540	2,392
A.3 Non-performing past due exposure	24,814	2,698	459	51
A.4 Performing exposures	34,559,928	134,670	3,072,794	6,918
Total (A)	**35,110,118**	**947,316**	**3,077,914**	**11,453**
B. **Off-balance sheet credit exposures**				
B.1 Non-performing exposures	141,421	36,676	36	–
B.2 Performing exposures	21,750,341	23,797	735,198	818
Total (B)	**21,891,762**	**60,473**	**735,234**	**818**
Total (A+B) 31/12/2022	**57,001,880**	**1,007,789**	**3,813,148**	**12,271**
Total (A+B) 31/12/2021	**53,862,113**	**1,133,768**	**3,193,087**	**13,191**

As regards the geographical distribution of exposures to customers resident in Italy, note that assets included under «Loans and receivables with customers» are mainly concentrated in the traditional areas served by the Bank, namely the North West, 58% and Centre, 31%. This is followed by North East, 9%, and South and Islands, 2%.

B.3 Territorial distribution of cash and off-balance sheet exposures to banks

	Italy		Other European countries	
Exposures/Geographical areas	Net exposures	Total value adjustments	Net exposures	Total value adjustments
A. **On-balance sheet credit exposures**				
A.1 Non-performing	–	–	–	–
A.2 Unlikely-to-pay loans	–	–	–	–
A.3 Non-performing past due exposure	–	–	–	–
A.4 Performing exposures	7,629,655	695	2,163,179	834
Total (A)	**7,629,655**	**695**	**2,163,179**	**834**
B. **Off-balance sheet credit exposures**				
B.1 Non-performing exposures	–	–	–	–
B.2 Performing exposures	223,827	89	1,167,595	1,316
Total (B)	**223,827**	**89**	**1,167,595**	**1,316**
Total (A+B) 31/12/2022	**7,853,482**	**784**	**3,330,774**	**2,150**
Total (A+B) 31/12/2021	**8,157,572**	**5,732**	**2,771,443**	**545**

America		Asia		Rest of the world	
Net exposures	Exposures/ Geographical areas	Net exposures	Total value adjustments	Net exposures	Total value adjustments
–	9	153	106	–	–
34	29	95	53	–	–
35	4	–	–	–	–
23,429	301	18,353	1,072	894	8
23,498	**343**	**18,601**	**1,231**	**894**	**8**
–	–	–	–	–	–
40,465	57	587	1	16,049	4
40,465	**57**	**587**	**1**	**16,049**	**4**
63,963	**400**	**19,188**	**1,232**	**16,943**	**12**
52,970	**75**	**19,951**	**1,106**	**20,096**	**2**

America		Asia		Rest of the world	
Net exposures	Exposures/ Geographical areas	Net exposures	Total value adjustments	Net exposures	Total value adjustments
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
17,214	147	127,327	69	28,078	34
17,214	**147**	**127,327**	**69**	**28,078**	**34**
–	–	–	–	–	–
28,075	2	183,789	13	14,635	–
28,075	**2**	**183,789**	**13**	**14,635**	**–**
45,289	**149**	**311,116**	**82**	**42,713**	**34**
23,214	**9**	**73,611**	**43**	**38,795**	**3**

B.4 Large exposures

	31/12/2022	31/12/2021
Number of positions	30	24
Exposure	33,597,333	29,225,223
Risk position	9,314,698	7,750,345

The exposure limit of 10% of Tier 1 capital – the threshold for inclusion of a counterparty in the category of «Large exposure» – has to be measured in terms of the «nominal amount» of the exposure, i.e. the sum of cash risk assets and off-balance sheet transactions with a customer or a group of related customers. On the other hand, the «risk position», on which the maximum limits are defined for the assumption of each individual significant risk, is given by the same aggregate weighted according to a system that takes account of the nature of the debtor and any guarantees that have been obtained.

It should be noted that the positions shown above include the Italian Republic (nominal exposure, 12,676 million; risk position, 1.3 million), purely on the basis of sovereign securities held in proprietary portfolios, and the Bank of Italy (nominal exposure, 6,135 million; risk position, 19.4 million), mainly for term deposits and the compulsory reserve.

The number of large risks and the related exposures differ from those reported for supervisory purposes, since art. 4 of Regulation 575/2013 CRR allows the existence of a group of related customers to be considered separately for each company or entity that is controlled directly.

C. Securitisations transactions

Traditional securitisations

QUALITATIVE INFORMATION

During the 2022 financial year, the Bank continued to finalise securitisation transactions through the bulk sale of non-performing loans in line with the corporate objectives of derisking and improving asset quality. As explained in the report on operations, in the last quarter of 2022, the Group completed a securitisation transaction through the sale of bad loans called Luzzatti III.

Note that the book value of the securitisations originated by third party companies, shown in the following table C.2, at 31 December 2022 amounts to 476 million euro.

New transactions during the year

Luzzatti III securitisation

In December 2022, the Bank carried out the third securitisation through a multi-originator sale, relating to exposures classified as bad loans originating from 15 banks, for a total value of 545.2 million in terms of gross book value, of which 242.5 million attributable to Banca Popolare di Sondrio (made up 57% of secured loans).

The payment of the purchase price by the Vehicle Company, specifically established pursuant to Law 130 of 30 April 1999, called «Luzzatti POP NPLs 2022 Srl» (SPV) was financed by issuing asset-backed securities for a total nominal value of 138.5 million, split as follows:

1. a Senior tranche (Class A) for 118 million, with investment grade rating (Baa1 assigned by Moody's and BBB+ assigned by Arc Ratings). The tranche in question, retained by Banca Popolare di Sondrio S.p.A., presents structural characteristics of eligibility for the GACS and, should this state guarantee be reintroduced, the participating banks will assess whether to avail themselves of it. These securities carry a fixed yield of 4%;
   - a Mezzanine tranche (Class B) for 17.5 million, unrated, with a yield equal to the sum of an annual spread of 10% and the 6-month Euribor;
   - a Junior tranche (Class J) for 3 million, unrated, with a yield equal to the 6-month Euribor

plus an annual spread of 15% and any variable yield based on the performance of the securitisation.

On 29 December 2022, the issue date of the securities, the originating banks subscribed 100% of the Senior notes and in application of the retention rule provided for by Article 405 of the CRR, each of the originating banks maintained a stake of not less than 5% of the Mezzanine and Junior tranches. The rest of the Mezzanine and Junior securities were subscribed by third-party investors.

Consistently with the provisions of IFRS 9, due to the regulation of the sale of 95% of the said notes (Mezzanine and Junior), in compliance with the retention rule, pursuant to the provisions of Article 6, paragraph 4, of the Securitisation Regulation, the conditions for derecognition of the bad loans sold were met, as the related rights and benefits were substantially transferred.

The following table shows the securitisation positions held by Banca Popolare di Sondrio at the reporting date.

Seniority	Expiry	Nominal Amount	Moody's	Arc Ratings
Senior	January 2042	56,005,000	Baa1	BBB+
Mezzanine	January 2042	414,406	N/A	N/A
Junior	January 2042	71,042	N/A	N/A
Total		**56,490,448**		

All of the senior securities are classified as «Financial assets measured at amortised cost» for an amount net of expected losses on the basis of the IFRS 9 impairment model of 56.005 million euro; conversely, the portions owned of the mezzanine (fair value 109,783 euro) and junior (fair value 249 euro) securities have been classified as «Financial assets mandatorily measured at fair value through profit or loss».

The loss on disposal, equal to 4.2 million euro, is included in «Gains (losses) from the sale or repurchase of financial assets measured at amortised cost».

The credit management and recovery activity was entrusted by the Vehicle Company to Prelios Credit Solutions S.p.A. and Fire S.p.A., servicers appointed in accordance with article 2, paragraphs 3 and 6-bis of Law 130/1999.

For the sake of completeness of information, it should be noted that as part of the transaction, the selling banks granted the vehicle Luzzatti POP NPLs 2022 S.r.l. a «Limited Recourse Loan» of 4.730 million euro, intended, on the date of issue of the securities, as a cash reserve available to the SPV to cover any misalignments between the recovery plan of the Portfolio Sold and the payments to be made to the security holders. The «Limited Recourse Loan» made by Banca Popolare di Sondrio is equal to 2.520 million and is recorded under «Financial assets measured at amortised cost»; it will be repaid based on the available liquidity of the SPV in the order of priority of payments and, in any case, prior to the repayment of the principal of the senior securities, so it does not represent any form of credit support for the securitisation.

The main elements of the transaction described above are summarised below with reference to Banca Popolare di Sondrio:

Portfolio sale date	15/12/2022
Vehicle Company	Luzzatti POP NPLs 2022 S.r.l.
Servicers	Prelios Credit Solutions S.p.A. and Fire S.p.A
Securities issue date	29/12/2022
Type of transaction	Traditional multi-originator sale
Assets sold	NPLs made up of secured and unsecured credit exposures
Sector of the economy	Non-performing loans to individual, corporate and retail customers
Geographical breakdown	The loans subject to securitisation refer to parties resident in Italy.
Subordinated loan (Cash reserve)	2.520 million

Quality of the assets transferred	Bad loans
Amount of securitised assets	The total of the loans receivable from the portfolio sold amounts to 242.5 million euro.
Sale price of the securitised assets	The sale price is 58.2 million euro
Organisational structure	Prelios Credit Solutions S.p.A. prepares a quarterly report containing all the information relating to the receivables of each debtor position.
Internal risk measurement and control systems	The settlement or judicial recovery of bad loans assigned is entrusted solely to the Servicers appointed by the SPV. Banca Popolare di Sondrio has not maintained any role or involvement in the management of credit recovery.

Securitisation transactions already in place

Securitisation transactions completed in the two-year period 2020-2021 included:

- subscription of the Senior securities issued by the vehicle company and sale of the Mezzanine and Junior tranches to third parties, in compliance with the requirements of prudential regulations. As a result of this holding, the receivables sold have been derecognised, as the Group has substantially transferred the rights and benefits of the financial assets sold;
- obtaining the State guarantee on the Senior securities (so-called Guarantee for Securitisation of Bad Loans - GACS pursuant to Decree 18 of 14 February 2016 converted into Law No. 49 of 8 April 2016 and subsequent MEF decree of 3 August 2016).

The following is a summary of transactions completed in previous years.

Diana securitisation

Portfolio sale date	01/06/2020
Vehicle Company	Diana S.P.V. S.r.l.
Servicers	Prelios Credit Servicing S.p.A.
Securities issue date	17/06/2020
Type of transaction	Traditional with GACS guarantee from the Economic and Finance Ministry.
Assets sold	NPLs made up of secured and unsecured credit exposures
Sector of the economy	Non-performing loans to individual, corporate and retail customers
Geographical breakdown	The loans subject to securitisation refer to parties resident in Italy.
Subordinated loan (Cash reserve)	10.925 million original, 6.399 million residual as at 31.12.2022
Guarantees and credit lines issued by third parties	IRC contract for hedging cash flows of notes issued
Quality of the assets transferred	Bad loans
Amount of securitised assets	The total of the loans receivable from the portfolio sold amounts to 872 million euro.
Sale price of the securitised assets	The sale price is 274 million euro
Organisational structure	Prelios Credit Servicing S.p.A. prepares a quarterly report containing all the information relating to the receivables of each debtor position.
Internal risk measurement and control systems	The settlement or judicial recovery of bad loans assigned is entrusted solely to the Servicers appointed by the SPV. Banca Popolare di Sondrio has not maintained any role or involvement in the management of credit recovery.

The vehicle company has issued the following securities:

Seniority	Expiry	Issue amount	Rating DBRS Morningstar	Rating Moody's	Rating Scope Ratings
Senior	December 2038	235,000,000	BBB	Baa2	BBB
Mezzanine	December 2038	35,000,000	N/A	N/A	N/A
Junior	December 2038	3,651,000	N/A	N/A	N/A
Total		**273,651,000**			

All senior securities are classified in the portfolio of «Financial assets measured at amortised cost», based on the reimbursements received from the execution date of the transaction to the closing date of this financial year and the expected losses recognised on the basis of the IFRS 9 impairment model, the net book amount at the end of the year, amounts to 103.600 million. The units of mezzanine (fair value 667,940 euro) and junior (fair value 528 euro) securities owned by the Company have instead been recorded as «Financial assets mandatorily measured at fair value through profit or loss».

Luzzatti securitisation

In December 2020, Banca Popolare di Sondrio carried out the second securitisation through a multi-originator sale, relating to exposures classified as bad loans originating from 15 banks, for a total value of 919.9 million in terms of gross book value, of which 371.8 million attributable to Banca Popolare di Sondrio.

The main elements of the transaction described above are summarised below with reference to Banca Popolare di Sondrio:

Portfolio sale date	03/12/2020
Vehicle Company	POP NPLs 2020 S.r.l.
Servicers	Credito Fondiario S.p.A. and Fire S.p.A.
Securities issue date	23/12/2020
Type of transaction	Traditional multi-originator sale with GACS guarantee from the Economic and Finance Ministry.
Assets sold	NPLs made up of secured and unsecured credit exposures
Sector of the economy	The portfolio being sold is made up principally of corporate debtors.
Geographical breakdown	The loans subject to securitisation refer to parties resident in Italy.
Subordinated loan (Cash reserve)	4.505 million original, 3.181 million residual as at 31.12.2022
Guarantees and credit lines issued by third parties	IRC contract for hedging cash flows of notes issued
Quality of the assets transferred	Bad loans
Amount of securitised assets	The total of the loans receivable from the portfolio sold amounts to 345 million euro.
Sale price of the securitised assets	The sale price is 112 million euro
Organisational structure	Credito Fondiario S.p.a. prepares a quarterly report containing all the information relating to the receivables of each debtor position.
Internal risk measurement and control systems	The settlement or judicial recovery of bad loans assigned is entrusted solely to the Servicers appointed by the SPV. Banca Popolare di Sondrio has not maintained any role or involvement in the management of credit recovery.

The following table shows the securitisation positions held by Banca Popolare di Sondrio:

Seniority	Expiry	Nominal Amount	Rating DBRS Morningstar	Rating Scope Ratings
Senior	November 2045	109,783,000	BBB	BBB
Mezzanine	November 2045	568,250	CCC	CC
Junior	November 2045	227,400	N/A	N/A
Total		**110,578,650**		

All senior securities are classified in the portfolio of «Financial assets measured at amortised cost», based on the reimbursements received from the execution date of the transaction to the closing date of this financial year and the expected losses recognised on the basis of the IFRS 9 impairment model, the net book amount at the end of the year, amounts to 70.997 million. The units of mezzanine (fair value 102,818 euro) and junior (fair value 227 euro) securities owned by the Company have been recorded as «Financial assets mandatorily measured at fair value through profit or loss».

Luzzatti II securitisation

In December 2021, the Bank carried out the third securitisation through a multi-originator sale, relating to exposures classified as bad loans originating from 11 banks, for a total value of 789.2 million in terms of gross book value, of which 420.9 million attributable to Banca Popolare di Sondrio (made up 57% of secured loans).

The main elements of the transaction described above are summarised below with reference to Banca Popolare di Sondrio:

Portfolio sale date	13/12/2021
Vehicle Company	POP NPLs 2021 S.r.l.
Servicers	Zenith Service S.p.A. and doValue S.p.A.
Securities issue date	23/12/2021
Type of transaction	Traditional multi-originator sale with GACS guarantee from the Economic and Finance Ministry.
Assets sold	NPLs made up of secured and unsecured credit exposures
Sector of the economy	Non-performing loans to individual, corporate and retail customers
Geographical breakdown	The loans subject to securitisation refer to parties resident in Italy.
Subordinated loan (Cash reserve)	4.113 million original, 3.442 million residual as at 31.12.2022
Guarantees and credit lines issued by third parties	IRC contract for hedging cash flows of notes issued
Quality of the assets transferred	Bad loans
Amount of securitised assets	The total of the loans receivable from the portfolio sold amounts to 374 million euro.
Sale price of the securitised assets	The sale price is 99.250 million euro
Organisational structure	Zenith Service S.p.A. prepares a quarterly report containing all the information relating to the receivables of each debtor position.
Internal risk measurement and control systems	The settlement or judicial recovery of bad loans assigned is entrusted solely to the Servicers appointed by the SPV. Banca Popolare di Sondrio has not maintained any role or involvement in the management of credit recovery.

The following table shows the securitisation positions held by Banca Popolare di Sondrio at the reporting date.

Seniority	Expiry	Nominal Amount	Rating DBRS Morningstar	Arc Ratings
Senior	Ottobre 2045	97,715,000	BBB	BBB
Mezzanine	Ottobre 2045	665,614	N/D	N/D
Junior	Ottobre 2045	266,246	N/D	N/D
Total		**98,646,860**		

All senior securities are classified in the portfolio of «Financial assets measured at amortised cost», based on the reimbursements received in 2022, and the expected losses recognised on the basis of the IFRS 9 impairment model, the net book amount at the end of the year, amounts to 81.211 million. The units of mezzanine (fair value 93.142 euro) and junior (fair value 266 euro) securities owned by the Company have been recorded as «Financial assets mandatorily measured at fair value through profit or loss».

Synthetic securitisations

On 14 June, the Bank signed a synthetic securitisation transaction with the EIB Group for a countervalue of 958 million euro against a portfolio of loans granted to corporate counterparties. A net economic interest (retention) of at least 5% was maintained on the financing of the portfolio subject to the transaction.

Synthetic securitisations provide for the purchase of credit risk protection underlying a portfolio of loans, of which the Originator retains full ownership, by entering into collateral agreements. Such transactions are therefore designed to transfer credit risk from the Originator to an external Counterparty, without derecognition of the assets, which are therefore retained on the Bank's financial statements.

By means of synthetic securitisation, the Bank acquires, in synthetic and thus aggregate form, a hedge against «first losses» that may occur in an identified portfolio of loans. The financial structure mitigates the credit risks present in the loans subject to the transaction and consequently frees up financial resources, which can also be allocated to the development of new loans.

The structure of the transaction envisages the portfolio being virtually divided into 2 tranches according to the degree of risk: Senior and Junior. The initial portfolio subjected to the transaction was broken down as follows:

1. Senior: 910.43 million;
2. Junior: 47.92 million.

In particular, the Senior tranche does not benefit from any guarantee, while the Junior tranche is covered by a guarantee from the European Investment Fund (EIF) and counter-guaranteed by the European Investment Bank (EIB), using funds from the European Guarantee Fund (EGF), the EU recovery aid instrument launched in 2020 in response to the Covid-19 crisis.

Synthetic securitisations provide for the purchase of credit risk protection underlying a portfolio of loans, of which the Originator retains full ownership, by entering into collateral agreements. Such transactions are therefore designed to transfer credit risk from the Originator to an external Counterparty, without derecognition of the assets, which are therefore retained on the Bank's financial statements.

As at 31 December 2022, the Bank's net exposure to the securitisation was 827.4 million euro, of which 41.4 million euro was represented by the Junior component.

QUANTITATIVE INFORMATION

C.1 Analysis of exposures arising from major own securitisations by type of securitised asset and by type of exposure

	On-balance sheet exposures					
	Senior		Mezzanine		Junior	
Type of underlying assets/Exposures	Book value	Adjustment/ write-backs	Book value	Adjustment/ write-backs	Book value	Adjustment/ write-backs
A. **Fully derecognised from the financial statements**	**–**	**–**	**–**	**–**	**–**	**–**
Non-performing loans	311,815	67	974	–	1	–
B. **Partially derecognised from the financial statements**	**–**	**–**	**–**	**–**	**–**	**–**
C. **Not derecognised from the financial statements**	**785,987**	**(1,237)**	**–**	**–**	**41,368**	**(693)**
C.1 Corporate loans (*)	785,987	(1,237)	–	–	41,368	(693)

* The sub-item «Loans to companies» relates to the synthetic securitisation transaction.

The table shows the on-balance sheet exposures assumed by Banca Popolare di Sondrio in relation to its Diana, Luzzatti, Luzzatti II and Luzzatti III securitisations. The parts of the table relating to guarantees issued and credit lines are not shown as these situations do not apply in this case.

C.2 Exposures deriving from the main «third-party» securitisations broken down by type of securitised assets and by type of exposure

	On-balance sheet exposures					
	Senior		Mezzanine		Junior	
Type of underlying assets/Exposures	Book value	Value adjustments/ write-backs	Book value	Adjustment/ write-backs	Book value	Adjustment/ write-backs
Bnt Portfolio Spv Srl 15.05.2014/08.02.2042						
Mortgage loans	24,283	–	–	–	–	–
Alba 6 Spv 27.06.2014/25.10.2045						
Lease contracts	451,757	49	–	–	–	–

The note linked with the securitisation by Bnt Portfolio Spv Srl is classified among the financial assets mandatorily measured at fair value through profit or loss. That fair value is indicated in the «Book value» column. The parts of the table relating to guarantees issued and credit lines are not shown as these situations do not apply in this case.

C.3 SPV for securitisation

			Assets			Liabilities		
Company Name	Registered office	Consolidation	Loans	Fixed-yield securities	Others	Senior	Mezzanine	Junior
Alba 6 Spv Srl	Conegliano (TV)	NO	689,995	–	37,648	451,862	–	143,017
Bnt Portfolio Spv Srl	Conegliano (TV)	NO	131,859	–	14,342	141,016	–	–
Diana SPV	Conegliano (TV)	NO	122,761	–	14,491	103,636	35,009	3,654
Pop Npls 2020 Srl	Rome (RM)	NO	166,630	–	38,561	176,920	25,000	10,000
Pop Npls 2021 Srl	Milan (MI)	NO	157,711	–	19,336	158,789	25,517	10,258
Pop Npls 2022 Srl	Conegliano (TV)	NO	140,378	–	29,382	118,250	17,500	3,000

C.4 Non-consolidated special purpose vehicle for securitisation

Pursuant to Circular 262 of the Bank of Italy, the information referred to in this section does not have to be provided by banks that prepare consolidated financial statements.

C.5 Servicer activities – own securitisations: collection of securitised loans and redemption of securities issued by the SPV for securitisation

At 31 December 2022, the Bank does not perform any servicer activity for its own securitisations in which the assets sold have been derecognised in accordance with IFRS 9.

D. Disclosure of structured entities not consolidated for accounting purposes (other than SPV for securitisation)

Pursuant to circular 262 of the Bank of Italy, the qualitative and quantitative information referred to in this section does not have to be provided by banks prepare the consolidated financial statements.

Please refer to the corresponding part of the consolidated explanatory notes.

E. Disposals

A. Financial assets sold and not fully derecognised

QUANTITATIVE INFORMATION

Pursuant to IFRS 7, paragraph 42D, letters a), b) and c), the following table shows the book value of repurchase agreements on securities owned (mainly classified in the portfolio of «Financial assets measured at amortised cost») which did not lead to derecognition of the underlying financial assets from the financial statements.

The non-derecognition of the securities, with reference to repurchase agreements, is linked to the Bank retaining all the risks and benefits associated with the security, since there is an obligation to repurchase it forward at a contractually established price. Depending on the type of counterparty, the consideration for the sale is recognised under payables to banks or to customers, while the securities involved in the transaction remain recorded in their portfolios.

E.1 Financial assets sold recognised for their full amount and associated financial liabilities: book value

	Financial assets sold and recognised in full				Associated financial liabilities		
	Book value	of which: subject to securitisation transactions	of which: subject to sales contracts with repurchase agreement	of which impaired	Book value	of which: subject to securitisation transactions	of which: subject to sales contracts with repurchase agreement
A. **Financial assets held for trading**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Fixed-yield securities	-	-	-	-	-	-	-
2. Equity securities	-	-	-	-	-	-	-
3. Loans	-	-	-	-	-	-	-
4. Derivatives	-	-	-	-	-	-	-
B. **Other financial assets mandatorily measured at fair value**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Fixed-yield securities	-	-	-	-	-	-	-
2. Equity securities	-	-	-	-	-	-	-
3. Loans	-	-	-	-	-	-	-
C. **Financial assets designated at fair value**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Fixed-yield securities	-	-	-	-	-	-	-
2. Finanziamenti	-	-	-	-	-	-	-
D. **Financial assets measured at fair value through other comprehensive income**	**139,142**	**-**	**139,142**	**-**	**139,314**	**-**	**139,314**
1. Fixed-yield securities	139,142	-	139,142	-	139,314	-	139,314
2. Equity securities	-	-	-	-	-	-	-
3. Loans	-	-	-	-	-	-	-
E. **Financial assets measured at amortised cost**	**2,127,679**	**-**	**2,127,679**	**-**	**1,907,270**	**-**	**1,907,270**
1. Fixed-yield securities	2,127,679	-	2,127,679	-	1,907,270	-	1,907,270
2. Loans	-	-	-	-	-	-	-
Total 31/12/2022	**2,266,821**	**-**	**2,266,821**	**-**	**2,046,584**	**-**	**2,046,584**
Total 31/12/2021	**-**	**-**	**-**	**-**	**-**	**-**	**-**

E.2 Financial assets sold recognised partially and associated financial liabilities: book values

In both the current and the previous year, the Bank has no financial assets sold but still partially recognised and associated financial liabilities.

E.3 Sale transactions with liabilities having recourse only to the assets sold and not derecognised in full: fair value

	Recognised in full	Recognised in part	**Total 31/12/2022**	**Total 31/12/2021**
A. **Financial assets held for trading**	**-**	**-**	**-**	**-**
1. Fixed-yield securities	-	-	-	-
2. Equity securities	-	-	-	-
3. Loans	-	-	-	-
4. Derivatives	-	-	-	-
B. **Other financial assets mandatorily measured at fair value**	**-**	**-**	**-**	**-**
1. Fixed-yield securities	-	-	-	-
2. Equity securities	-	-	-	-
3. Loans	-	-	-	-
C. **Financial assets designated at fair value**	**-**	**-**	**-**	**-**
1. Fixed-yield securities	-	-	-	-
2. Loans	-	-	-	-
D. **Financial assets measured at fair value through other comprehensive income**	**139,142**	**-**	**139,142**	**-**
1. Fixed-yield securities	139,142	-	139,142	-
2. Equity securities	-	-	-	-
3. Loans	-	-	-	-
E. **Financial assets measured at amortised cost (fair value)**	**2,047,815**	**-**	**2,047,815**	**-**
1. Fixed-yield securities	2,047,815	-	2,047,815	-
2. Loans	-	-	-	-
Total financial assets	**2,186,957**	**-**	**2,186,957**	**-**
Total associated financial liabilities	**2,046,584**	**-**	**2,046,584**	**-**
Net carrying amount 31/12/2022	**140,373**	**-**	**140,373**	**-**
Net carrying amount 31/12/2021	**-**	**-**	**-**	**-**

B. Financial assets sold and fully derecognised with recognition of continued involvement

At 31 December 2022, there are no financial assets sold and fully derecognised with recognition of continued involvement.

C. Financial assets sold and fully derecognised

Pursuant to the provisions of the Communication of the Bank of Italy of 23 December 2019, the following section provides the qualitative and quantitative information regarding the only sale of non-performing loans, classified as «Unlikely to pay», carried out as of 2020 of multi-originator type in favour of a mutual investment fund with simultaneous subscription of units issued by the fund.

During 2022, two sale transactions took place:

1. Illimity Real Estate Credit Fund (hereinafter the «Fund» or «iREC Fund»)
2. Keystone

Operation iREC Fund

On 3 August 2022, the first transaction was completed involving the sale of loans, qualified with the status of «unlikely to pay» by Banca Popolare di Sondrio. This deal was carried out through the contribution of non-performing loans at the price of 15.520 million, offsetting the sale price with the subscription price, for the same amount, of 15,520,000 class A units, of the «illimity Real Estate Credit Fund».

Taking into account the carrying amount of the loans at 1 January 2022, the sale transaction resulted in the recognition of a positive economic effect of 2.4 million.

The «illimity Real Estate Credit Fund» is an Italian closed-end alternative investment fund (AIF) falling within the category of AIF (Alternative Investment Funds), reserved and single-sub-fund, set up and managed by illimity SGR S.p.A.

The Fund's management policies will focus on maximising the recovery rate of loans, the value of real estate, the value of the assets held by the special purpose vehicles and, in general, the value of the assets falling within the perimeter of the fund, also through dynamic and proactive dialogue with the debtors on the evolution of the business, as well as the definition of a debtor governance consistent with the relevance of the investment and the Fund's role.

The structure and functioning of the transaction are governed, also in terms of governance, by the Fund Regulations.

The body responsible for managing the Fund is the Board of Directors which makes use of an Advisory Board that can express a binding opinion to the Board of Directors only in the event of any investment or divestment or contract or other act in conflict of interest, actual or potential, between related parties and with other funds managed by the AMC. There is also a third decision-making body, namely the Fund Meeting, in which all unit-holders of the Fund's Sub-Funds participate.

From an accounting point of view, in line with the provisions of IFRS 9, the aforementioned sale operation involved derecognition of the loans sold, as a counter-entry to the recognition of the shares attributed to the iREC fund, as Banca Popolare di Sondrio substantially transferred all the risks and benefits deriving from the possession of the assets being sold and, moreover, did not retain any power of management over the fund, which was taken on by the fund management company.

For further details on the determination of the fair value of the units, please refer to part A.4 of these notes.

The fund units have been booked to the portfolio of «Financial assets mandatorily measured at fair value through profit or loss», with a fair value of 14 million euro at 31 December 2022.

Operation Keystone

On 28 December 2022, the second transaction was completed involving the sale of loans, qualified with the status of «unlikely to pay» by Banca Popolare di Sondrio. This deal was carried out through the contribution of non-performing loans at the price of 19.522 million, offsetting the sale price with the subscription price, for the same amount, of 18,971,969 class A units, of the «Keystone Fund».

Taking into account the carrying amount of the loans at 30 June 2022, the sale transaction resulted in the recognition of a positive economic effect of 0.9 million.

The «Keystone» Fund is a closed-end mutual fund under Italian law, falling within the category of AIFs (Alternative Investment Funds), reserved for professional investors established and managed by Kryalos SGR S.p.A.

The Fund's management policies will focus on maximising the recovery rate of loans, the value of real estate, the value of the assets held by the special purpose vehicles and, in general, the value of the assets falling within the perimeter of the fund, also through dynamic and proactive dialogue with the debtors on the evolution of the business, as well as the definition of a debtor governance consistent with the relevance of the investment and the Fund's role.

The structure and functioning of the transaction are governed, also in terms of governance, by the Fund Regulations.

The body responsible for managing the Fund and for carrying out investment activities is the Board of Directors, which makes use of an Advisory Committee that can express a binding opinion to the Board of Directors only in the event of approval of any investment or divestment or contract or other act in conflict of interest, actual or potential, between related parties and with other funds managed by the AMC. There is also a third decision-making body, namely the Fund Meeting, in which all unit-holders of the Fund's Sub-Funds participate.

From an accounting point of view, in line with the provisions of IFRS 9, the aforementioned sale operation involved derecognition of the loans sold, as a counter-entry to the recognition of the shares attributed to the Keystone fund, as Banca Popolare di Sondrio substantially transferred all the risks and benefits deriving from the possession of the assets being sold and, moreover, did not retain any power of management over the fund, which was taken on by the fund management company.

For further details on the determination of the fair value of the units, please refer to part A.4 of these notes. The fund units have been booked to the portfolio of «Financial assets mandatorily measured at fair value through profit or loss», with a fair value of 16 million euro at 31 December 2022.

Multi-originator assignment of receivables to mutual funds completed in the two-year period 2020-2021

Illimity Credit & Corporate Turnaround Fund

On 31 March 2021 and 21 October 2021, two Illimity transactions were finalised, involving the sale of loans, qualified with the status of «unlikely to pay» by Banca Popolare di Sondrio to the Italian alternative investment fund (AIF), a closed-end single-sub-fund investment fund reserved for qualified investors, established and managed by illimity SGR S.p.A. named «illimity Credit & Corporate Turnaround Fund».

The Fund's management policies are focused on maximising the recovery rate of the receivables acquired and the return on the financial instruments invested in, and on providing new finance as part of the restructuring plans of the companies in the portfolio, through instruments that allow a higher degree of priority in repayment than the financial debt already in place (Debtor-in-Possession Financing).

The shares of the fund, with reference to both sales, were recognised in the accounting portfolio of «Financial assets mandatorily measured at fair value through profit or loss», the fair value as at 31 December 2022 was equal to 15 million euro. Refer to the financial statements as of 31.12.2021 for further details.

IDEA CCR Corporate Credit Recovery II Fund - Credit Section

On 7 October 2020, the DeA Capital deal was completed with the transfer of loans with the status of «unlikely to pay» by Banca Popolare di Sondrio to the Italian alternative mutual investment fund (FIA) of the closed-end multi-sector type reserved for qualified investors, called «IDEA CCR (Corporate Credit Recovery) II» (hereinafter IDEA CCR II), managed by DeA Capital Alternative Funds SGR, which aims to contribute to the relaunch of Italian companies under financial stress, but with solid industrial foundations.

The fund units have been booked to the portfolio of «Financial assets mandatorily measured at fair value through profit or loss», with a fair value of 7 million euro at 31 December 2022. Refer to the financial statements as of 31.12.2021 for further details.

D. Covered bond transactions

On 6 November 2013, the Board of Directors of the Parent Company authorised a covered bond programme for a maximum amount of 5 billion euro, based on the assignment to a vehicle company of residential mortgages and construction loans arranged by the Parent Company.

On 1 June 2014, pursuant and consequent to the combined provisions of arts. 4 and 7-bis of law 130 of 30 April 1999, a portfolio of performing loans totalling 802 million euro was sold without recourse to «POPSO Covered Bond s.r.l.», the vehicle company, in relation to the issue on 5 August 2014 of the first series of 5-year covered bonds for 500 million euro.

A second sale of performing loans totalling 202 million euro took place on 5 December 2015, under the same contract.

An additional 2 disposals were made during 2016. The first, on 1 February 2016, of a portfolio of a total of 576 million euro of performing loans in connection with the issuance of the second series of covered bonds totalling 500 million euro on 4 April 2016. The second, on 1 November 2016, of a portfolio of performing loans totalling 226 million euro.

During 2017, a fifth sale of performing loans for a total of 307 million euro took place on 1 October 2017 under the same contract.

Likewise, during 2018, a sixth sale of performing loans for a total of 323 million euro took place on 1 October 2018.

During 2019, a seventh sale of performing loans for a total of 352 million euro took place on 1 December 2019, under the same contract.

During 2022, an eighth sale of performing loans for a total of 167 million euro took place on 1 November 2022, under the same contract.

These securitisations involved the sale of residential mortgages to the SPV, which was simultaneously granted a subordinated loan in order to settle the sale price. Since the Bank retains all the risks and benefits relating to those loans, the operations are not treated as a non-recourse sale pursuant to IFRS 9. These loans were not therefore derecognised.

The principal strategic objectives for this issue including equipping the Parent Company with instruments that can be placed on the market, even via public transactions. In addition, the activation of instruments of this type can contribute to:

- extending the maturities of funding and therefore strengthening its correlation with the medium/long-term loans granted;
- diversifying the long-term sources of funding;
- obtaining favourable conditions, with respect to those available via the routine placement of unsecured bonds.

A complex and detailed process has been established for complying with the related regulatory requirements. The process involves, in particular, calculating and monitoring the tests required by law and contracts, checking compliance with the requirements governing the suitability of the assets assigned, preparing the reports required by the regulations and the rating agency, and performing all the related control activities. Among the various counterparties involved for various reasons, BDO Italia Spa, the independent auditing firm and «asset monitor», is responsible for verifying the tests.

The operations are proceeding smoothly and no issues have emerged with respect to the contractual requirements.

The regulations also require assessment of the objectives, legal, reputational and other risks, and controls put in place by the corporate bodies responsible for strategic supervision and control.

The following information is provided about the bond issued by Banca Popolare di Sondrio S.p.A. for which the vehicle company, Popso Covered Bond s.r.l., acts as Guarantor:

Series and Class	Serie 2
ISIN Code	IT0005175242
Issue date	04/04/2016
Maturity Date	04/04/2023
Extended maturity	04/04/2024
Currency	Euro
Amount	500,000,000
Type of rate	Fixed
Parameter	0.750%
Coupon	Annual
Applicable law	Italian

The first series of bonds, with ISIN Code IT0005039711, was repaid in full on 5 August 2019.

F. Models for the measurement of credit risk

The Bank does not use internal portfolio models for the assessment of credit risk (VaR methodology)

Section 2 *Market risks*

2.1 Interest rate risk and price risk - trading book for supervisory purposes

QUALITATIVE INFORMATION

A. General aspects

The securities classified among the «financial assets held for trading» are the principal source of interest rate risk and trading book price risk. The value of financial assets held for trading decreased, realigning with the trend observed in past years (with the exception of last year, when there was a slight increase). At the end of the year, financial assets held for trading, ignoring those pertaining to employee pension funds and real estate funds, consisted of 49.5% shares and the remainder of UCI units; no bond component.

The objectives and strategies for trading activities involving the securities portfolio are designed to maximise its profitability by taking investment opportunities, while working to contain the level of risk. This means that the duration of the bond portfolio, when present, is short. The equity securities largely comprise those issued by leading companies, with a large market. In order to benefit from a better diversification of the equity portfolio, historically very concentrated on the Italian market, exposure to other markets was increased through the purchase of ETFs.

The bank's role in trading activities essentially consists of arbitrage in securities to benefit from short-term trading opportunities, rather than of taking long-term risk positions.

This strategy is consistent with the general approach adopted by the Bank, based on the prudent management of all risks.

With specific reference to interest rate risk, we note the absence of fixed-yield securities classified among «financial assets held for trading».

With regard to the trading of derivative instruments (derivatives in the strict sense), the offices occasionally carry out activities in interest rate options and interest rate swaps (excluding interest rate swaps used to hedge the interest rate risk deriving from disbursement of fixed-rate mortgages «Macro Fair Value Hedging») in order to respond to customer hedging needs; these transactions are then matched with transactions of the opposite sign entered into with leading financial counterparties.

The main source of price risk consists of equity securities and units in mutual funds classified as «financial assets held for trading»; as regards derivatives, there have been transactions in equity options and index options mostly listed on the IDEM market.

A1. Impacts from the Covid-19 pandemic and the Russian-Ukrainian conflict

Over the course of 2022, a «coexistence» with Covid-19 gradually set in, with occasional tensions in the markets linked to the emergence of new variants or in the face of potential new containment actions, especially towards China. Russia's invasion of Ukraine on 24 February overwhelmed the financial markets with a wave of selling and a concomitant surge in volatility. The continuation of the tensions generated, the related sanctions, the ensuing energy crisis and its impact on inflation and monetary policies created a vulnerable context in both stock and bond markets.

Although in the context of high uncertainty, proprietary trading activity continued on a regular basis during 2022, in compliance with the guidelines resolved upon by the competent bodies, and with an extremely prudential outlook, maintaining partial hedges of the Italian equity segment through options on indices.

Derivatives business on behalf of customers, with the related balancing transactions, also continued regularly without being affected by the events under analysis.

B. Management processes and measurement methods of interest rate risk and price riskprezzo

The internal processes for the measurement, control and management of trading book interest rate risk use two separate monitoring systems that are based respectively on:

- an internal model for the daily calculation of the Value at Risk (VaR), which is also used for the analysis of exposure to price risk;
- analysis of sensitivity to interest rate based on the strategic Asset & Liability Management (ALM) methodologies detailed in section 2.2 below (interest rate risk and price risk of the banking book).

With reference to the model based on the calculation of VaR, the Bank adopts an overall system of limits for exposure to risks in the context of financial activities, in particular those of the market (interest rate in the risk-free and credit spread components, inflation, exchange rate, price, commodity and optionality). This system has the following characteristics: as part of its strategic supervision functions, the Board of Directors quantifies the Maximum Acceptable Loss for the period, consistent with the investment policies defined and with financial operations expected over the next year; with reference to the Maximum Acceptable Loss determined by the Board, the Risks Committee establishes appropriate potential exposure limits in terms of the Value at Risk (VaR); the Financial Risk Office, within the Risk Control Department, measures risk on a daily basis, produces the related reports and monitors compliance with credit limits; the «Treasury» office, within the Finance department, and the «Exchange centre», within the International department, accept risk by operating in the markets in compliance with the identified limits.

The characteristics of the internal management and control of price risk in relation to the trading book are the same – in terms of organisational structure and the limitation of risk acceptance – as those described in relation to interest rate risk.

In line with the Bank's risk map, the above limits do not apply to the securities servicing pensions and similar obligations of employees and real estate funds.

VaR is a probabilistic estimate of the maximum amount that can be lost with reference to a specific time horizon and a given probability level (consistent with the investor's level of risk aversion).

The model used is historical. On the basis of this methodology, the distribution of profits and losses of a portfolio is deduced from the actual historical observations of the returns of the elements that constitute it, obtained by carrying out the repricing of each position with application of the risk factors corresponding to each day falling within the time interval taken as a reference, using the full revaluation method. The VaR therefore corresponds to the worst value of the series of profits and losses thus obtained, chosen considering the desired confidence interval. At the reporting date, the following financial instruments of the regulatory trading book are included in the related risk measurements: for interest rate risk, fixed-yield securities (not present at the end of 2022) and forward contracts on exchange rates, in addition to other financial derivatives (in a strict sense) traded by the Exchange Centre (options on exchange rates, forward contracts on goods, options on interest rates, interest rate swaps); for price risk: equity securities and options on shares and indices. Apart from the instruments included in the following table 2, mutual funds are also covered by the VaR model. Forward contracts on commodities negotiated by the Exchange Centre fall within the category dedicated to commodity risk.

For instruments with optionality, a specific VaR («optionality VaR») is calculated in order to capture the impact on the series of profits and losses of fluctuations in the volatility of the underlying.

The parameters for the calculation of VaR are as follows: holding period of one day, observation period of one year (corresponding to approximately 252 business days) with a decay factor of 0.99 and a confidence interval of 99%.

With regard to the methodologies used to aggregate the various risk profiles, the aggregation is determined by calculating the VaR in a manner that takes account of the correlation between risk profiles, rather than by simple summation, such that the overall VaR is usually less than the sum of the partial VaRs.

The internal policies and procedures for after-the-event verification of the results of the model with the real ones (so-called «back testing») are expressed in a comparison between the daily VaR and:

- the change in market value of the following day referring to the same positions on which the VaR was calculated («theoretical P&L»);
- the change in the hypothetical present value of the instrument/portfolio, calculated using the respective pricing model applied by the risk exposure calculation tool, of the following day referring to the same positions on which the VaR was calculated («theoretical P&L according to the model»);
- the change in market value on the following day on the portfolio including the movements that have taken place («actual P&L»).

For back testing purposes, the VaR and P&L figures incorporate all of the risk factors impacting the positions under analysis.

With regard to risk exposure, measured in terms of VaR, the global VaR on interest rate risk at the end of the period amounted to 0.193 million (entirely related to the risk-free rate, as the credit spread is nil) compared to 0.051 million for the last year (0.038 million for the risk-free rate and 0.018 million for the credit spread), while the global price VaR at the end of the period was 2.952 million from 3.890 million at the end of 2021.

The internal model described is not used to determine the capital requirements for market risk reported for supervisory purposes. The Standardised Approach is used in this case.

With reference to the second method cited, based on sensitivity analyses, conducted through an ALM procedure, please refer to section 2.2 (Interest rate risk and price risk – banking book), which also explains stress testing. With regard to the results, please refer to the contents of the following paragraph (Quantitative information).

B1. Impacts from the Covid-19 pandemic and the Russian-Ukrainian conflict

The highly uncertain context that weighed on the markets was reflected in the VaR measures, which increased compared to last year, and on the portfolio income results. However, risk measures remained consistently within their respective propensity and there were no breaches in the year in the system of risk exposure limits insisting on the set of instruments held for trading purposes («trading book»).

During the financial year, as a result of the tensions generated by the outbreak of the conflict between Russia and Ukraine, the Bank monitored the situation constantly and intensively, flanking, among other things, its daily VaR analyses and periodic stress analyses with additional investigations focused on estimating the potential medium-term impacts of the conflict.

QUANTITATIVE INFORMATION

1. Regulatory trading book: distribution by residual maturity (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

Currency: EURO

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. **Cash assets**	**8,293**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1.1 Fixed-yield securities	–	–	–	–	–	–	–	–
- with early repayment option	–	–	–	–	–	–	–	–
- other	–	–	–	–	–	–	–	–
1.2 Other assets	8,293	–	–	–	–	–	–	–
2. **Cash liabilities**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. **Financial derivatives**	**–**	**2,860,448**	**1,112,282**	**480,656**	**1,584,199**	**537,288**	**17,942**	**–**
3.1 With underlying securities	–	58	–	–	–	–	–	–
- Options	–	58	–	–	–	–	–	–
+ Long positions	–	3	–	–	–	–	–	–
+ Short positions	–	55	–	–	–	–	–	–
- Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying securities	–	2,860,390	1,112,282	480,656	1,584,199	537,288	17,942	–
- Options	–	131,322	143,802	256,384	1,249,654	503,288	17,942	–
+ Long positions	–	65,661	71,901	128,192	624,827	251,644	8,971	–
+ Short positions	–	65,661	71,901	128,192	624,827	251,644	8,971	–
- Other derivatives	–	2,729,068	968,480	224,272	334,545	34,000	–	–
+ Long positions	–	1,368,999	477,012	112,202	174,537	17,000	–	–
+ Short positions	–	1,360,069	491,468	112,070	160,008	17,000	–	–

1. Regulatory trading book: distribution by residual maturity (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

Currency: OTHER CURRENCIES

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. **Cash assets**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1.1 Fixed-yield securities	–	–	–	–	–	–	–	–
- with early redemption option	–	–	–	–	–	–	–	–
- others	–	–	–	–	–	–	–	–
1.2 Other assets	–	–	–	–	–	–	–	–
2. **Cash liabilities**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. **Financial derivatives**	**–**	**1,951,424**	**271,700**	**156,183**	**51,592**	**–**	**–**	**–**
3.1 With underlying securities	–	–	–	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying securities	–	1,951,424	271,700	156,183	51,592	–	–	–
- Options	–	28,548	28,564	15,030	3,544	–	–	–
+ Long positions	–	14,274	14,282	7,515	1,772	–	–	–
+ Short positions	–	14,274	14,282	7,515	1,772	–	–	–
- Other derivatives	–	1,922,876	243,136	141,153	48,048	–	–	–
+ Long positions	–	957,071	121,570	70,578	24,027	–	–	–
+ Short positions	–	965,805	121,566	70,575	24,021	–	–	–

2. Supervisory trading book: distribution of exposures in equity securities and equity indices for the main countries of the listing market

Type of transactions/Listing index	Listed						Unlisted
	ITALY	FRANCE	SPAIN	NETHERLANDS	GERMANY	OTHER COUNTRIES	
A. **Equity securities**							
- Long positions	41,144	5,489	–	852	3,371	–	–
- Short positions	–	–	–	–	–	–	–
B. **Purchase/sale transactions not yet settled in equity securities**							
- Long positions	261	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–
C. **Other derivatives on equity securities**							
- Long positions	6	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–
D. **derivatives on stock indices**							
- Long positions	1,307	–	–	–	–	–	–
- Short positions	7,632	–	–	–	–	–	–

3. Trading book for supervisory purposes – internal models and methodologies for the analysis of sensitivity

Here we show the year-end figures for VaR split between rate risk and price risk, and between transactions explicitly foreseen in tables above and other transactions for which the calculation is carried out in any case.

Value at Risk (VaR), end of period

	(in thousands of euro)
1. **Cash assets**	**–**
1.1 Fixed-yield securities	–
1.2 Other assets	–
2. **Cash liabilities**	**–**
2.1 Repurchase agreements	–
2.2 Other liabilities	–
3. **Financial derivatives**	**193**
3.1 With underlying securities	–
- Options	–
+ Long positions	–
+ Short positions	–
- Other derivatives	–
+ Long positions	–
+ Short positions	–
3.2 Without underlying securities	193
- Options	–
+ Long positions	94
+ Short positions	94
- Other derivatives	193
+ Long positions	174
+ Short positions	272
Total interest rate risk	**193**
A. **Equity securities**	**1,899**
- Long positions	1,899
- Short positions	–
B. **Purchase/sale transactions not yet settled in equity securities**	**13**
- Long positions	13
- Short positions	–
C. **Other derivatives on equity securities**	**110**
- Long positions	113
- Short positions	4
D. **Derivatives on stock indices**	**50**
- Long positions	42
- Short positions	155
Total Price risk transactions tab.2	**1,656**
Mutual funds	**1,438**
Total Price risk	**2,958**
Global trading (net of exchange and commodities)	**3,118**

Interest-rate risk

Information on average, minimum and maximum VaR is provided below.

Interest rate Value at Risk (VaR)

	(in thousands of euro)
average	196
minimum	39
maximum	777

With regard to the distribution of VaR during the year, the average interest rate VaR for each month in 2022 is shown below.

January	61
February	632
March	183
April	201
May	265
June	186
July	100
August	93
September	158
October	176
November	168
December	152

With reference to fixed-yield securities included in the trading book, the number of days in which actual losses exceeded the VaR was 9 out of 191 total observations, the number of days in which theoretical losses exceeded the VaR was 9 out of 191 total observations, the number of days in which theoretical losses according to the model exceeded the VaR was 7 out of 191 total observations.

With regard to the fixed-yield securities held in the trading book for supervisory purposes (not present at the end of 2022), forward contracts on exchange rates, options on interest rates, interest rate swaps. the following information is taken from the ALM procedure, consistent with that provided in section 2.2 below in relation to the banking book. Please note that the outcomes below refer to the hypothetical rate movement scenarios in use for the monthly risk analyses, including:

- the six scenarios described in «Annex III - The standardised interest rate shock scenarios» of the «Guidelines on the management of interest rate risk arising from non-trading book activities» published on 19 July 2018 by the European Banking Authority;
- two hypothetical scenarios for the shift of rates, introduced on the survey at the end of 2021, aimed respectively at capturing future market expectations («ongoing») and specific particularly adverse situations that have occurred in the past («historical»).

Effects of a change in interest rates over a twelve-month period on the future interest margin.

The future interest margin is understood to be the difference between the future interest income and the future interest expense, based solely on transactions outstanding at the reference date, possibly renewed with the same volumes.

The figures given below do not include the effects generated by forward contracts on exchange rates.

In thousands of euro Exposure to risk	Change in net interest income from 01/01/2022 to 31/12/2022 at the end of the period	average	minimum	maximum	**31/12/2021**
Parallel up	543	451	47	769	36
Parallel down	-440	-295	-581	-16	-8
shock up parallel shift	543	451	47	769	36
shock down parallel shift	-440	-295	-581	-16	-8
steepener shock shift	-224	-162	-331	-7	-8
flattener shock shift	359	277	12	488	12
short shock up shift	502	404	29	694	24
short shock down shift	-394	-278	-560	-16	-8
ongoing shift	27	80	4	152	4
Historical	501	-20	-116	501	-4
Worst case scenario	-440	-295	-581	-16	-8

Effects of a change in interest rates on the future profit over a twelve-month period.

Future profit is understood to mean the difference between future revenues and future costs calculated solely on existing transactions at the reference date and possibly renewed while maintaining constant volumes.

The figures given below do not include the effects generated by forward contracts on exchange rates.

In thousands of euro Exposure to risk	Change in profit from 01/01/2022 to 31/12/2022 at the end of the period	average	minimum	maximum	**31/12/2021**
Parallel up	543	-1,464	-7,185	703	-680
Parallel down	-440	1,504	-581	6,375	194
shock up parallel shift	543	-1,464	-7,185	703	-680
shock down parallel shift	-440	1,504	-581	6,375	194
steepener shock shift	-224	108	-331	1,426	194
flattener shock shift	359	-376	-2,150	488	-406
short shock up shift	502	-876	-3,876	672	-582
short shock down shift	-394	954	-560	3,751	194
ongoing shift	27	-369	-1,474	152	-136
Historical	501	642	-116	3,335	143
Worst case scenario	-440	-1,464	-7,185	152	-680

Effects of a change in interest rates on equity.

Equity is understood as being the difference between the present value of asset and liability items calculated solely on the transactions outstanding at the reference date in the hypothesis of inertial volumes.

In thousands of euro Exposure to risk	Change in equity value from 01/01/2022 to 31/12/2022 at the end of the period	average	minimum	maximum	**31/12/2021**
Parallel up	1,613	24	-6,940	1,959	-461
Parallel down	-1,531	168	-1,680	6,406	169
shock up parallel shift	1,614	25	-6,939	1,959	-459
shock down parallel shift	-1,532	167	-1,681	6,406	169
steepener shock shift	-47	262	-135	1,582	323
flattener shock shift	340	-255	-2,437	461	-491
short shock up shift	781	-323	-3,924	950	-635
short shock down shift	-726	391	-881	3,858	195
ongoing shift	-34	-212	-1,499	194	-164
Historical	1,882	249	-603	3,295	79
Worst case scenario	-1,532	-323	-6,940	194	-635

Price risk

Information on average, minimum and maximum VaR is provided below.

Price Value at Risk (VaR)

	(in thousands of euro)
average	3,561
minimum	979
maximum	4,959

As regards the distribution of VaR during the year, we indicate below the average value of the price VaR in each of the twelve months of 2022.

January	3,891
February	4,504
March	4,254
April	3,659
May	3,196
June	2,121
July	3,255
August	4,092
September	3,112
October	3,422
November	4,049
December	3,213

With reference to equity securities and mutual funds forming part of the trading book for management purposes, the number of days on which actual losses exceeded the VaR was 1 out of 256 observations, the number of days on which theoretical losses exceeded the VaR was 1 out of 256 observations, the number of days on which theoretical losses according to the model exceeded the VaR was 2 out of 256 observations.

2.2 Interest rate risk and price risk – Bank portfolio

QUALITATIVE INFORMATION

A. General aspects, management and measurement of interest rate risk and price risk

As already described in section 2.1 above, the internal processes for the measurement, control and management of the banking book interest rate risk also uses two distinct monitoring systems:

- an internal model for the daily calculation of the Value at Risk (VaR), which is also used for the analysis of exposure to price risk;
- an analysis of sensitivity to interest rate risk based on the strategic Asset & Liability Management (ALM) methodologies.

More specifically, the daily calculation of VaR is used to monitor the financial assets classified as «other financial assets mandatorily measured at fair value», and the «financial assets measured at fair value through other comprehensive income», excluding the investments made by the pension funds; the internal process for the control and management of interest rate and price risk, as well as the related methodology, are much the same as those detailed in the qualitative information provided regarding the «Interest rate risk and price risk – trading book for supervisory purposes». It is recalled that «financial assets measured at amortised cost» are monitored via a purely credit risk metric that is more representative of the typical risk profile of this type of investment.

With regard to monitoring based on sensitivity analysis using strategic ALM methodologies, a distinction is made between interest rate risk from fair value and interest rate risk from cash flow: the main sources of interest rate risk from fair value reside in funding (especially on demand but with appropriate modelling of maturities) and lending transactions (mainly mortgages and fixed-yield securities) at a fixed rate; on the other hand, the cash flow rate risk also originates from the remaining assets and liabilities at sight or at an indexed rate.

The internal management and control processes of interest rate risk adopt a system of indicators that hinges on a first group of summary metrics consisting of six risk indicators called «complementary» whose respective threshold systems are defined by the Board of management within the Risk Appetite Framework and on a second group of metrics consisting of three risk indicators called «operational» whose limits are established by the Risk Committee, in harmony with the risk appetite established by the board. The first pair of indicators in the first set of metrics monitors the exposure to interest-rate risk of the banking book by assigning a value limit to the percentage ratio of the minimum between the change in equity and zero, expressed in absolute terms, to total own funds. The numerator of the quotient is obtained for both indicators using the «Sensitivity Analysis in Full Evaluation» method under inertial conditions, simulating parallel shifts in the benchmark rate curves of +/- 200 basis points. The second pair of «complementary» indicators monitors the exposure to interest-rate risk of the banking book by assigning a value limit to the percentage ratio of the minimum between the change in interest margin over a one-year time horizon and zero, expressed in absolute terms, to the net interest income expected over the same time period. The numerator of the quotient is obtained using the «Interactive Simulation» method under static conditions with constant volumes, simulating parallel shifts in the benchmark curves of +/- 200 basis points. The denominator is also calculated using the «Interactive Simulation» method under static conditions with constant volumes in the current rates scenario. The third pair of «complementary» indicators monitors the exposure to interest-rate risk of the banking book calculating the percentage ratio of the minimum between the change in profit over a one-year time horizon and zero, expressed in absolute terms, to the profit expected over the same time period. The numerator of the ratio is obtained through the «Interactive Simulation» method in static conditions at constant volumes to simulate the variation in the interest margin deriving from a parallel movement of the reference curves alternatively equal to +/- 200 basis points, to which is added the variation in the value of instruments through profit or loss or the balance sheet – securities classified as «financial assets measured at fair value through other comprehensive income» (FVOCI) and «other financial assets mandatorily measured at fair value» (FVTPLM) – calculated using the «Sensitivity Analysis in Full Evaluation» assuming the previous movements of the reference curves. The denominator coincides with the expected profit declared in the most recent Strategic Plan approved by the Board of Directors referring to the banking book. The first indicator of the second set of metrics is calculated as the percentage ratio of the minimum between the change in equity and zero, expressed in absolute terms, to total Tier 1 capital. The numerator of the indicator is obtained using the «Sensitivity Analysis in Full Evaluation» method under inertial conditions, simulating the changes in the benchmark curves contained in «Annex III – The standardised interest rate shock scenarios» of the «Guidelines on the management of interest rate risk arising from non-trading book activities» published on 19 July 2018 by the European Banking Authority. The second «operational» indicator is calculated as the percentage ratio of the minimum between the change in interest margin over a one-year time horizon and zero, expressed in absolute terms, to the net interest income expected over the same time period. The numerator is obtained using the «Interactive Simulation» method under static conditions, simulating the changes in the benchmark curves contained in «Annex III – The standardised interest rate shock scenarios» of the «Guidelines on the management of interest rate risk arising from non-trading book activities» published on 19 July 2018 by the European Banking Authority; the denominator is also calculated using the «Interactive Simulation» method under static conditions with constant volumes in the current rates scenario. The third «operational» indicator is calculated as the percentage ratio of the minimum between the change in profit over a one-year time horizon and zero, expressed in absolute terms, and the profit expected over the same time period. The numerator of the ratio is obtained through the «Interactive Simulation» method in static conditions at constant volumes to simulate the variation in the interest margin deriving from the movements of the reference curves contained in «Annex III – The standardised interest rate shock scenarios» of the «Guidelines on the management of interest rate risk arising from non-trading book activities» published on 19 July 2018 by the European Banking Authority, to which is added the change in the value of instruments through profit or loss or the balance sheet – securities classified in «financial assets measured at fair value through other comprehensive income» (FVOCI) and «other financial assets mandatorily measured at fair value» (FVTPLM) - calculated using the «Sensitivity Analysis in Full Evaluation» assuming the previous movements of the reference curves. The denominator coincides with the expected profit declared in the most recent Strategic Plan approved by the Board of Directors referring to the banking book. These indicators are monitored monthly. The process of monitoring interest-rate risk in relation to the banking book is supported by the preparation of suitable internal information, covering both the situation at specific dates and trends. This information is provided to the competent bodies and functions, either on request or with a fixed frequency, together with the risk analyses and measurements carried out.

With regard to the principal assumptions and underlying parameters, the model used supports the «Sensitivity Analysis in Full Evaluation» method for analysing the sensitivity of equity and the «Interactive Simulation» method for analysing the sensitivity of net interest income, at constant volumes, considering solely the transactions outstanding at the reference date and the combination of both methods for the sensitivity analysis of profits. Specifically, the first methodology is used to determine the flows of principal and interest originated by the individual assets and liabilities held in the banking book applying, where necessary, the coupon rate for each instrument or, if that is not predetermined, the market curve associated with the risk factor to which the rate is indexed. Next, the «present values» of the assets and liabilities concerned are calculated by summing their cash flows as discounted using the yield curves.

Then, shocks to the benchmark curves are simulated, reflecting different scenarios that would cause market rates to change. The flows of interest and principal, as redetermined with reference to the modified curves, are discounted with reference to the new rate curves to obtain the «stressed present value» of each asset and liability.

Then, for each operation, the change in present value is calculated as the difference between the «stressed present value» and the «non-stressed present value».

In this way, the model estimates the sensitivity of the banking book, in terms of change in the economic value of equity caused by each scenario expressing movements in market rates, by summing for each operation in the banking book the change in present value obtained above.

In addition, euro loan and deposit current accounts and savings deposits, which are highly stable in volume terms and whose rates are not usually established by contract, are represented by behavioural models that take account of the persistence of their volume and their elasticity with respect to changes in market rates.

Another type of operations subject to its own modelling is mortgages and unsecured loans in euro granted by the Parent Company. In these transactions, the borrower has an early repayment option and an option to renegotiate the contractual terms of the loan, both of which can be exercised at any time.

The adoption of a specific scenario-dependent model is the best way to address this phenomenon, known as «prepayment», which is negatively correlated with the level of interest rates. This model is defined using a historical series of a suitable length in terms of time, containing prepayment events, those of renegotiation and other variables that help to differentiate behaviours.

The above analyses are supplemented by the results of applying the «Interactive Simulation» analysis methodology that, following a shock to the market rate curves, measures the sensitivity of net interest income for the current year to the positioning of the flows of principal at the time when the funding and lending operations start to become sensitive to changes in market interest rates.

Ideally, the banking book, made up of both debit and credit items that generate the interest margin, is subdivided between transactions that are partly sensitive to changes in interest rates and those that are entirely sensitive. The first type, mostly comprising fixed-rate transactions, is neutral when it comes to determining the sensitivity of net interest income up to the natural expiry of the transaction, but is impacted at the time of renewal; the second, represented by variable-rate transactions, is conditioned by changes in interest rates at the time of revision of the coupon rate.

The difference between the net interest income generated by each asset or liability item following the application of shocked market curves, and that generated under current market conditions, determines the marginal contribution to overall sensitivity.

Summing this differential for all the operations comprising the banking book determines the total sensitivity of net interest income to the risk of changes in market rates.

The measurements of interest-rate risk using fair value and using cash flows both consider any maximum cap or minimum floor on the coupon rate associated with banking book activities.

The source of price risk lies in the equity securities and mutual funds not included in the trading book for supervisory purposes, excluding treasury shares. It therefore includes the equity securities classified as equity investments and the equity securities and mutual funds classified as «other financial assets mandatorily measured at fair value» or «financial assets measured at fair value through other comprehensive income», excluding the investments that service employees' pension and similar obligations and real estate funds.

The strategies for governing interest-rate risk include, as part of the annual stress testing of the principal economic, financial and equity variables, carrying out joint simulations to determine the impact of adverse shocks on:

- the economic value of assets and liabilities in the banking book;
- the performance of the total net interest income generated by the banking book and the trading book.

Consistent with the «Sensitivity Analysis in Full Evaluation» and «Interactive Simulation» methods explained above, stress tests are carried out by performing simulations that include volume changes and the use of a set of scenarios regarding rate trends aimed at identifying the trend in the interest rate risk profile under particularly adverse market conditions. The main objective of stress tests is to estimate the impact on risk exposure caused by sudden and unpredictable changes in the general level of interest rates caused by a change in one or more specific risk factors.

The stress analysis is carried out both in terms of the fair value interest rate risk profile, and in terms of cash flow interest rate risk.

It should be noted that starting from the financial year 2022, the Bank has also started initiatives to hedge the interest rate risk arising from the disbursement of fixed-rate loans (so-called «Macro Fair Value Hedging») through the subscription with market counterparties of dedicated interest rate swap contracts with specific characteristics of duration, amount and rate aligned to the pool of loans being hedged.

A1. Impacts from the Covid-19 pandemic and the Russian-Ukrainian conflict

With specific reference to the securities of the banking book, similarly to what is reported in the previous section 2.1, the movement of the portfolios was carried out in compliance with the guidelines approved by the competent Bodies, using the windows deemed most appropriate.

An increase in VaR measures was also observed on securities in the banking book, mainly related to monetary policy restrictions by central banks in order to counteract the trend in inflation, which was also increased by the energy crisis following the conflict. Nonetheless, except for episodes relating to the more detailed limits of potential exposure in terms of VaR on a particular type of risk factor, there were no significant violations in the year of the system of limits on exposure to risk insistent on the set of financial instruments of the banking book.

Similarly to what was reported in Section 2.1 above, additional investigations were conducted for the securities in the banking book measured at fair value in order to estimate the potential medium-term impact of the tensions generated by the outbreak of the conflict between Russia and Ukraine.

QUANTITATIVE INFORMATION

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

Currency: EURO

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
3. **Financial derivatives**	**1,554,812**	**316,797**	**28,419**	**39,129**	**190,981**	**16,120**	**15,536**	**–**
3.1 With underlying securities	–	30,214	15,225	–	14,841	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	–	30,214	15,225	–	14,841	–	–	–
+ Long positions	–	15,305	–	–	14,841	–	–	–
+ Short positions	–	14,909	15,225	–	–	–	–	–
3.2 Without underlying securities	1,554,812	286,583	13,194	39,129	176,140	16,120	15,536	–
- Options	1,554,812	237,417	12,301	37,177	161,620	467	1,152	–
+ Long positions	777,406	224,462	605	–	–	–	–	–
+ Short positions	777,406	12,955	11,696	37,177	161,620	467	1,152	–
- Other derivatives	–	49,166	893	1,952	14,520	15,653	14,384	–
+ Long positions	–	48,284	–	–	–	–	–	–
+ Short positions	–	882	893	1,952	14,520	15,653	14,384	–
4. **Other off-balance sheet transactions**	**929,523**	**140,673**	**161,931**	**4,997**	**185,324**	**37**	**923**	**–**
+ Long positions	217,819	140,673	161,931	4,997	185,324	37	923	–
+ Short positions	711,704	–	–	–	–	–	–	–

This table only shows financial derivatives as an interest rate risk sensitivity analysis based on internal models is provided for cash assets and liabilities.

2. Banking book - internal models and other methodologies for sensitivity analysis

Interest-rate risk

With reference to the assets and liabilities that generate the net interest income – except for the fixed-yield securities held in the trading book for supervisory purposes (not present at the end of 2022), forward contracts on exchange rates, options on interest rates and interest rate swaps, as the information on these is disclosed in the section on the trading book for supervisory purposes – as defined in the paragraph in this section on qualitative information, the following are the figures taken from the ALM procedure.

Please note that the outcomes below refer to the hypothetical rate movement scenarios in use for the monthly risk exposure analyses, including:

– the six scenarios described in «Annex III - The standardised interest rate shock scenarios» of the «Guidelines on the management of interest rate risk arising from non-trading book activities» published on 19 July 2018 by the European Banking Authority;
– two hypothetical scenarios for the shift of rates, introduced on the survey at the end of 2021, aimed respectively at capturing future market expectations («ongoing») and specific particularly adverse situations that have occurred in the past («historical»).

An updated version of the behavioural models relating, respectively, to on-demand items receivable and payable as well as to mortgages and instalment loans was adopted at the end of the period of 31/12/2022.

Effects of a change in interest rates over a twelve-month period on the future interest margin.

The future interest margin is understood to be the difference between the future interest income and the future interest expense, based solely on transactions outstanding at the reference date, possibly renewed with the same volumes.

	Change in net interest income				
	from 01/01/2022 to 31/12/2022				
Figures in thousands of euro Risk exposure	at the end of the period	average	minimum	maximum	**31/12/2021**
Parallel up	30,972	37,700	10,431	68,922	65,938
Parallel down	-17,795	-9,139	-31,923	18,721	25,014
shock up parallel shift	31,647	38,235	11,054	69,370	66,563
shock down parallel shift	-17,708	-8,758	-31,402	18,716	25,000
steepener shock shift	25,101	18,859	-2,662	33,713	33,723
flattener shock shift	-8,158	-1,729	-30,357	26,287	16,902
short shock up shift	1,601	10,495	-24,834	47,312	40,121
short shock up shift	13,183	8,560	-17,797	32,519	25,692
ongoing shift	3,168	16,364	3,168	26,373	-409
Historical	102,023	-741	-18,545	102,023	20,517
Worst case scenario	-17,795	-9,139	-31,923	18,716	-409

Effects of a change in interest rates on the future profit over a twelve-month period.

Future profit is understood to mean the difference between future revenues and future costs calculated solely on existing transactions at the reference date and possibly renewed while maintaining constant volumes.

Figures in thousands of euro Risk exposure	Change in profit from 01/01/2022 to 31/12/2022 at the end of the period	average	minimum	maximum	**31/12/2021**
Parallel up	-35,882	-42,489	-78,610	-13,775	-23,207
Parallel down	61,709	78,636	46,947	104,751	74,557
shock up parallel shift	-35,208	-41,953	-77,987	-13,328	-22,582
shock down parallel shift	61,795	79,018	47,467	105,634	74,543
steepener shock shift	36,116	26,919	2,291	42,668	47,912
flattener shock shift	-29,792	-22,018	-54,804	9,020	-8,735
short shock up shift	-39,676	-33,853	-75,823	2,858	-10,848
short shock down shift	56,177	55,098	26,255	73,738	73,206
ongoing shift	-770	6,822	-4,491	18,398	-11,977
Historical	31,963	26,568	14,603	52,522	64,776
Worst case scenario	-39,676	-42,489	-78,610	-13,775	-23,207

Effects of a change in interest rates on equity.

Equity is understood as being the difference between the present value of asset and liability items calculated solely on the transactions outstanding at the reference date in the hypothesis of inertial volumes.

Figures in thousands of euro Risk exposure	Change in equity value from 01/01/2022 to 31/12/2022 at the end of the period	average	minimum	maximum	**31/12/2021**
Parallel up	-101,212	-314,339	-397,695	-101,212	-339,466
Parallel down	115,932	370,712	115,932	505,765	180,763
shock up parallel shift	-99,985	-312,959	-396,452	-99,985	-337,423
shock down parallel shift	113,642	369,002	113,642	504,027	180,766
steepener shock shift	97,487	25,835	-6,747	97,487	30,823
flattener shock shift	-87,868	-48,621	-87,868	-18,192	-31,372
short shock up shift	-111,315	-144,599	-195,297	-109,679	-133,610
short shock down shift	138,090	186,996	135,171	228,323	158,943
ongoing shift	-18,860	-26,496	-39,604	-14,689	-44,076
Historical	-64,277	159,431	-64,277	226,858	185,630
Worst case scenario	-111,315	-314,339	-397,695	-109,679	-339,466

With respect to fixed-yield securities classified as «other financial assets mandatorily measured at fair value», «financial assets measured at fair value through other comprehensive income», information on the average, minimum and maximum VaR is given below.

Interest rate Value at Risk (VaR)

	(in thousands of euro)
average	16,185
minimum	7,817
maximum	22,780

With regard to the distribution of VaR during the year, the average interest rate VaR for each month in 2022 is shown below.

January	9,094
February	14,573
March	17,173
April	14,657
May	15,144
June	18,999
July	21,490
August	20,283
September	16,929
October	15,224
November	14,699
December	14,933

With reference to the fixed-yield securities included in the «other financial assets mandatorily measured at fair value», and the «financial assets measured at fair value through other comprehensive income», the number of days in which actual losses exceeded the VaR was 4 out of 256 observations for Italian government securities and 3 out of 256 observations for the other fixed-yield securities. The same number of exceeds was observed for actual losses. With reference to the theoretical losses from the model, instead, the number of exceeds was 6 out of 256 observations for both Italian government bonds and for other fixed-yield securities.

Price risk

With reference to the closing date, we report above all the VaR figures of equity securities (shares and mutual funds) classified as «other financial assets mandatorily measured at fair value» or «financial assets measured at fair value through other comprehensive income», net of any investments servicing pensions and similar obligations of employees and real estate funds, as well as the figure for investments.

Value at Risk (VaR), end of period

	(in thousands of euro)
Equity securities	3,355
Mutual funds	4,797
Total	**7,418**
Equity investments	**22,121**

The following information is provided about the average, minimum and maximum VaR regarding the equity securities (shares and mutual funds) classified among the «other financial assets mandatorily measured at fair value» and the «financial assets measured at fair value through other comprehensive income», excluding any relevant investments by the pension and real estate funds.

Price Value at Risk (VaR)

	(in thousands of euro)
average	8,427
minimum	5,848
maximum	11,289

As regards the distribution of VaR during the year, we indicate below the average value of the price VaR in each of the twelve months of 2022.

January	6,118
February	6,487
March	9,992
April	9,753
May	8,478
June	8,388
July	8,811
August	9,267
September	9,533
October	9,397
November	7,569
December	6,949

Con riferimento al sopra richiamato perimetro, le perdite teoriche e quelle effettive non hanno mai superato il VaR, mentre c'è stato 1 supero su 256 osservazioni con riferimento a quelle teoriche da modello.

2.3 Exchange risk

QUALITATIVE INFORMATION

A. General aspects, management and measurement of exchange risk

The principal sources of exchange risk are: the investment in Banca Popolare di Sondrio (SUISSE) SA, denominated in Swiss francs, certain other equity securities, fixed-yield securities and mutual funds denominated in foreign currencies, if any, and the net foreign currency position managed by the «Exchange Centre», deriving principally from intermediation in repos with private customers and on the interbank market, as well as the implications of the Bank's foreign exchange position deriving from trading in other financial products (difference between premiums on currency options, interest on foreign currency deposits etc.).

Excluding securities, the Bank's role in foreign currency transactions is largely commercial, with a view to meeting customers' needs.

The characteristics of the internal management and control of exchange risk are the same – in terms of organisational structure and the limitation of risk acceptance – as those described in relation to interest rate risk in section 2.1, to which reference is made.

The measurement and control of exchange risk essentially involves application of an internal model for the daily calculation of Value at Risk (VaR) with the characteristics described in section 2.1 above.

At the reporting date, the following assets in terms of financial instruments exposed to exchange rate risk are covered by the VaR model: all assets and liabilities in foreign currency are shown in table 1 below; moreover, the balances used by the internal model do not include accrued income and prepaid expenses, accrued expenses and deferred income, the interest portion of unpaid instalments, the differentials on adoption of the amortised cost principle and loan write-downs. In addition to those shown in table 1 above (options on exchange rates and forward contracts on commodities), the financial derivatives (in a strict sense) traded by the Exchange Centre also include interest rate swaps.

The forward contracts on exchange rates, financial derivatives (in a strict sense), fixed-yield securities and equity securities are treated analytically, whereas the overall difference of the other items by individual currency is treated as a deposit (positive or negative) with a maturity of one day.

The internal model based on VaR is not used to determine the capital requirements for market risk reported for supervisory purposes to the Bank of Italy. The standard methodology is used in this case.

A1. Impacts from the Covid-19 pandemic and the Russian-Ukrainian conflict

Currency operations continued smoothly, thanks to the normalisation of customers' business activities, which were not particularly affected by the continuation of the Covid-19 infection and the consequences of the conflict. The currency market was marked by the weakening of the euro. For example, the euro fell below parity with the greenback to its lowest level since 2002. The ECB's initial caution in relation to the expansive policies adopted by other central banks and also the energy crisis triggered by the conflict weighed heavily.

The riskiness moved in line with the exchange rate trend, however with a limited effect thanks to the policy of limiting the open foreign exchange position. There were no incidents of violation of the respective limit during 2022.

B. Hedging of exchange risk

The Bank has not arranged any specific hedges of exchange risk. The position of the «Exchange Centre» is updated on a real-time basis; this enables exchange traders to act in the interbank market to offset any mismatches that may arise due to the transactions described above.

Any unmatched foreign currency positions are small and, in any case, fall within the limits established by the internal regulations of the «Exchange Centre».

QUANTITATIVE INFORMATION

1. Distribution of assets, liabilities and derivatives by foreign currency

	Currency					
Items	US Dollars	Pound Sterlings	Japanese yens	Swiss francs	Canadian dollars	Other Currencies
A. **Financial assets**	**614,254**	**92,278**	**31,106**	**426,525**	**34,657**	**94,461**
A.1 Fixed-yield securities	–	–	–	–	–	–
A.2 Equity securities	25,940	–	1,271	146,579	–	796
A.3 Loans to banks	264,733	80,968	28,485	15,083	34,657	91,084
A.4 Loans to customers	323,581	11,310	1,350	264,863	–	2,581
A.5 Other financial assets	–	–	–	–	–	–
B. **Other assets**	**11,902**	**1,592**	**266**	**6,203**	**239**	**1,389**
C. **Financial liabilities**	**594,527**	**93,898**	**30,708**	**295,163**	**34,756**	**94,524**
C.1 Due to banks	244,636	8,462	3,454	178,824	781	28,797
C.2 Due to customers	349,891	85,436	27,254	116,339	33,975	65,727
C.3 Fixed-yield securities	–	–	–	–	–	–
C.4 Other financial liabilities	–	–	–	–	–	–
D. **Other liabilities**	**931**	**27**		**302**		
E. **Financial derivatives**	**1,098,493**	**364,695**	**529,387**	**14,368**	**15,288**	**195,126**
- Options	68,888	184	–	–	–	6,614
+ Long positions	34,444	92	–	–	–	3,307
+ Short positions	34,444	92	–	–	–	3,307
- Other derivatives	1,029,605	364,511	529,387	14,368	15,288	188,512
+ Long positions	511,510	182,097	264,665	6,503	7,518	94,183
+ Short positions	518,095	182,414	264,722	7,865	7,770	94,329
Total assets	**1,172,110**	**276,059**	**296,037**	**439,231**	**42,414**	**193,340**
Total liabilities	**1,147,997**	**276,431**	**295,430**	**303,330**	**42,526**	**192,160**
Net balance (+/-)	**24,113**	**(372)**	**607**	**135,901**	**(112)**	**1,180**

2. Internal models and other methodologies for the sensitivity analysis

With reference to the closing date, we report above all the VaR figures split between the transactions explicitly foreseen in table 1 and the other transactions on which the calculation is carried out.

Value at Risk (VaR), end of period

	(in thousands of euro)
Fixed-yield securities	–
Equity securities	1,586
Net balance between other assets and liabilities	147
Financial derivatives	99
- Options	–
+ Long positions	552
+ Short positions	430
- other derivatives	99
+ Long positions	4,884
+ Short positions	4,876
Total transactions table 1	**1,579**
- Interest Rate Swap	–
+ Long positions	–
+ Short positions	–
Total	**1,579**
Details of the principal currencies	
US Dollar	419
Pound Sterlings	–
Japanese yen	12
Swiss francs	1,621
Canadian dollars	–
Other currencies	5
Total	**1,579**

Information on average, minimum and maximum VaR is provided below.

Exchange rate Value at Risk (VaR)

	(in thousands of euro)
average	2,279
minimum	901
maximum	3,923

As regards the distribution of VaR during the year, we indicate below the average value of the currency VaR in each of the twelve months of 2022.

January	996
February	3,285
March	3,242
April	3,254
May	2,440
June	2,163
July	2,062
August	1,882
September	1,750
October	2,342
November	2,215
December	1,719

Section 3 *Derivative instruments and related hedging policy*

3.1 Trading derivative instruments

A. Financial derivatives

A.1 Trading financial derivatives: period-end notional amounts

	Total 31/12/2022				Total 31/12/2021			
	Over the counter				Over the counter			
		Without central counterparties				Without central counterparties		
Underlying assets/Types of derivatives	Central counterparties	With settlement agreements	Without settlement agreements	Organised markets	Central counterparties	With settlement agreements	Without settlement agreements	Organised markets
1. **Fixed-yield securities and interest rates**	**–**	**–**	**1,574,549**	**–**	**–**	**–**	**1,775,078**	**–**
a) Options	–	–	46,345	–	–	–	25,531	–
b) Swaps	–	–	1,528,204	–	–	–	1,749,547	–
c) Forwards	–	–	–	–	–	–	–	–
d) Futures	–	–	–	–	–	–	–	–
e) Others	–	–	–	–	–	–	–	–
2. **Equity securities and stock indices**	**–**	**–**	**108,818**	**–**	**–**	**–**	**36,313**	**–**
a) Options	–	–	108,818	–	–	–	36,313	–
b) Swaps	–	–	–	–	–	–	–	–
c) Forwards	–	–	–	–	–	–	–	–
d) Futures	–	–	–	–	–	–	–	–
e) Others	–	–	–	–	–	–	–	–
3. **Currency and gold**	**–**	**–**	**1,908,695**	**–**	**–**	**–**	**2,092,071**	**–**
a) Options	–	–	152,873	–	–	–	184,122	–
b) Swaps	–	–	–	–	–	–	–	–
c) Forwards	–	–	1,755,822	–	–	–	1,907,949	–
d) Futures	–	–	–	–	–	–	–	–
e) Others	–	–	–	–	–	–	–	–
4. **Commodities**	**–**	**–**	**54,242**	**–**	**–**	**–**	**89,593**	**–**
5. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**–**	**–**	**3,646,304**	**–**	**–**	**–**	**3,993,055**	**–**

As foreseen in the Bank of Italy's Circular 262/05, the tables in this section do not include trades in securities, commodities or foreign currencies with settlement by a date in line with market practice for transactions of the same kind or within five working days of the transaction date.

A.2 Trading financial derivatives: positive and negative gross fair value - breakdown by product

Types of derivatives	Total 31/12/2022				Total 31/12/2021			
	Over the counter				Over the counter			
		Without central counterparties				Without central counterparties		
	Central counterparties	With settlement agreements	Without settlement agreements	Organised markets	Central counterparties	With settlement agreements	Without settlement agreements	Organised markets
1. **Positive fair value**								
a) Options	–	–	4,070	–	–	–	4,767	–
b) Interest rate swaps	–	–	15,441	–	–	–	9,266	–
c) Cross currency swaps	–	–	–	–	–	–	–	–
d) Equity swaps	–	–	–	–	–	–	–	–
e) Forwards	–	–	29,505	–	–	–	10,018	–
f) Futures	–	–	–	–	–	–	–	–
g) Other	–	–	1,772	–	–	–	3,348	–
Total	**–**	**–**	**50,788**	**–**	**–**	**–**	**27,399**	**–**
2. **Negative fair value**								
a) Options	–	–	3,399	–	–	–	2,289	–
b) Interest rate swaps	–	–	13,393	–	–	–	7,515	–
c) Cross currency swaps	–	–	–	–	–	–	–	–
d) Equity swaps	–	–	–	–	–	–	–	–
e) Forwards	–	–	29,060	–	–	–	9,696	–
f) Futures	–	–	–	–	–	–	–	–
g) Other	–	–	1,727	–	–	–	3,295	–
Total	**–**	**–**	**47,579**	**–**	**–**	**–**	**22,795**	**–**

The fair value of forwards in the trading book for supervisory purposes only includes transactions with underlying currency.

A.3 OTC trading financial derivatives - notional values, positive and negative gross fair value by counterparty

Underlying assets	Central counterparties	Banks	Other financial corporations	Other parties
Contracts not covered by compensation agreements				
1) **Fixed-yield securities and interest rates**				
- notional value	–	1,291,708	247	282,594
- positive fair value	–	16,637	–	65
- negative fair value	–	1,336	12	13,258
2) **Equity securities and stock indices**				
- notional value	–	108,818	–	–
- positive fair value	–	623	–	–
- negative fair value	–	9	–	–
3) **Currency and gold**				
- notional value	–	1,249,273	–	659,422
- positive fair value	–	25,193	–	6,498
- negative fair value	–	23,326	–	7,910
4) **Commodities**				
- notional value	–	27,513	–	26,729
- positive fair value	–	1,155	–	617
- negative fair value	–	663	–	1,064
5) **Other**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
Contracts which are part of settlement agreements				
1) **Fixed-yield securities and interest rates**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
2) **Equity securities and stock indices**	–			
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
3) **Currency and gold**	–			
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
4) **Commodities**	–			
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
5) **Other**	–	–	–	–
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–

A.4 Residual life of OTC trading financial derivatives: notional amounts

Underlying/Residual life	Up to 1 year	1 to 5 years	Over 5 years	**Total**
A.1 Financial derivatives on fixed-yield securities and interest rates	1,147,950	369,499	57,100	1,574,549
A.2 Financial derivatives on equity securities and stock indices	108,818	–	–	108,818
A.3 Financial derivatives on currencies and gold	1,860,458	48,237	–	1,908,695
A.4 Financial derivatives on commodities	54,242	–	–	54,242
A.5 Other financial derivatives	–	–	–	–
Total 31/12/2022	**3,171,468**	**417,736**	**57,100**	**3,646,304**
Total 31/12/2021	**2,501,824**	**1,428,291**	**62,940**	**3,993,055**

B. Credit derivatives

There were no credit derivatives at the reporting date.

3.2 Accounting hedges

Qualitative information

On first-time application of IFRS 9, the Bank exercised the option provided by the standard to continue to fully apply the rules of IAS 39 for each type of hedging (micro and macro). Therefore, the provisions of IFRS 9 on hedging do not apply.

A. Fair value hedging

Banca Popolare di Sondrio carries out transactions to hedge the risk arising from changes in market interest rates by entering into Interest Rate Swaps. The hedged mortgages are fixed-rate instruments.

Hedging is managed using a macro (total and open portfolio) approach, as specific hedging of the outstanding loan portfolio, which is characterised by a low unit amount and significant numerosity, would lead to inefficient hedge management.

The derivatives are not listed on regulated markets, but traded in the context of OTC circuits.

B. Cash flow hedging

The Bank did not perform cash flow hedging.

C. Hedges of foreign investments

The Bank did not carry out hedging operations on foreign investments.

D. Hedging Instruments

Generally speaking, in the hypothesis of «fair value hedges», the sources of ineffectiveness of a hedging relationship, during its period of validity, can be related to:

- mismatch between the notional amount of the derivative and the underlying hedged item recognised at the time of the initial designation or generated thereafter, such as in the case of partial loan repayments;
- inclusion of the value of the variable leg of the hedging derivative in the effectiveness test.

During the year, no elements were found that might have caused the hedges to be ineffective, giving the possibility of continuing to apply the hedge accounting rules.

During the year, the Bank did not use dynamic hedges, as defined by IFRS 7, paragraph 23C.

E. Elements hedged

Fixed-rate loans

Banca Popolare di Sondrio currently has accounting hedges, macro fair value hedge type, on fixed rate loans through the use of plain vanilla IRSs to hedge the interest rate risk for the entire duration of the underlying.

The portfolio of hedged fixed-rate loans is open-ended, i.e. it is dynamically made up of the fixed-rate instruments managed at an aggregate level through the hedging derivatives entered into over time.

The effectiveness of the Macro Fair Value Hedge (MFVH) on fixed-rate loans is periodically verified on the basis of specific prospective and retrospective tests. The prospective test aims to verify that for each time interval defined by the Bank, the sensitivity of the underwritten hedging transactions (approximated by the «meta-loan» developed on the basis of the fixed leg of the derivative) is lower than the sensitivity of the hedged loans. This is intended to ensure that derivative instruments entered into for hedging purposes do not create overhedging for specific maturity intervals. The retrospective tests, on the other hand, on the one hand aim at verifying that within the potential hedging perimeter a sub-portfolio is identified and that this sub-portfolio presents a Delta Present Value higher than the Delta Present Value of the meta-mortgage, on the other hand, it is periodically verified, throughout the life of the transaction, that the ratio of the change in fair value of the hedged item to the hedging instrument is within the range 80%-125%.

QUANTITATIVE INFORMATION

A. Hedging financial derivatives

A.1 Hedging financial derivatives: period-end notional amounts

Underlying assets/Types of derivatives	Total 31/12/2022				Total 31/12/2021			
	Over the counter				Over the counter			
		Without central counterparties				Without central counterparties		
	Central counterparties	With settlement agreements	Without settlement agreements	Organised market	Central counterparties	With settlement agreements	Without settlement agreements	Organised market
1. **Fixed-yield securities and interest rates**	**–**	**–**	**48,284**	**–**	**–**	**–**	**–**	**–**
a) Opzionis	–	–	–	–	–	–	–	–
b) Swaps	–	–	48,284	–	–	–	–	–
c) Forwards	–	–	–	–	–	–	–	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
2. **Equity securities and stock indices**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
a) Opzionis	–	–	–	–	–	–	–	–
b) Swaps	–	–	–	–	–	–	–	–
c) Forwards	–	–	–	–	–	–	–	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
3. **Currency and gold**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
a) Opzionis	–	–	–	–	–	–	–	–
b) Swaps	–	–	–	–	–	–	–	–
c) Forwards	–	–	–	–	–	–	–	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
4. **Commodities**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
5. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**–**	**–**	**48,284**	**–**	**–**	**–**	**–**	**–**

A.2 Hedging financial derivatives: positive and negative gross fair value - breakdown by product

	Positive and negative fair value								Change in value used to recognise hedge ineffectiveness	
	Total 31/12/2022				**Total 31/12/2021**					
	Over the counter				Over the counter					
		Without central counterparties				Without central counterparties				
Types of derivatives	Central counterparties	With settlement agreements	Without settlement agreements	Organised markets	Central counterparties	With settlement agreements	Without settlement agreements	Organised markets	**Total 31/12/2022**	**Total 31/12/2021**
Positive fair value										
a) Options	–	–	–	–	–	–	–	–	–	–
b) Interest rate swaps	–	–	248	–	–	–	–	–	–	–
c) Cross currency swaps	–	–	–	–	–	–	–	–	–	–
d) Equity swaps	–	–	–	–	–	–	–	–	–	–
e) Forwards	–	–	–	–	–	–	–	–	–	–
f) Futures	–	–	–	–	–	–	–	–	–	–
g) Other	–	–	–	–	–	–	–	–	–	–
Total	**–**	**–**	**248**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Negative fair value										
a) Options	–	–	–	–	–	–	–	–	–	–
b) Interest rate swaps	–	–	116	–	–	–	–	–	–	–
c) Cross currency swaps	–	–	–	–	–	–	–	–	–	–
d) Equity swaps	–	–	–	–	–	–	–	–	–	–
e) Forwards	–	–	–	–	–	–	–	–	–	–
f) Futures	–	–	–	–	–	–	–	–	–	–
g) Other	–	–	–	–	–	–	–	–	–	–
Total	**–**	**–**	**116**	**–**	**–**	**–**	**–**	**–**	**–**	**–**

A.3 OTC hedging derivatives: notional amounts, gross positive and negative fair value by counterparty

Underlying assets	Central counterparties	Banks	Other financial corporations	Other parties
Contracts not covered by compensation agreements				
1) **fixed-yield securities and interest rates**				
- notional value	–	48,284	–	–
- positive fair value	–	248	–	–
- negative fair value	–	116	–	–
2) **Equity securities and stock indices**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
3) **Currency and gold**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
4) **Commodities**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
5) **Other**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
Contracts which are part of settlement agreements				
1) **Fixed-yield securities and interest rates**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
2) **Equity securities and stock indices**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
3) **Currency and gold**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
4) **Commodities**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
5) **Other**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–

A.4 Residual life of OTC hedging financial derivatives: notional amounts

Underlying/Residual life	Up to 1 year	1 to 5 years	Over 5 years	**Total**
A.1 Financial derivatives on fixed-yield securities and interest rates	3,727	14,520	30,037	48,284
A.2 Financial derivatives on equity securities and stock indices	–	–	–	–
A.3 Financial derivatives on currencies and gold	–	–	–	–
A.4 Financial derivatives on commodities	–	–	–	–
A.5 Other financial derivatives	–	–	–	–
Total 31/12/2022	**3,727**	**14,520**	**30,037**	**48,284**
Total 31/12/2021	**–**	**–**	**–**	**–**

B. Hedging credit derivatives

At the reporting date, there were no hedging credit derivatives.

C. Non-hedging derivative instruments

At the reporting date, there were no hedging instruments other than derivatives.

D. Instruments hedged

There are no hedged instruments to which the hedge accounting rules under IFRS 9 apply, as the Bank availed itself of the option, provided for in the first-time application of IFRS 9, to continue to use the provisions of IAS 39 for hedge accounting.

E. Effects of hedging transactions on equity

There are no hedging transactions in equity.

3.3 Other information on trading and hedging derivatives

A. Financial and credit derivatives

A.1 OTC financial and credit derivatives: net fair value by counterparty

	Central counterparties	Banks	Other financial corporations	Other parties
A. **Financial derivatives**				
1) **Fixed-yield securities and interest rates**				
- notional value	–	1,339,992	247	282,595
- net positive fair value	–	16,885	–	65
- net negative fair value	–	1,452	12	13,258
2) **Equity securities and stock indices**				
- notional value	–	108,818	–	–
- net positive fair value	–	623	–	–
- net negative fair value	–	9	–	–
3) **Currency and gold**				
- notional value	–	1,249,273	–	659,422
- net positive fair value	–	25,193	–	6,498
- net negative fair value	–	23,326	–	7,910
4) **Commodities**				
- notional value	–	27,513	–	26,729
- net positive fair value	–	1,155	–	617
- net negative fair value	–	663	–	1,064
5) **Other**				
- notional value	–	–	–	–
- net positive fair value	–	–	–	–
- net negative fair value	–	–	–	–
B. **Credit derivatives**				
1) **Purchase of protection**				
- notional value	–	–	–	–
- net positive fair value	–	–	–	–
- net negative fair value	–	–	–	–
2) **Sale of protection**				
- notional value	–	–	–	–
- net positive fair value	–	–	–	–
- net negative fair value	–	–	–	–

Section 4 *Liquidity risk*

QUALITATIVE INFORMATION

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

Liquidity risk typically reveals itself in the form of an inability to meet payment commitments or an incapacity to finance assets with the necessary punctuality on a cost/effective basis. These negative circumstances can occur as the company finds it impossible:

- to raise funds or obtain them at a reasonable cost (funding liquidity risk);
- to sell or reduce its position without severely affecting the price, due to low efficiency or malfunctioning on the part of the market (market liquidity risk).

The Bank's overall strategy for managing liquidity risk, with its low propensity for risk, manifests itself firstly in the adoption of specific operating guidelines that make it possible to reduce the likelihood of such problems arising.

In particular, as regards the first of these sources of risk, the Bank is primarily committed to have a wide and stable retail funding base, which by definition is widely diversified; further significant sources of funding are represented by national and international entities and companies, from which the Bank has never had problems raising money at market conditions, given its high reputation. The Bank also makes use of loans granted by the European Central Bank (Targeted Longer-Term Refinancing Operations), amounting to 8.874 billion euro at 31 December 2022.

The potential liquidity risk deriving from difficulties in unwinding positions is contained by the decision of the Bank maintain a portfolio of high quality bonds. most of this portfolio consists of government securities and, to a lesser extent, of other corporate bonds; overall, the portfolio is highly liquid as it mostly comprises instruments that can easily be sold on the market or used, when liquidity is needed, either in repurchase agreements with banks or in refinancing operations arranged with the European Central Bank if, as in most cases, the securities held are eligible.

Another element that contributes positively to the reserve availability known as the «counterbalancing capacity» is represented by the loans granted to the European Central Bank, in addition to eligible fixed-yield securities, in the form of collateral, so-called ABACO loans (A.Ba.Co stands for *Attivi BAncari Collateralizzati* or collateralised bank assets).

Control over liquidity risk is carried out by various units: the first level control is performed by the business functions involved in liquidity management, in order to ascertain by themselves that they carry out their duties properly and provide summary reports on the business operations on a daily basis.

Then there is systematic monitoring of the expected liquidity position by the Risk Control Department using a variety of indicators and different analytical time horizons. Focusing on the principal indicators used for short-term analysis, the profile of liquidity mismatches is determined and highlighted in specific tables, covering the following twelve months, using operational treasury and similar data and the counterbalancing capacity. Similar information is made available to the Supervisory Authorities every week, focusing on the time horizon up to 3 months. In addition, contingency indicators are calculated every day in order to identify, on a timely basis, any internal or external tensions affecting operational liquidity. Operational liquidity is also subjected to specific stress tests every month, in order to verify the ability of the Bank to survive, using expected cash flows and its counterbalancing capacity, unfavourable endogenous and exogenous events that increase in the liquidity requirement following the drawdown of lines of credit, downgrades of the Bank or the Italian State, or potential combinations of adverse events with cumulative effects. The Bank is in fact able to survive independently such serious adverse events beyond the target time horizon established by the Board of Directors, while maintaining a «counterbalancing capacity» which, although reduced, is in any case not zeroed.

The long-term liquidity position is also monitored monthly, with no time limits, by reference to a dedicated diary of due dates and set of metrics designed to check the structural equilibrium of the Bank's financial statements and measure specific aspects, including the concentration of funding.

The short and long-term regulatory indicators, Liquidity Coverage Ratio and Net Stable Funding Ratio, are also quantified monthly and quarterly, respectively; the same metrics are also quantified under stressed conditions, simulating the unfavourable events described above, in order to evaluate the potential risks that would emerge in those circumstances and prepare possible countermeasures. Also monitored on a monthly basis, as required by the supervisory regulations relating to the so-called Additional Liquidity Monitoring Metrics, are additional risk measures relating, *inter alia*, to the concentration of funding and its cost, as well as the composition of the «counterbalancing capacity»; the indicators relating to the intra-day liquidity risk provided by the Basel Committee for Banking Supervision are also quantified (the latter also subjected to stress tests, applying hypotheses in part specific and in part corresponding to those already mentioned above with reference to the position of operational liquidity).

The following disclosures are provided in accordance with the requirements of IFRS 7.39.

QUANTITATIVE INFORMATION

1. Distribution by residual contractual maturity of financial assets and liabilities

Currency: EURO

Items/Time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified duration
A. **Cash assets**	**4,935,404**	**683,210**	**555,728**	**3,635,744**	**1,199,810**	**1,607,072**	**3,008,509**	**15,918,536**	**11,232,907**	**385,891**
A.1 Government securities	14	-	276	225,613	6,096	210,768	289,196	5,253,000	4,631,000	-
A.2 Other fixed-yield securities	9,189	-	135	12,969	4,474	86,146	179,911	2,008,608	1,012,112	1,259
A.3 Mutual funds	731,633	-	-	-	-	-	-	-	-	-
A.4 Loans	4,194,568	683,210	555,317	3,397,162	1,189,240	1,310,158	2,539,402	8,656,928	5,589,795	384,632
- Banks	155,795	525,235	1,022	65,495	11,016	256,123	968,913	310,000	-	347,500
- Customers	4,038,773	157,975	554,295	3,331,667	1,178,224	1,054,035	1,570,489	8,346,928	5,589,795	37,132
B. **Cash liabilities**	**30,762,245**	**1,581,574**	**310,217**	**1,069,459**	**395,795**	**5,004,155**	**888,554**	**6,692,909**	**726,259**	**-**
B.1 Deposits and current accounts	30,584,374	999	309,990	1,019,093	282,690	94,614	19,541	77,497	-	-
- Banks	311,943	-	-	-	-	-	-	-	-	-
- Customers	30,272,431	999	309,990	1,019,093	282,690	94,614	19,541	77,497	-	-
B.2 Fixed-yield securities	116,766	-	220	894	105,080	535,767	271,964	2,009,997	632,201	-
B.3 Other liabilities	61,105	1,580,575	7	49,472	8,025	4,373,774	597,049	4,605,415	94,058	-
C. **«Off-balance sheet» transactions**	**8,128,601**	**246,315**	**340,594**	**2,297,725**	**698,841**	**1,612,678**	**3,038,404**	**536,495**	**798,534**	**-**
C.1 Financial derivatives with exchange of capital	-	236,502	328,578	371,492	217,534	208,539	153,980	71,906	-	-
- Long positions	-	122,842	164,296	185,759	108,793	104,301	77,056	35,958	-	-
- Short positions	-	113,660	164,282	185,733	108,741	104,238	76,924	35,948	-	-
C.2 Financial derivatives without exchange of capital	34,651	-	-	-	111	45	122	-	-	-
- Long positions	18,583	-	-	-	1	7	122	-	-	-
- Short positions	16,068	-	-	-	110	38	-	-	-	-
C.3 Deposits and loans to be received	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Commitments to grant loans	8,093,950	9,813	12,016	1,926,233	481,196	1,404,094	2,884,302	464,589	798,534	-
- Long positions	56,587	9,813	12,016	1,926,233	481,196	1,404,094	2,884,302	464,589	798,534	-
- Short positions	8,037,363	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Financial derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

Item B.1 – Deposits and current accounts reports due to banks and customers allocated to the specific line items.

The breakdown by maturity is based on the residual life of assets and liabilities, being the difference between the reporting date and the maturity dates of each transaction. In the event of repayment plans, the residual maturity of each payment has been considered. Mutual funds are conventionally assigned to the «on demand» segment. The deposit with the Bank of Italy as a compulsory reserve is shown under loans and receivables with banks within unspecified duration. Non-performing loans are allocated to the pertinent time bands on the basis of forecasts for the recovery of the underlying cash flows made by the Bank for financial statement purposes.

Irrevocable commitments to grant loans include all of the irrevocable commitments, whether or not certain to be called on, relating to lines of credit granted to banks and customers.

1. Distribution by residual contractual maturity of financial assets and liabilities

Currency: OTHER CURRENCIES

Items/Time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified duration
A. **Cash assets**	**95,668**	**460,256**	**156,167**	**30,833**	**177,725**	**26,347**	**21,008**	**83,598**	**116,798**	**922**
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other fixed-yield securities	-	-	-	-	-	-	-	-	-	-
A.3 Mutual funds	36,855	-	-	-	-	-	-	-	-	-
A.4 Loans	58,813	460,256	156,167	30,833	177,725	26,347	21,008	83,598	116,798	922
- Banks	30,567	279,401	85,366	9,640	108,740	837	1,439	-	-	-
- Customers	28,246	180,855	70,801	21,193	68,985	25,510	19,569	83,598	116,798	922
B. **Cash liabilities**	**726,859**	**274,077**	**116,217**	**9,746**	**14,783**	**535**	**503**	**574**	**124**	**-**
B.1 Deposits and current accounts	726,859	274,018	116,217	9,746	14,783	479	391	-	-	-
- Banks	73,355	271,191	112,851	6,932	352	104	-	-	-	-
- Customers	653,504	2,827	3,366	2,814	14,431	375	391	-	-	-
B.2 Fixed-yield securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	59	-	-	-	56	112	574	124	-
C. **«Off-balance sheet» transactions**	**19,430**	**478,618**	**453,313**	**651,027**	**218,981**	**210,768**	**156,183**	**44,281**	**-**	**-**
C.1 Financial derivatives with exchange of capital	-	478,618	453,313	651,027	218,981	210,768	156,183	44,281	-	-
- Long positions	-	234,936	226,664	325,513	109,489	105,386	78,093	22,144	-	-
- Short positions	-	243,682	226,649	325,514	109,492	105,382	78,090	22,137	-	-
C.2 Financial derivatives without exchange of capital	568	-	-	-	-	-	-	-	-	-
- Long positions	303	-	-	-	-	-	-	-	-	-
- Short positions	265	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	5,982	-	-	-	-	-	-	-	-	-
- Long positions	2,991	-	-	-	-	-	-	-	-	-
- Short positions	2,991	-	-	-	-	-	-	-	-	-
C.4 Commitments to grant loans	12,880	-	-	-	-	-	-	-	-	-
- Long positions	6,440	-	-	-	-	-	-	-	-	-
- Short positions	6,440	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Financial derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

Section 5 *Operational risk*

QUALITATIVE INFORMATION

A. General aspects, operational risk measurement and management

The operational risk represents the risk of suffering losses from the inadequacy or malfunctioning of procedures, human resources and internal systems, or from external events.

This category also includes losses caused by fraud, human error, operational interruptions, system downtime, contractual non-performance and natural catastrophes; the scope of operational risk includes legal risks and IT risk, but excludes strategic and reputational risks.

To ensure that the Bank has a system of risk management that reflects the changing structure of the business as much as possible, it has adopted a system of operational risk governance and management that is in continuous refinement, with a view to adopting the most suitable technical-organisational solutions to prevent and/or mitigate critical issues involved in its operations.

With reference to the governance of operational risks, the Risk Control Department is responsible for defining methodologies and coordinating execution of the management and control processes at Group level, as well as for preparing dedicated information flows for the competent business functions and bodies, in order to ensure full knowledge of the actual and potential risks faced by the Bank and, therefore, their governability.

The qualitative and quantitative system adopted for managing operational risk is made up of the following components:

- a process of Loss Data Collection (LDC), designed for the accurate detection of risk events that generate losses (and associated recoveries) and the registration not only of monetary values, but also of qualitative information which, put briefly, specify when, how, where and why the event has occurred;
- an Operational Risk Self-Assessment process (RSA), aimed at investigating the perception of business experts regarding the potential risks in which the Bank could incur in corporate operations, as well as to gather indications on the subject of interventions, proposed or implemented, for the prevention and/or mitigation of risk situations;
- a process for measuring operational risk for regulatory purposes that is focused on adoption of the Traditional Standardised Approach (TSA), which envisages the application of different coefficients for each of the business lines making up the most recent three annual observations of the Significant Indicator, calculated in compliance with EU regulations;
- a process for measuring Operational risk exposure through the implementation of an internal statistical model aimed at calculating quantitative risk metrics (Operational VaR – OpVaR).

Overall, consistent with the best practices promoted at regulatory level, these processes assist monitoring of the historical and prospective exposure to operational risk and related trends, as well as the identification, guidance and control of coordinated action to prevent, mitigate and, if necessary, transfer risk (e.g. through the stipulation of insurance coverage).

Legal and conduct risks

Among the situations falling within the category of operational risks, particular attention is paid to the analysis of the economic manifestations attributable to violation of laws and regulations and legal disputes, not directly attributable to the area of credit recovery in which the Bank has carried out its operations or activated by it in order to have its own rights recognised. Given the peculiarity of these situations, the process of identifying, assessing and monitoring the risks in question is carried out in close and constant collaboration with the corporate structures responsible for overseeing specific regulatory areas or in charge of managing legal disputes.

Monitoring these types of risk consists of recording and assessing in prospective terms disbursements deriving from legal disputes, sanctioning procedures or out-of-court proceedings, including costs for external legal services and any accounting provisions of a prudential nature allocated to the provision for risks and charges, adjusted from time to time on the basis of the progress of the proceedings and the pronouncement of jurisprudential decisions of particular relevance.

This category includes risks associated with intentionally inadequate or negligent conduct, especially with reference to the provision of investment services, and/or failure to comply with professional obligations, codes and internal rules of conduct to protect customers (conduct risk).

IT Risk

The information sources coming from the operational risk management system are integrated with the evidence derived from the risk management model associated with the use of information and communication technology, subject to specialist supervision by a dedicated specialist Committee, composed of a number of transversal technical skills for integrated management purposes.

Specifically, this model is based on dynamic processes of:

- identification of the perimeter of IT resources that can be qualified as critical for the performance of company operations, taking into account the intrinsic vulnerabilities potentially compromising the achievement of strategic objectives, the fulfilment of business needs, operational continuity and/or compliance with sector regulatory requirements;
- identification of risk scenarios (and related threats) – collected in a dedicated Register – potentially involving ICT resources previously identified as critical;
- expert assessment of risk scenarios, in terms of both probability of occurrence of the related threat, and of impact on different dimensions of analysis, in order to arrive at an estimate of residual exposure to risk, taking into account the effectiveness of the associated control measures.

The management of the risks in question also benefits from structured governance of the information system, with the task of directing a coordinated development of the corporate technology systems, through the definition of effective and efficient architectural and organisational models, guiding project initiatives and proposing suitable policies for outsourcing ICT services, in constant alignment with corporate strategies and in compliance with applicable regulations.

Impacts resulting from the Covid-19 pandemic

Also in 2022, the Bank – and the companies of the Group as a whole – paid particular attention to the monitoring of operational and IT risks arising from the adaptation of management practices and application and technological measures, in order to ensure business continuity and preserve the health and safety of customers and employees.

The main objective was to maintain the enabling conditions to ensure suitable standards of security and functionality of corporate information systems in order to cope with increased use of telematic banking services and agile working methods (smart working), with the aim of encouraging social distancing and thus minimising the risks of contagion.

QUANTITATIVE INFORMATION

The most significant impacts in absolute terms are mainly represented by loss events attributable to errors/failures in relations with non-customer counterparties, contested breaches of regulatory/contractual obligations and the adoption of improper business and market practices. These types of losses are mainly prudential provisions to the Provision for Risks and Charges for legal proceedings/compensation claims against the Bank.

The total amount of losses also includes disbursements arising from exogenous phenomena, which are usually mitigated through dedicated insurance policies, such as ATM robberies/cashouts and fraud on payment services (e.g. payment cards, credit transfers), as well as events due to errors/delays in the conduct of operations, system failures and business interruptions.

The following chart shows the operational losses recognised over the past five years (2018-2022) as part of the Loss Data Collection process, using the regulatory classification for operational risk events (Event Type):

- *Internal fraud* - Events involving fraud, embezzlement or circumvention of the law by the Bank's own staff to obtain personal benefits that involve damage (in the form of monetary losses) that would be borne by the Bank.
- *External fraud* - Events of fraud, embezzlement or circumvention of the law by external/third parties to obtain personal benefits that involve damage to the Bank.
- *Employment and job safety* - Events attributable to acts that do not comply with the law or agreements on employment, health and safety at work.
- *Customers, products and professional practices* - Events due to non-compliance/negligence in the application of laws, codes, rules of conduct and professional obligations towards customers or due to defects in the nature or characteristics of products, services and models.
- *Damage from external events* - Events involving damage or destruction of property due to accidents, natural disasters or other vandalism.
- *Operational interruptions and system malfunctions* - Events attributable to interruption of business continuity and unavailability / malfunctioning of the information systems used to support company operations.
- *Execution, delivery and management of processes* - Events due to errors, shortages and unintentional delays in the execution of daily operations, in the management of processes and relationships with counterparties other than customers (e.g. commercial counterparties, suppliers of goods and services).

Banca Popolare di Sondrio – Sources of operational losses (accounting period: 01/01/2018 - 31/12/2022)

Event Type	Number of operational loss events (%)	Impacts of operational loss events (%)
- Internal fraud	0.13	0.11
- External fraud	20.98	4.70
- Employment practices and workplace safety	0.45	0.75
- Customers, products and professional practices	24.55	44.81
- Damage from external events	6.70	0.56
- Operational interruptions and system malfunctions	0.83	2.58
- Execution, delivery and management of processes	46.36	46.49
Total	**100.00**	**100.00**

Section 6 *Sovereign risk*

INFORMATION ON EXPOSURE TO SOVEREIGN DEBT

Consob with communication No. DEM/11070007 of 5 August 2011 invited listed companies to provide in the financial statements information on exposures to sovereign debtors, i.e. bonds issued by central and local governments, government agencies and any loans made to them.

In this regard, the overall exposure of the Bank at 31 December 2022 amounted to 11,868 million euro and was structured as follows:

a) Italian government securities: 7,780 million;

b) Securities of other issuers: 3,456 million;

c) Loans to government departments: 105 million;

d) Loans to state-owned or local government-owned enterprises: 431 million;

e) Loans to other public administrations and miscellaneous entities: 96 million.

The table below shows the book value of the Bank's total fixed-yield securities exposure to sovereign states as at 31 December 2022, by portfolio.

(thousands of euro)	Financial assets measured at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income	Financial assets measured at amortised cost	Book value
Government securities				
Italy	–	1,696,969	6,082,732	7,779,702
France	–	–	586,401	586,401
Spain	–	338,768	1,405,409	1,744,177
Germany	–	–	337,672	337,672
Other Securities from public bodies				
- Italy	8,354	36,110	607,062	651,525
- Others	–	–	136,777	136,777
Total	**8,354**	**2,071,847**	**9,156,053**	**11,236,254**

The table does not include GACS-assisted securitisation securities.

With regard to government bond exposures, the following table provides information on maturity, by portfolio:

(thousands of euro)	Up to 1 year	1 to 5 years	Over 5 years	**Total**
Financial assets measured at fair value through other comprehensive income (Item 30)	–	1,492,340	543,397	2,035,737
Financial assets measured at amortised cost (Item 40)	555,292	3,646,089	4,210,833	8,412,214

PART F Information on equity

Section 1 Company equity

QUALITATIVE INFORMATION

A healthy banking system is absolutely in the public interest, and the solvency and reliability of banks requires them to maintain appropriate capital resources. Such resources must be sufficient for banks to absorb any losses without prejudicing the rights of depositors, bearing in mind that losses also affect the Bank's reputation.

The need for adequate capital was made even more evident by the crisis and the actions of the Supervisory Authorities, which now operate on a supranational basis.

The economic/financial crisis has brought the equity levels of banks into sharp focus following the large losses recorded, the explosion of expected losses caused by the recession, the deterioration of loan quality and the uncertain value of assets. Said need is made even more topical by the ongoing tensions linked to the rise in inflation, the Russian-Ukrainian conflict and the energy crisis. Without forgetting, at the same time, the need to support the economy in order to stimulate a recovery. Recent events that have affected the banking system are evidence of this. Supervisory Bodies are focusing more and more on the capital adequacy of banks.

The Bank has always made every effort to have an adequate and suitable level of capital to enable its operations to grow steadily and to protect against risk in accordance with the requirements of the supervisory regulations. In line with its origin as a cooperative bank, the capitalisation policy has been identified as the instrument that, by creating the role of shareholder/customer, made it possible to pursue the strategy of autonomous growth decided by management.

By resolution of the shareholders' meeting of 29 December 2021, the Bank, in accordance with the provisions of Law No. 33 of 24 March 2015, converted from a cooperative company limited by shares to a joint-stock company. The transformation into a joint-stock company will not undermine the founding principles that underpin the Bank's activities.

This is why the history of Banca Popolare di Sondrio features periodic increases in capital, carried out in ways that are technically straightforward and transparent, so that the shareholders can immediately understand the terms of the operation. Based on this premise, we have never issued innovative capital instruments and the repeated increases have always been taken up en masse.

The financial resources raised by such operations, together with the reserves built up in accordance with the articles of association, have enabled the Bank to expand its activities harmoniously and to look forward to future challenges with a certain tranquillity.

It should be emphasised that the critical situation in the financial markets, especially in the area of loans to customers, has had a negative impact on banks' profitability and consequently on self-financing, which in the past, has always contributed substantially to banks' capitalisation. The tensions that have characterised the banking system in recent years and that have affected various banks have not, in the last analysis, facilitated the projects to strengthen the capital adequacy of the Bank, despite the growth in operations designed to add specialist instruments in support of the real economy. In this context, we have acquired Factorit Spa, Banca della Nuova Terra spa and Prestinuova spa in recent years, while also increasing the equity interests held in companies with complementary activities. The last increase in share capital took place in 2014 through a combined bonus and rights issue with the receipt for the cash portion of 343 million euro.

Capital adequacy is constantly checked and periodically brought to the attention of the Administrative and Control Bodies. Furthermore, in accordance with the CCRR and CRD regulations, it is also assessed in relation to the Bank's ability to resist in situations of hypothetical stress events in particularly adverse conditions.

The Ordinary Shareholders' Meeting of 30 April 2022, called to approve the 2021 financial statements and the appropriation of profit, resolved to pay a total dividend of 90.677 million euro.

B. QUANTITATIVE INFORMATION

The component parts and size of the Bank's capital and equity are described in Part B, Liabilities, Section 12 of these notes to the financial statements.

B.1 Equity: breakdown

Items/Values	31/12/2022	31/12/2021
1. **Share capital**	**1,360,157**	**1,360,157**
2. **Share premium accounts**	**78,978**	**79,005**
3. **Reserves**	**1,276,172**	**1,153,960**
- of profits	1,276,172	1,153,960
a) legal	573,659	451,807
b) statutory	590,411	590,411
c) treasury shares	30,000	30,000
d) other	82,102	81,742
- others	-	-
4. **Equity instruments**	**-**	**-**
5. **(Treasury shares)**	**(25,264)**	**(25,322)**
6. **Valuation reserves:**	**(30,086)**	**52,088**
– Equity securities measured at fair value through other comprehensive income	69,046	74,598
– Hedging of equities designated at fair value through other comprehensive income	-	-
– Financial assets (other than equity securities) measured at fair value through other comprehensive income	(71,024)	13,467
– Property, equipment and investment property	10,448	9,817
– Intangible assets	-	-
– Hedges of foreign investments	-	-
– Cash flow hedges	-	-
– Hedging instruments [non-designated elements]	-	-
– Exchange rate differences	-	-
– Non-current assets and groups of assets held for sale	-	-
– Financial liabilities designated at fair value through profit or loss (changes of own credit rating)	-	-
– Actuarial gains (losses) on defined benefit pension plans	(38,557)	(45,794)
– Share of reserves on investments accounted for by the equity method	-	-
– Special revaluation laws	-	-
7. **Profit (loss) for the year**	**212,902**	**212,099**
Total	**2,872,858**	**2,831,987**

B.2 Valuation reserve of financial assets measured at fair value through comprehensive income: breakdown

Assets/Amounts	Total 31/12/2022 Positive reserve	Total 31/12/2022 Negative reserve	Total 31/12/2021 Positive reserve	Total 31/12/2021 Negative reserve
1. Fixed-yield securities	–	71,024	17,461	3,994
2. Equity securities	72,804	3,758	77,675	3,077
3. Loans	–	–	–	–
Total	**72,804**	**74,782**	**95,136**	**7,071**

B.3 Valuation reserves of financial assets measured at fair value through other comprehensive income: changes in the year

	Fixed-yield securities	Equity securities	Loans
1. **Opening balance**	**13,467**	**74,598**	**–**
2. **Positive changes**	**1,351**	**5,571**	**–**
2.1 Increases in fair value	–	5,571	–
2.2 Adjustments for credit risk	1,318	–	–
2.3 Transfer to income statement of negative r eserves from disposals	33	–	–
2.4 Transfer to other components of equity (equity securities)	–	–	–
2.5 Other changes	–	–	–
- of which business combinations	–	–	–
3. **Negative changes**	**(85,842)**	**(11,123)**	**–**
3.1 Reductions in fair value	(77,942)	(9,995)	–
3.2 Write-backs for credit risk	(958)	–	–
3.3 Transfer to income statement of negative reserves from disposals: realisation	(6,942)	–	–
3.4 Transfer to other components of equity (equity securities)	–	(1,128)	–
3.5 Other changes	–	–	–
- of which business combinations	–	–	–
4. **Closing balance**	**(71,024)**	**69,046**	**–**

B.4 Valuation reserves relating to defined-benefit plans: changes in the year

The valuation reserve relating to the defined-benefit plans is negative by 38.557 million euro.

This amount derives from the recognition of the related actuarial gains and losses and the associated taxation.

Section 2 *Capital and capital adequacy ratios*

The disclosure on own funds and capital adequacy is represented in the document «Disclosure to the Public - Pillar 3 at 31 December 2022» prepared on the basis of the regulatory provisions established by Circular No. 285 of 17 December 2013 and subsequent updates, issued by the Bank of Italy, and by Regulation (EU) No. 575/2013 of the European Parliament and Council of 26 June 2013 (CRR), as amended. The document contains consolidated information and is published together with the financial statements on the Bank's website.

PART G *Business combination involving companies or business units*

Section 1 *Transactions carried out during the financial year*

On 1 April 2022, the acquisition by the parent company Banca Popolare di Sondrio S.p.a. of 66.67% of the share capital of Rent2Go S.r.l., a long-term rental company dedicated to professionals, VAT numbers and small businesses, in which the Bank already held a 33.33% stake, became effective. The consideration recognised for the acquisition brings the carrying value of the investment to 13.5 million euro.

On 28 July 2022 was the acquisition by the subsidiary Immobiliare San Paolo S.r.l. of 100% of the share capital of Prima Srl, a real estate company acquired as a result of a transaction aimed at protecting the Parent Company's credit. The consideration paid for the capital acquisition amounted to 0.3 million euro.

For details, see Part G of the Notes to the Consolidated Financial Statements as at 31 December 2022.

Section 2 *Transactions realised after the end of the financial year*

There have been no business combinations after 31 December 2022 and up to the date of approval of these Annual Financial Statements.

Section 3 *Retrospective adjustments*

In the year 2022, no adjustments were recognised in connection with business combinations that occurred in the same or previous years.

PART H *Related-party transactions*

1. Information on the remuneration of managers with strategic responsibilities

Below there is information on the remuneration paid to Directors, Statutory Auditors and key management personnel in accordance with IAS 24.

The values shown with reference to the Directors (including the emolument attributable to the Chief Executive Officer), the Statutory Auditors and the other Managers with strategic responsibilities refer to the emoluments pertaining to the financial year, regardless of their payment.

	Board of Directors	Board of Statutory Auditors	Other managers with strategic responsibilities
Fees for the office held in Banca Popolare di Sondrio	1,327	279	–
Non-monetary benefits	–	–	184
Bonuses and other incentives	–	–	405
Other remuneration	206	19	2,552

In accordance with the provisions of Article 123-*ter* of Legislative Decree 58/1998, as amended, and Article 84-*quater* of the Issuers' Regulation (Consob Resolution No. 11971/1999, as amended), the Bank has made available both at its registered office and on its website the «Report on Remuneration Policy and Compensation Paid». Please refer to said document for more details on the above-mentioned fees.

2. Related-party disclosures

In accordance with Consob Resolution No. 17221 of 12.3.2010 and subsequent amendments, by resolution of the Board of Directors on 11 November 2010, the Bank adopted its own Internal Regulation on related party transactions.

Said regulation was updated by resolutions of the Board of Directors of 26 March 2013, 29 June 2021 and is published on the company website at www.istituzionale.popso.it.

A related part is the person who, considering the hedged position, could exercise an influence on the bank that it can impact the way it operated, favoring, directly or indirectly, their own personal interests.

Related parties have been identified in accordance with IAS 24 and with the above mentioned Consob Regulation. Related parties are:

1. Subsidiary companies, parent companies and companies under joint control.
2. Companies that can exercise significant influence over the reporting bank.
3. Associated companies and their subsidiaries.
4. Joint ventures in which the reporting bank holds an investment.
5. Managers with strategic responsibilities within the bank or its parent company.
6. Close family members of the parties listed in point 5.
7. Subsidiary companies, companies under joint control by one of the parties listed in points 5 and 6.
8. Pension funds of employees and any other entity related to them.

Close family members are defined as follows: the spouse (not legally separated) or companion of the person concerned; the children and dependant relatives of the person concerned, of the spouse (not legally separated) and of the companion; the parents, second degree relatives and others living with the person concerned.

Significant influence is presumed to exist if the shareholder holds a right to vote of at least 10% unless the contrary can be clearly demonstrated.

Relations with companies in which investments are held are conducted as part of normal operations and mainly relate to current accounts, deposit accounts and loans. These relations are regulated from a Group perspective and are normally in line with the conditions applied to the Parent Company in the reference markets and may differ from those that the subsidiary could see applied to it acting autonomously.

Other relations with other related parties, excluding the above companies, are also settled on the market terms applying to the individual transactions, or on terms in line with those applied to employees, if applicable.

Related parties with administration, management and control functions, are applied a special approval procedure for the granting of bank credit laid down in art. 136 of the TUB. This makes the transaction subject to the unanimous approval of the Board of Directors and the consent of all members of the Board of Statutory Auditors.

The balance sheet and income statement figures as at 31 December 2022 are shown below for related parties as defined above on the basis of IAS 24:

(thousands of euro)	Assets	Liabilities	Income	Charges	Guarantees given and commitments	Guarantees received
Directors	580	10,138	12	54	134	736
Statutory auditors	714	439	11	0	267	2,186
Management	2	1,155	0	15	618	0
Family members	1,257	6,771	27	41	434	10,774
Subsidiaries	5,515,303	80,082	14,358	218	2,006,453	36,518
Associated companies	774,164	103,561	6,170	53	211,318	1,192
Other	2,231	1,224	39	0	969	1,275
Totals	**6,294,251**	**203,369**	**20,617**	**381**	**2,220,194**	**52,681**

Assets and liabilities mainly refer to item 40 «Financial assets measured at amortised cost - b) loans to customers» and item 10 «Financial liabilities measured at amortised cost - b) amounts due to customers» and have a percentage incidence of 17.6% and 0.6%, respectively. Income and expenses mainly relate to interest and commission items and account for 1.92% and 0.2%, respectively.

Loans to subsidiaries are represented mainly by interbank relations with Banca Popolare di Sondrio (Suisse) SA, Factorit spa and Banca della Nuova Terra spa, while loans to associated companies relate for 341 million euro to Arca Holding spa and 308 million euro to Alba Leasing spa.

PART M Information on Leasing

Section 1 Lessee

QUALITATIVE INFORMATION

Contracts that fall within the application of IFRS 16 can be grouped into three distinct categories:

a) buildings, which are the most significant group;

b) cars;

c) other types, including the rental of IT equipment.

In accordance with IFRS 16, the rights held under licence agreements have been excluded from the scope of application of the standard. They continue to be recognised under IAS 38 – Intangible assets.

The lease contracts mainly relate to buildings used as bank branches and generally have a duration of more than 48 months, typically 72 or 108 months, with automatic renewal options. Lease instalments are revised annually from the second year of the contract to reflect 75% or 100% of the change in the consumer price index for the families of blue- and white-collar workers.

Lease contracts for cars and IT equipment typically have a four-year term without the exercise of renewal and/or purchase options and payment on a monthly basis.

Checks for indicators of potential impairment are carried out consistently with the criteria for other Property, equipment and investment property (e.g. existence of plans to divest or negotiate branches, presence of disused branches). There was no evidence of any impairment in the right-of-use asset.

In line with the disclosures required by paras. 51, 53 and 59 of IFRS 16, the following supplementary information is provided:

– variable lease payments: situations involving variable lease payments are marginal for disclosure purposes, as this practice is rare in contracts signed by the Bank;
– extension and termination options: contracts signed by the Bank generally envisage giving 6 months' notice of termination. The bank is required to pay 35% of the outstanding instalments if car leases are terminated early, while the lease instalments on contracts for IT equipment must be paid in full, regardless of any early termination. Most contracts for the lease of branch premises require payment of the cost of restoring them to their original condition if the lease is terminated. This amount is not very relevant;
– guarantees on the residual value: the Bank does not provide guarantees on the residual value;
– leases not yet signed: the Bank has not made any lease commitments of significant amount;
– sale and leaseback transactions: the Bank has no sales plans or leaseback agreements in place;

Part B of the Notes to the financial statements provides information about leased right-to-use assets (Tables 8.1 - 8.6 Part B, Assets) and lease liabilities (Tables 1.1 - 1.2 - 1.6 Part B, Liabilities and equity). In particular, leased right-to-use assets total 170 million euro, while lease liabilities total 174 million euro.

Part C of the Notes to the financial statements contains the information required by para. 53 of IFRS 16 about the interest charged on lease liabilities and the income earned from sub-leasing transactions. See those sections for further details.

As indicated in part A of the financial statements, the Bank applies the exemptions allowed by IFRS 16 for short-term leases and low-value leases, the costs of which amounted to 0.106 million euro in 2022.

With Regulation (EU) 2021/1421 of 31 August 2021, the EU endorsed the IASB document «Concessions on royalties related to COVID-19 as of 30 June 2021 (Amendment to IFRS 16)». The amendment to the International Financial Reporting Standard (IFRS) 16 Leasing introduces as a practical expedient the possibility for the lessee not to treat the unpaid fees, as a direct consequence of Covid-19, as changes to the original contract and therefore do not imply a change of the amortisation plan of the lease, with consequent recalculation of the liability.

In view of the above, Banca Popolare di Sondrio did not request any suspension of payment of the lease instalments to deal with the emergency; furthermore, no branch closure was carried out that could have revealed signs of impairment of the rights of use.

QUANTITATIVE INFORMATION

As required by para. 53 of IFRS 16, the following information is provided: carrying amount of right-to-use assets at the reporting date and the depreciation charge on right-to-use assets by category of underlying asset.

	2022				2021
Assets/Amounts	Properties	Cars	Other	Total	Total
Initial right-of-use	183,697	60	157	183,914	191,839
Depreciation	(19,858)	(24)	(82)	(19,964)	(19,703)
Other changes	6,203	15	69	6,287	11,778
Closing carrying amount	**170,042**	**51**	**144**	**170,237**	**183,914**

As regards the «Other changes», the impact is mainly linked to restatement of the right-of-use assets due to the ISTAT adjustments and to the opening and closing of contracts.

Section 2 *Lessor*

QUALITATIVE INFORMATION

The Bank is party to operational leases on buildings. These operational lease contracts do not transfer to the lessee substantially all the risks and benefits deriving from ownership of the assets, which remain with the lessor. In the case of operational lease contracts, the lessor recognises the lease instalments in the income statement on an accruals basis.

QUANTITATIVE INFORMATION

1. Balance sheet and income statement information

Reference should be made to the contents of Part C - Income Statement, Table 14.2 (Other operating income: breakdown) for information on other income deriving from operating leases.

3. Operational leases

The maturities of the payments to be received are summarised below.

3.1 Maturities of payments to be received

	2022	2021
Time band	Lease payments receivable	Lease payments receivable
Up to 1 year	618	572
1 to 2 years	602	562
2 to 3 years	525	554
3 to 4 years	453	453
4 to 5 years	340	382
Over 5 years	689	666
Total	**3,227**	**3,189**

3.2 Other information

No other information to be reported.

APPENDICES

The appendices listed below contain additional information with respect to the notes to the financial statements, of which they form an integral part:

– list of revalued assets still owned by the Bank (article 10, Law No. 72 of 19/3/1983);

– schedule of the Independent Auditors' fees for the year as per art. 149 *duodecies* of the Issuers' Regulations;

– financial statements of the subsidiaries Banca Popolare di Sondrio (SUISSE) SA., Factorit spa, Banca della Nuova Terra spa, Sinergia Seconda srl.

LIST OF REVALUED ASSETS STILL OWNED BY THE BANK

(art. 10 of Law No. 72 dated 19/3/1983)

(in euro)

DESCRIPTION	Carrying amount net of revaluations	Revaluation Law No. 576 of 2/12/75	Revaluation Law No. 72 of 19/03/83	Revaluation Law No. 413 of 30/12/91	Total at 31/12/2022	Accumulated amortisation/ depreciation at 31/12/2022	Financial Statements at 31/12/2022
ABBADIA LARIANA - VIA NAZIONALE 140/A	813,504	-	-	-	813,504	524,710	288,794
ABBIATEGRASSO-VIA S.MARIA-ANG P.GARIBALDI	2,261,103	-	-	-	2,261,103	612,565	1,648,538
ALASSIO - VIA MAZZINI 55	1,565,499	-	-	-	1,565,499	23,482	1,542,017
ALBIATE - VIA TRENTO 35	661,052	-	-	-	661,052	461,966	199,086
ALBIOLO - VIA INDIPENDENZA 10	211,151	-	-	-	211,151	9,502	201,649
APRICA - CORSO ROMA 140	450,765	-	356,355	146,929	954,049	696,939	257,110
ARDENNO - VIA LIBERTÀ 24	561,355	-	-	-	561,355	446,277	115,078
BERBENNO DI VALTELLINA - VIA RANEÈ 542	24,206,275	-	-	99,417	24,305,692	8,650,901	15,654,791
BERGAMO - VIA BROSETA 64/B	3,794,327	-	-	-	3,794,327	1,755,188	2,039,139
BERGAMO - VIA G. D'ALZANO 5	2,324,744	-	-	-	2,324,744	759,248	1,565,496
BERGAMO - VIA GHISLANDI VITTORE 4	1,288,525	-	-	-	1,288,525	328,574	959,951
BERZO DEMO - VIA NAZIONALE 14	149,932	-	-	-	149,932	11,245	138,687
BONATE SOTTO - VIA VITTORIO VENETO 37/A	765,114	-	-	-	765,114	422,112	343,002
BORMIO - VIA ROMA 64	439,238	46,481	573,267	136,524	1,195,510	373,894	821,616
BORMIO - VIA ROMA CORNER VIA DON PECCEDI	3,803,773	-	361,520	301,774	4,467,067	1,736,080	2,730,987
BRENO - PIAZZA RONCHI 4	1,529,470	-	-	87,467	1,616,937	1,091,469	525,468
BRESCIA - VIA CROCIFISSA DI ROSA 1	1,645,851	-	-	-	1,645,851	161,516	1,484,335
BRESCIA - VIA GRAMSCI 15	5,939,785	-	-	-	5,939,785	130,963	5,808,822
BRESCIA AG.4 - VIA FRATELLI UGONI 2	1,031,619	-	-	-	1,031,619	139,269	892,350
CAMOGLI - VIA CUNEO 9	220,960	-	-	-	220,960	43,087	177,873
CANTU' - VIA MILANO 47	551,416				551,416	24,814	526,602
CHIAVENNA - VIA DOLZINO 67	1,200,578	46,481	1,149,057	1,066,173	3,462,289	2,409,969	1,052,320
CHIESA VALMALENCO - VIA ROMA 138	1,523,025	17,560	664,795	133,250	2,338,630	600,974	1,737,656
COLICO - PIAZZA CAVOUR 11	247,411	-	-	96,488	343,899	207,899	136,000
COLICO - VIA NAZIONALE 27	6,996,045	-	-	-	6,996,045	1,885,706	5,110,339
COMO - VIA GIULINI 12	1,370,193	-	-	-	1,370,193	756,216	613,976
COMO - VIALE INNOCENZO XI 71	4,403,823	-	-	-	4,403,823	1,414,183	2,989,641
DARFO BOARIO TERME - CORSO ITALIA 10/12	1,086,632	-	-	-	1,086,632	856,826	229,806
DARFO BOARIO TERME - CORSO ITALIA 77	559,000	-	-	-	559,000	-	559,000
DELEBIO - PIAZZA S. CARPOFORO 7/9	1,133,580	23,241	645,773	688,773	2,491,367	1,360,486	1,130,881
DERVIO - VIA DON INVERNIZZI 2	1,270,219	-	-	329,276	1,599,495	1,101,979	497,516
DOMASO - VIA STATALE REGINA 71	584,106	-	-	53,817	637,923	261,553	376,370
DONGO - PIAZZA V. MATTERI 14	3,770,381	-	-	415,551	4,185,932	1,423,451	2,762,481
EDOLO - PIAZZA MARTIRI DELLA LIBERTÀ 16	1,058,736	-	-	509,161	1,567,897	1,567,897	-
GENOA - VIA XXV APRILE 7	10,239,131	-	-	-	10,239,131	4,099,097	6,140,034
GERA LARIO - VIA STATALE REGINA 14	292,667	-	131,677	227,733	652,077	408,852	243,225
GRAVEDONA - PIAZZA GARIBALDI 10/12	3,494,971	-	-	-	3,494,971	997,387	2,497,584
GRAVEDONA - VIA TAGLIAFERRI 5	85,943	-	-	223,957	309,900	97,619	212,282
GRAVELLONA TOCE - CORSO MARCONI 95	1,533,857	-	-	-	1,533,857	573,625	960,232
GROSIO - VIA ROMA 67	95,936	7,230	229,791	51,484	384,441	262,318	122,123
GROSOTTO - VIA STATALE 73	521,148	12,911	147,146	42,099	723,304	172,220	551,084
GRUMELLO DEL MONTE - VIA ROMA 133	1,809,670	-	-	-	1,809,670	757,904	1,051,765
ISOLACCIA VALDIDENTRO - VIA NAZIONALE 31	933,532	-	290,229	272,602	1,496,363	526,257	970,106
LECCO - CORSO MARTIRI DELLA LIBERAZIONE 63/65	9,408,936	-	351,191	2,124,557	11,884,684	5,729,498	6,155,186
LECCO - VIA GALANDRA 28	168,623	-	-	41,959	210,582	195,841	14,741
LECCO - VIALE MONTE GRAPPA 18	999,369	-	-	-	999,369	579,877	419,492
LIVIGNO - VIA S.ANTONI 135 - VIA PRESTEFAN	5,946,629	-	345,487	358,828	6,650,944	2,723,223	3,927,721
LODI - VIA GARIBALDI 23/25 - CORNER VIA MARSALA	3,685,221	-	-	-	3,685,221	630,945	3,054,276
MADESIMO - VIA CARDUCCI 3	493,542	-	-	203,733	697,275	697,275	1
MANDELLO DEL LARIO - VIA STATALE 87	1,809,143	-	-	-	1,809,143	80,648	1,728,495
MANTUA - CORSO VITTORIO EMANUELE 26	7,822,343	-	-	-	7,822,343	1,122,165	6,700,178
MANTUA - PIAZZA BROLETTO 7	1,265,944	-	-	-	1,265,944	208,881	1,057,063
MARCHIROLO - VIA CAV. EMILIO BUSETTI 7/A	1,089,018	-	-	-	1,089,018	568,271	520,747
MAZZO VALTELLINA - VIA S. STEFANO 18	645,082	16,010	163,550	48,833	873,475	312,355	561,121
MELEGNANO - PIAZZA GARIBALDI 1	3,160,750	-	-	-	3,160,750	639,298	2,521,452
MILAN - PIAZZA DELLA TRIVULZIANA 6	925,400	-	-	-	925,400	427,819	497,581
MILAN - PIAZZA BORROMEO 1	38,217	-	-	213,722	251,939	235,450	16,489
MILAN - PIAZZALE CIMITERO MONUMENTALE 23	1,392,686	-	-	-	1,392,686	229,468	1,163,218
MILAN - VIA CANOVA 39 CORNER CORSO SEMPIONE	1,738,854	-	-	-	1,738,854	1,165,131	573,723
MILAN - VIA COMPAGNONI 9	51,141	-	-	6,842	57,983	57,983	-
MILAN - VIA LIPPI 25	53,970	-	-	1,635	55,605	55,605	-
MILAN - VIA MORIGI 2/A	73,590	-	-	123,930	197,520	197,520	-
MILAN - VIA PORPORA 104	5,318,961	-	-	165,381	5,484,342	2,415,772	3,068,570
MILAN - VIA S.MARIA FULCORINA 1	10,881,110	159,818	3,047,096	2,461,826	16,549,850	6,936,834	9,613,016
MILAN - VIA S.MARIA FULCORINA 11	493,165	-	-	-	493,165	493,165	-
MILAN - VIA SANGALLO 16	4,752	-	-	11,915	16,667	16,667	-
MILAN - VIA SFORZA 48	3,197,671	-	-	-	3,197,671	690,561	2,507,111

DESCRIPTION	Carrying amount net of revaluations	Revaluation Law No. 576 of 02/12/1975	Revaluation Law No. 72 of 19/03/1983	Revaluation Law No. 413 of 30/12/91	Total at 31/12/2022	Accumulated amortisation/ depreciation at 31/12/2022	Financial Statements at 31/12/2022
MILAN - VIA SOLARI 15	422,156	-	-	-	422,156	253,294	168,862
MILAN -VIALE FAENZA 22	864,004	-	-	-	864,004	142,561	721,443
MONTAGNA IN VALTELLINA - VIA STELVIO 30	472,050	-	328,458	398,008	1,198,516	731,095	467,421
MONZA - VIA CAVALLOTTI 5	9,115,304	-	-	-	9,115,304	682,224	8,433,079
MORBEGNO - PIAZZA CADUTI DELLA LIBERTA' 6	2,202,881	-	1,088,606	704,283	3,995,770	2,144,779	1,850,991
MORBEGNO - VIA GARIBALDI 81	972,127	25,823	-	56,050	1,054,000	-	1,054,000
MORBEGNO - VIA NANI 13	181,261	-	-	17,739	199,000	-	199,000
MORBEGNO - VIA V ALPINI 172	764,418	-	-	-	764,418	557,665	206,753
MOZZO - VIA G. D'ANNUNZIO 4	65,741	-	-	14,259	80,000	-	80,000
NOVATE MEZZOLA - VIA ROMA 13	1,079,527	-	251,282	89,219	1,420,028	506,842	913,186
PASSO DELLO STELVIO	630,416	-	-	296,176	926,592	909,793	16,799
PESCATE	1,336	-	-	-	1,336	220	1,116
PESCATE - VIA ROMA 98/E	494,059	-	-	-	494,059	403,665	90,394
PONTE DI LEGNO - PIAZZALE EUROPA 8	3,670,347	-	-	-	3,670,347	1,912,568	1,757,779
PONTE VALTELLINA - PIAZZA DELLA VITTORIA 1	833,767	12,911	258,098	86,540	1,191,316	396,383	794,934
REGOLEDO DI COSIO VALTELLINO - PIAZZA S.MARTINO 14	132,135	-	-	-	132,135	25,766	106,369
REGOLEDO DI COSIO VALTELLINO - VIA ROMA 7	511,300	-	-	78,405	589,705	109,705	480,000
ROME - AG. 10 - VIA LAURENTINA	2,360,894	-	-	-	2,360,894	177,067	2,183,827
ROME - AG. 2- VIA GHERARDI 45	2,136,068	-	-	-	2,136,068	224,287	1,911,781
ROME - PIAZZA FILIPPO IL MACEDONE 75	2,400,000	-	-	-	2,400,000	1,332,000	1,068,000
ROME - VIA DELLA FARNESINA 154	1,011,345	-	-	-	1,011,345	412,487	598,858
ROME - VIA DI PROPAGANDA FIDE 27	155,625	-	350,503	88,926	595,054	595,054	-
ROME AG. 37 - VIA TAGLIAMENTO 37	1,752,535	-	-	-	1,752,535	236,592	1,515,943
ROME VIA DEL TRITONE 27	7,451,913	-	-	-	7,451,913	1,229,566	6,222,347
S. CASSIANO VALCHIAVENNA - VIA SPLUGA 108	397,672	-	-	103,093	500,765	360,895	139,870
S. PIETRO BERBENNO - VIA NAZIONALE OVEST 110	1,288,307	22,208	328,181	122,795	1,761,491	815,262	946,229
S. SIRO - VIA STATALE REGINA 223	467,692	-	-	-	467,692	293,239	174,453
SALO' - VIALE DE GASPERI 13	1,672,029	-	-	-	1,672,029	772,687	899,342
SEGRATE - VIA ROMA 96	1,070,468	-	-	-	1,070,468	109,877	960,591
SEREGNO - VIA WAGNER 137/A	123,950	-	-	13,282	137,232	137,232	- 0
SESTO CALENDE - PIAZZA MAZZINI 10	443,111	-	-	-	443,111	126,287	316,824
SONDALO - VIA ZUBIANI 2/4/6/8/10	263,671	25,823	312,456	158,005	759,955	220,146	539,809
SONDRIO - CORSO V.VENETO 7	2,406,658	-	-	1,190,813	3,597,471	844,255	2,753,216
SONDRIO - LARGO PEDRINI 8	363,862	-	-	22,527	386,389	269,669	116,720
SONDRIO - LUNGO MALLERO CADORNA 24	3,441,300	-	196,254	451,249	4,088,803	1,889,486	2,199,317
SONDRIO - PIAZZA GARIBALDI 1 - PALAZZO LAMBERTENGHI	16,056,897	-	-	-	16,056,897	4,402,284	11,654,613
SONDRIO - PIAZZA GARIBALDI 16	1,563,598	351,191	7,810,125	3,142,651	12,867,565	8,242,869	4,624,696
SONDRIO - PIAZZALE BERTACCHI 57	2,613,732	-	-	-	2,613,732	1,908,192	705,541
SONDRIO - PIAZZALE TOCALLI - VIA DELLE PRESE	348,608	-	-	-	348,608	339,893	8,715
SONDRIO - VIA BERNINA 1	181,930	-	82,385	45,795	310,110	221,043	89,067
SONDRIO - VIA CAIMI 29	357,915	-	-	46,342	404,257	404,257	-
SONDRIO - VIA CESURA 4	388,303	-	-	64,149	452,452	223,883	228,569
SONDRIO - VIA CESURA 3-7-9-13-15	12,479,636	-	-	-	12,479,636	263,663	12,215,974
SONDRIO - VIA LUSARDI 53	247,506	-	-	-	247,506	230,181	17,325
SONDRIO - VIA PIO RAJNA 1	16,195	-	-	40,221	56,416	56,416	0
SONDRIO - VIA SERTORELLI 2	2,193,892	-	-	-	2,193,892	1,059,400	1,134,492
SONDRIO - VIA TONALE 6	200,035	-	243,248	54,643	497,926	364,938	132,988
TALAMONA - VIA CUSINI 29	223,475	-	313,640	203,691	740,806	586,576	154,230
TEGLIO - PIAZZA S. EUFEMIA 2	40,150	13,944	546,700	148,165	748,959	506,172	242,787
TIRANO - LOCALITA' VALCHIOSA	200,000	-	-	-	200,000	-	200,000
TIRANO - PIAZZA CAVOUR 20	392,572	-	1,736,322	718,576	2,847,470	1,973,760	873,710
TURIN - VIA XX SETTEMBRE 37	6,473,623	-	-	-	6,473,623	2,039,019	4,434,604
TRESCORE BALNEARIO - PIAZZA CAVOUR 6	1,292,789	-	-	-	1,292,789	368,445	924,344
TRESENDA DI TEGLIO - VIA NAZIONALE 57	192,524	-	193,671	67,596	453,791	453,791	0
TREVISO - CORSO DEL POPOLO 50	4,883,629	-	-	-	4,883,629	872,274	4,011,355
VALMADRERA - VIA S.ROCCO 31/33	1,440,570	-	-	-	1,440,570	348,098	1,092,472
VARESE - VIALE BELFORTE 151	4,711,611	-	-	-	4,711,611	1,802,541	2,909,070
VERCELLI - PIAZZA MAZZUCCHELLI 12	1,648,346	-	-	-	1,648,346	390,238	1,258,108
VERDELLINO - LARGO LUIGI EINAUDI 1/B	336,182	-	-	-	336,182	247,094	89,088
VERONA - CORSO CAVOUR 45/47	2,172,112	-	-	-	2,172,112	327,204	1,844,907
VEZZA D'OGLIO - VIA NAZIONALE 116	715,844	-	-	-	715,844	53,688	662,156
VILLA DI CHIAVENNA - VIA ROMA 39	371,668	-	-	7,639	379,307	141,307	238,000
VILLA DI TIRANO - TRAVERSA FOPPA 25	585,623	-	-	7,651	593,274	242,163	351,111
VILLASANTA - VIA SCIESA 7/9	952,439	-	-	-	952,439	665,629	286,810
VOGHERA - VIA EMILIA 49	2,163,073	-	-	-	2,163,073	509,796	1,653,277
OVERALL TOTAL	**276,154,568**	**781,632**	**22,496,863**	**19,084,124**	**318,517,187**	**114,623,935**	**203,893,252**

Properties are shown at their total value regardless of their intended use

STATEMENT OF FEES FOR THE YEAR FOR SERVICES RENDERED BY AUDITING COMPANIES PURSUANT TO ART. 149 DUODECIES OF THE ISSUERS' REGULATION

Amounts in euro	Banca Popolare di Sondrio		Group Companies		Total		Total
Type of services	EY S.p.A.	EY Network	EY S.p.A.	EY Network	EY S.p.A.	EY Network	
Audit services	346,422	–	180,420	490,842	526,842	490,842	1,017,684
Certification services	223,135	–	2,000	–	225,135	–	225,135
Other services	60,000	72,500	–	–	60,000	72,500	132,500
Total	**629,557**	**72,500**	**182,420**	**490,842**	**811,977**	**563,342**	**1,375,319**

FINANCIAL STATEMENTS:

BANCA POPOLARE DI SONDRIO (SUISSE) SA
FACTORIT SPA
BANCA DELLA NUOVA TERRA SPA
SINERGIA SECONDA SRL

BANCA POPOLARE DI SONDRIO (SUISSE) SA

FINANCIAL STATEMENTS AT 31 DECEMBER 2022

(in Swiss francs)

ASSETS	2022	2021
Liquidity	888,246,726	867,780,327
Loans and receivables with banks	118,376,519	210,159,440
Loans and receivables with customers	589,856,062	556,248,476
Mortgage loans	4,781,338,444	4,527,108,524
Positive replacement values of derivative financial instruments	13,135,548	5,107,497
Financial assets	50,774,255	48,213,398
Accruals and deferrals	9,621,717	9,002,028
Equity investments	2,421,333	2,790,135
Property, equipment and investment property	18,552,793	17,649,614
Other assets	3,240,465	7,147,110
Total assets	**6,475,563,862**	**6,251,206,549**
Total subordinated receivables	–	–

LIABILITIES	2022	2021
Due to banks	1,785,437,305	1,584,227,652
Customer deposits	3,472,039,700	3,508,124,936
Negative replacement values of derivative financial instruments	68,076,436	89,708,337
Cash obligations	30,232,000	27,397,000
Mortgages with issuers of construction bonds and loans	644,100,000	579,100,000
Accruals and deferrals	24,142,974	21,462,296
Other liabilities	5,124,654	5,937,571
Provisions	3,379,950	4,565,301
Reserves for general banking risks	18,000,000	18,000,000
Share capital	180,000,000	180,000,000
Legal reserve from capital	–	–
Legal reserve from profits	228,633,456	210,282,571
Optional retained earnings	–	–
Profit for the year	16,397,387	22,400,885
Total liabilities	**6,475,563,862**	**6,251,206,549**
Total subordinated commitments	–	–

OFF-BALANCE SHEET TRANSACTIONS	2022	2021
Possible commitments	294,737,638	313,466,075
Irrevocable commitments	16,541,633	16,146,986
Payment and supplementary payment commitments	1,092,560	993,440

INCOME STATEMENT
(in Swiss francs)

	2022	2021
Interest income:		
- Interest and discounts	76,510,397	70,986,930
- Interest income and dividends from financial investments	-	-
- Interest and dividends from trading activity	304,526	381,678
Interest expenses	-13,851,088	-6,993,736
Gross result from transactions on interest	**62,963,835**	**64,374,872**
Change in adjustment values for loss risks and losses from transactions on interest	3,834,839	-3,640,195
Net result from transactions on interest	**66,798,674**	**60,734,677**
Fee and commission income:		
- on trading in securities and investments	17,981,062	22,106,753
- on credit transactions	3,268,416	3,168,339
- on other service provisions	6,807,228	6,502,014
Fee and commission expense	-3,057,344	-2,995,358
Result from transactions in commissions and from service provisions	**24,999,362**	**28,781,748**
Result from trading transactions and fair value option	**10,006,546**	**14,346,143**
Result from disposal of financial assets	**54,327**	**1,205,863**
Income from investments	39,028	39,028
Result from real estate	10,200	50,702
Other ordinary income	2,052,862	2,541,147
Other ordinary expense	-3,053,213	-872,652
Other ordinary results	**-896,796**	**2,964,088**
Operating expenses		
Personnel costs	-53,235,756	-51,537,160
Other operating costs	-23,250,731	-22,728,074
Operating expenses	**-76,486,487**	**-74,265,234**

	2022	2021
Value adjustments of investments and depreciation of property, equipment and investment property and amortisation of intangible assets	-3,755,861	-3,462,266
Changes in provisions and other value adjustments and losses	479,879	-899,969
Result of the year	**21,145,317**	**28,199,187**
Extraordinary revenues	2,070	1,698
Extraordinary costs	–	–
Change in reserve for general banking risks	–	–1,750,000
Taxes	–4,750,000	–4,050,000
Profit for the year	**16,397,387**	**22,400,885**
PROPOSED ALLOCATION OF PROFIT FOR THE YEAR (with 2021 comparison)		
Profit for the year	16,397,387	22,400,885
Retained earnings	–	–
Profit available	**16,397,387**	**22,400,885**
The Board of Directors proposes to distribute a dividend of 4,050,000 CHF and the allocation of 12,347,387 CHF to the legal reserve from profits.		
Retained residual earnings	**–**	**–**

FACTORIT SPA

FINANCIAL STATEMENTS AT 31 DECEMBER 2022

(in euro)

	ASSETS		31/12/2022		31/12/2021
10.	Cash and cash equivalents		1,913,848		2,037,431
30.	Financial assets measured at fair value through other comprehensive income		793,216		1,166,554
40.	Financial assets measured at amortised cost		3,531,993,369		2,925,740,147
	a) Loans and receivables with banks	10,206,145		5,174,883	
	b) Loans and receivables with customers	3,521,787,224		2,920,565,264	
80.	Property, equipment and investment property		17,937,171		17,474,069
90.	Intangible assets		171,240		411,388
100.	Tax assets		17,122,232		18,245,516
	a) current	2,046,548		1,049,153	
	b) deferred	15,075,684		17,196,363	
120.	Other assets		14,492,164		1,661,959
	TOTAL ASSETS		**3,584,423,240**		**2,966,737,064**

LIABILITIES AND EQUITY			31/12/2022		31/12/2021
10.	Financial liabilities measured at amortised cost		3,278,808,584		2,676,529,160
	a) Due to banks	3,206,342,913		2,632,055,060	
	b) Customer deposits	72,465,671		44,474,100	
60.	Tax liabilities		4,871,665		3,589,562
	a) current	2,832,503		1,550,373	
	b) deferred	2,039,162		2,039,189	
80.	Other liabilities		20,241,656		18,705,395
90.	Provision for employee severance pay		1,893,425		2,014,551
100.	Provisions for risks and charges		1,185,767		1,143,008
	a) commitments and guarantees given	340,726		291,388	
	c) other provisions for risks and charges	845,041		851,620	
110.	Valuation reserves		-497,061		-310,385
140.	Reserves		157,985,405		152,868,266
150.	Share premium accounts		11,030,364		11,030,364
160.	Share capital		85,000,002		85,000,002
180.	Profit (loss) for the period (+/-)		23,903,433		16,167,141
	TOTAL LIABILITIES AND EQUITY		**3,584,423,240**		**2,966,737,064**

ITEMS			31/12/2022		31/12/2021
10.	Interest and similar income		33,206,207		16,931,520
	of which: interest income calculated using the effective interest method	33,206,207		16,931,520	
20.	Interest and similar expenses		-5,985,691		-643,373
30.	**NET INTEREST INCOME**		**27,220,516**		**16,288,147**
40.	Fee and commission income		29,941,015		25,344,300
50.	Fee and commission expense		-4,243,998		-3,450,566
60.	**NET FEE AND COMMISSION INCOME**		**25,697,017**		**21,893,734**
70.	Dividends and similar income		29,126		–
80.	Net trading income		28,152		24,280
120.	**TOTAL INCOME**		**52,974,811**		**38,206,161**
130.	Net adjustments/write-backs for credit risk related to:		797,510		4,260,434
	a) financial assets measured at amortised cost	797,510		4,260,434	
150.	**NET FINANCIAL INCOME**		**53,772,321**		**42,466,595**
160.	Administrative expenses:		-17,731,056		-18,098,662
	a) personnel expenses	-12,447,609		-13,074,732	
	b) other administrative expenses	-5,283,447		-5,023,930	
170.	Net accruals to provisions for risks and charges		-49,338		130,498
	a) commitments for guarantees given	-49,338		244,855	
	b) other net provisions	–		-114,357	
180.	Depreciation and net impairment losses on property, equipment and investment property		-1,285,911		-1,515,905
190.	Amortisation and net impairment losses on intangible assets		-297,384		-140,268
200.	Other operating income/expense		863,591		629,588
210.	**OPERATING COSTS**		**-18,500,098**		**-18,994,749**
250.	Gains (losses) on sales of investments		8,017		21,526
260.	**PRE-TAX PROFIT (LOSS) FROM CONTINUING OPERATIONS**		**35,280,240**		**23,493,372**
270.	Income taxes for the year from current operations		-11,376,807		-7,326,231
280.	**POST-TAX PROFIT (LOSS) FROM CONTINUING OPERATIONS**		**23,903,433**		**16,167,141**
300.	**PROFIT (LOSS) FOR THE PERIOD**		**23,903,433**		**16,167,141**

BANCA DELLA NUOVA TERRA SPA

FINANCIAL STATEMENTS AT 31 DECEMBER 2022

(in euro)

ASSETS			31/12/2022		31/12/2021
10.	Cash and cash equivalents		14,288,861		7,651,105
40.	Financial assets measured at amortised cost		271,908,057		238,560,984
	a) loans and receivables with banks	1,544		1,773	
	b) loans and receivables with customers	271,906,513		238,559,211	
70.	Equity investments		100,000		100,000
80.	Property, equipment and investment property		1,112,686		1,289,228
90.	Intangible assets		8,121		29,662
100.	Tax assets		9,884,457		11,393,728
	a) current	331,282		1,518,886	
	b) deferred	9,553,175		9,874,842	
120.	Other assets		697,405		829,187
	TOTAL ASSETS		**297,999,587**		**259,853,894**

LIABILITIES AND EQUITY			31/12/2022		31/12/2021
10.	Financial liabilities measured at amortised cost		214,182,811		178,237,565
	a) due to banks	210,959,984		170,978,154	
	b) customer deposits	3,222,827		7,259,411	
60.	Tax liabilities		5,288		4,017
	a) current	–		–	
	b) deferred	5,288		4,017	
80.	Other liabilities		4,662,422		3,713,681
90.	Provision for employee severance pay		113,753		86,678
100.	Provisions for risks and charges		1,109,212		542,756
	a) commitments and guarantees given	77		75	
	c) other provisions for risks and charges	1,109,135		542,681	
110.	Valuation reserves		-34,828		-10,591
140.	Reserves		45,964,466		43,704,142
160.	Capital		31,315,321		31,315,321
180.	Profit (loss) for the period (+/-)		681,142		2,260,324
	TOTAL LIABILITIES AND EQUITY		**297,999,587**		**259,853,894**

ITEMS			31/12/2022		31/12/2021
10.	Interest and similar income		9,619,634		10,254,141
	of which: interest income calculated using the effective interest method	9,619,634		10,254,141	
20.	Interest and similar expenses		-250,730		-230,981
30.	**Net interest income**		**9,368,904**		**10,023,160**
40.	Fee and commission income		83		519
50.	Fee and commission expense		-7,246		-13,473
60.	**Net fee and commission income**		**-7,163**		**-12,954**
120.	**Total income**		**9,361,741**		**10,010,206**
130.	Net adjustments/write-backs for credit risk related to:		-209,876		-472,167
	a) financial assets measured at amortised cost	-209,876		-472,167	
150.	**Net financial income**		**9,151,865**		**9,538,039**
160.	Administrative expenses:		-6,535,823		-6,016,399
	a) personnel expenses	-2,579,961		-2,753,015	
	b) other administrative expenses	-3,955,862		-3,263,384	
170.	Net accruals to provisions for risks and charges		-566,456		502,963
	a) commitments for guarantees given	-2		458	
	b) other net provisions	-566,454		502,505	
180.	Depreciation and net impairment losses on property, equipment and investment property		-236,093		-234,925
190.	Amortisation and net impairment losses on intangible assets		-21,541		-21,541
200.	Other operating income/expense		-669,440		-333,774
210.	**Operating costs**		**-8,029,353**		**-6,103,676**
260.	**Pre-tax profit (loss) from continuing operations**		**1,122,512**		**3,434,363**
270.	Income taxes for the year from current operations		-441,370		-1,174,039
280.	**Post-tax profit (loss) from continuing operations**		**681,142**		**2,260,324**
300.	**Profit (loss) for the period**		**681,142**		**2,260,324**

SINERGIA SECONDA SRL

FINANCIAL STATEMENTS AT 31 DECEMBER 2022

(in euro)

ASSETS	31/12/2022	31/12/2021
A) **AMOUNTS RECEIVABLE FROM SHAREHOLDERS**	-	-
Of which already called €		
B) **FIXED ASSETS**		
I - Intangible assets	-	-
II - Property, equipment and investment property		
1) Land and buildings		
1 - owned	53,649,741	55,381,847
2) Equipment and machinery		
1 - owned	-	-
Total property, equipment and investment property	53,649,741	55,381,847
III - Financial assets		
1) investments in		
a) subsidiaries	49,604,650	47,104,650
Total financial assets	49,604,650	47,104,650
TOTAL FIXED ASSETS	103,254,391	102,486,497
C) **CURRENT ASSETS**		
I - Inventories	-	-
II - Receivables		
1) due from customers		
a) due within one year	213,514	154,752
2) due from subsidiary companies		
a) due within one year	43,222	37,222
5 bis) due from tax authorities		
a) due within one year	1,779,002	318,270
5 ter) deferred tax assets		
a) due within one year	-	1,430,829
5 quater) due from others		
a) due within one year	22,082	7,002
Total receivables	2,057,820	1,948,075
III - Financial assets not held as fixed assets		-
IV - Cash and cash equivalents		
3) cash and equivalents on hand		-
Total cash and cash equivalents		**-**
TOTAL CURRENT ASSETS	**2,057,820**	**1,948,075**
D) **PREPAYMENTS AND ACCRUED INCOME**		
TOTAL ACCRUALS AND DEFERRALS	**-**	**-**
TOTAL ASSETS	**105,312,211**	**104,434,572**

LIABILITIES			31/12/2022	31/12/2021
A)	**SHAREHOLDERS' EQUITY**			
	I -	Capital	60,000,000	60,000,000
	II -	Share premium reserve	–	-
	III -	Revaluation reserves	–	-
	IV -	Legal reserve	2,520,127	2,196,554
	V -	Statutory reserves	–	-
	VI -	Other reserves		
		d) rounding differences on conversion to euro	–	-1
	VII -	Reserve for expected cash flow hedge transactions	–	-
	VI -	Reserve for portfolio treasury shares	–	-
	VIII -	Retained earnings	1,057,342	1,057,342
	IX -	Profit for the year	315,781	323,573
	X -	Negative reserve for portfolio treasury shares		0
		TOTAL SHAREHOLDERS' EQUITY	**63,893,250**	**63,577,468**
B)	**PROVISIONS FOR RISKS AND CHARGES**			
	TOTAL PROVISIONS FOR RISKS AND CHARGES		**–**	**–**
C)	**POST-EMPLOYMENT BENEFITS**		–	-
D)	**PAYABLES**			
	6) advance payments			
		a) due within one year	–	-
	7) due to suppliers			
		a) due within one year	171,148	127,950
	9) due to subsidiary companies			
		a) due within one year	2,109,473	1,917,899
	11) due to parent companies			
		a) due within one year	39,107,487	38,692,975
	12) taxes payable			
		a) due within one year	8,688	111,089
	14) other payables			
		a) due within one year	4,760	3,691
TOTAL PAYABLES			**41,401,556**	**40,853,604**
E)	**ACCRUED LIABILITIES AND DEFERRED INCOME**			
	1) accrued liabilities and deferred income		17,405	3,500
TOTAL ACCRUALS AND DEFERRALS			**17,405**	**3,500**
	TOTAL LIABILITIES		**105,312,211**	**104,434,572**

INCOME STATEMENT	31/12/2022	31/12/2021
A) **PRODUCTION VALUE**		
1) revenues from sales and services		
d) rental of housing units	36,977	35,661
e) rental of capital goods	3,747,431	3,596,035
f) reimbursement of housing unit expenses	384	362
g) reimbursement of expenses for capital goods	64,776	91,559
5) other revenues and income		
c) other revenues	15,625	28,849
TOTAL PRODUCTION VALUE	**3,865,193**	**3,752,466**
B) **PRODUCTION COSTS**		
7) for services	767	724
c) housing unit management expenses	439,306	458,662
d) capital goods management expenses		
10) depreciation, amortisation and write-downs		
b) depreciation of property, equipment and investment property	1,758,910	1,762,069
14) other operating expenses		
a) other operating costs and charges	85,988	120,019
b) non-deductible expenses	317,946	320,505
TOTAL PRODUCTION COSTS	**2,602,917**	**2,661,979**
DIFFERENCE BETWEEN PRODUCTION VALUE AND PRODUCTION COSTS	**1,262,276**	**1,090,487**
C) **FINANCIAL INCOME AND CHARGES**		
17) interest and other financial charges		
c) from parent companies	763,056	561,306
d) other	-	-
TOTAL FINANCIAL INCOME AND CHARGES	**-763,056**	**-561,306**
D) **VALUE ADJUSTMENTS OF FINANCIAL ASSETS**		
TOTAL VALUE ADJUSTMENTS OF FINANCIAL ASSETS	**-**	**-**
19) write-downs		
a) of investments	-	-
PRE-TAX RESULT	**499,220**	**529,181**
22) Current income taxes and deferred tax assets and liabilities		
a) Ires	120,642	151,459
b) Irap	62,797	54,149
c) Deferred taxes	-	-
23) PROFIT FOR THE YEAR	**315,781**	**323,573**

Certification of the 2022 Annual Financial Statements pursuant to article 81-ter of Consob Regulation No. 11971 of 14 May 1999, as amended.

1. The undersigned Mario Alberto Pedranzini, in his capacity as Chief Executive Officer, and Maurizio Bertoletti, in his capacity as Manager responsible for preparing the company's accounting documents of Banca Popolare di Sondrio S.p.A., attest, also taking into account the provisions of Article 154-*bis*, paragraphs 3 and 4, of Legislative Decree No. 58 of 24 February 1998:

   – the adequacy, in relation to the characteristics of the enterprise,
   – the actual application,

   of the administrative and accounting procedures for the preparation of the 2022 annual financial statements.

2. The evaluation of the adequacy and effective application of the administrative and accounting procedures for the formation of the annual financial statements as at 31 December 2022 were based on a model, defined by Banca Popolare di Sondrio S.p.A., which makes reference to the principles of the «Internal Control - Integrated Framework (CoSO)», issued by the Committee of Sponsoring Organizations of the Treadway Commission, which acts as a reference framework for the internal control system and for financial reporting that is generally accepted internationally.

3. It is also certified that:

   3.1 the financial statements at 31 December 2022:

   a) have been prepared in compliance with the international accounting standards endorsed by the European Union pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and the Council of 19 July 2002;

   b) correspond to the accounting books and records;

   c) provide a true and fair view of the Bank's financial position, results and cash flows.

   3.2 The report on operations includes a reliable analysis of the results of operations, as well as the situation of the Bank, together with a description of the principal risks and uncertainties to which they are exposed.

Sondrio, 16 March 2023

The Managing Director	The Manager responsible for preparing the company's accounting documents
Mario Alberto Pedranzini	Maurizio Bertoletti

Banca Popolare di Sondrio S.p.A.

Financial statements as at December 31, 2022

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated January 27, 2010, and article 10 of EU Regulation n. 537/2014

EY S.p.A.
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Independent auditor's report In accordance with article 14 of Legislative Decree n. 39, dated January 27, 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

To the Shareholders of
Banca Popolare di Sondrio S.p.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Banca Popolare di Sondrio S.p.A. (the "Company" or the "Bank"), which comprise the balance sheet at December 31, 2022, the income statement, the statement of comprehensive income, the statement of changes in equity, and the cash flow statement for the year then ended and the notes to the financial statements.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at December 31, 2022, and of the results of its operations 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 article 9 of Legislative Decree no. 38 dated February 28, 2005 and article 43 of Legislative Decree no. 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 Financial Statements* section of our report. We are independent of the Company 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

EY S.p.A.
Sede Legale: Via Meravigli, 12 – 20123 Milano
Sede Secondaria: Via Lombardia, 31 – 00187 Roma
Capitale Sociale Euro 2.525.000,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la CCIAA di Milano Monza Brianza Lodi
Codice fiscale e numero di iscrizione 00434000584 - numero R.E.A. di Milano 606158 - P.IVA 00891231003
Iscritta al Registro Revisori Legali al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

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We identified the following key audit matter:

<table>
<tr><th>Key audit matter</th><th>Audit response</th></tr>
<tr><td>Classification and measurement of loans to customers (“Loans”)</td><td></td></tr>
<tr><td>
Loans measured at amortised cost, presented in item 40 b) of the balance sheet, amount to approximately Euro 25,561 million and represent about 49% of total assets.
The classification and valuation of Loans is relevant for the audit both as the value of Loans is significant for the financial statements as a whole and as the value of the related impairment losses is determined by the Directors through the use of estimates that have a high degree of complexity and subjectivity. In addition, these estimation processes have been updated to reflect the current context of uncertainty about the evolution of the macroeconomic framework affected by the Russo-Ukrainian war, rise of energy costs and inflationary trends.
Among these, the following matters are particularly relevant:

the identification and calibration of parameters for determining the significant increase in credit risk compared to the initial detection date, for the purpose of allocating exposures in Stage 1 and Stage 2 (performing loans);
the definition of probability of default (PD), loss given default (LGD) and exposure at default (EAD) models and parameters applied for the calculation of expected credit losses (ECL) to one year for stage 1 classified exposures and lifetime for stage 2 classified exposures based on historical observation of data for each risk class and forward looking factors, including those macroeconomic related;
the identification of evidences that may suggest that the loan book value (impairment evidence) cannot be fully recoverable, with subsequent classification of exposures in Stage 3 (non-performing loans);

</td><td>
In relation to these aspects, our audit procedures included, among others:

updating the understanding of the policies, processes and controls implemented by the Bank in relation to the classification and measurement of Loans and performing compliance procedures on the key controls, including those relating to IT safeguards, in order to verify its operational effectiveness;
performing substantive procedures, on sample basis, aimed at verifying the proper classification and measurement of Loans;
understanding the methodology used for statistical assessments and the reasonableness of the assumptions adopted, including the new macroeconomic scenarios and their weighting;
performing compliance and substantive procedures, aimed at verifying the accurate determination of PD, LGD and EAD parameters relevant for the determination of expected credit loss adjustments;
performing of benchmarking procedures for the portfolio and its related coverage levels, with reference to the most significant deviations from the balances of the previous year;
the verification, through analysis of the supporting documentation, of the accounting of the disposal of non-performing loans carried out during the year, resulting from the fulfilment of the plan aimed at reducing the portfolio of non performing loans.

The procedures described above have also been carried out with the support of experts from the EY network on models for
</td></tr>
</table>

- for Loans classified in Stage 3, the determination of the criteria used for estimating the expected cash flows according to the recovery strategy.

Information on the evolution of the quality, classification and measurement of Loans is provided within Part A - Accounting Policies, in Part B - Information on the balance sheet, in Part C - Information on the Income Statement and in Part E - Information on risks and related hedging policy of the notes to the financial statements.

the evaluation of financial instruments and IT systems.

Finally, we have analysed the adequacy of the disclosure provided in the notes to the financial statements.

Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The Directors are responsible for the preparation of the 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 article 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 Company's ability to continue as a going concern and, when preparing the financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the financial statements on a going concern basis unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Board of statutory auditors ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 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 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to 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 Company to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We 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 them all matters that may reasonably be thought to bear on our independence, and where applicable, the actions taken to eliminate relevant risks or the safeguard measures 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 the Bank (at the time Banca Popolare di Sondrio S.C.p.A.), in the general meeting held on April 29, 2017 appointed us to perform the audits of the financial statements of each year from the year ending December 31, 2017 to December 31, 2025.

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 financial statements included in this report is consistent with the content of the additional report to the Board of statutory auditors ("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 the provisions of Delegated Regulation (EU) no. 815/2019

The Directors of Banca Popolare di Sondrio S.p.A. are responsible for applying the provisions of the European Commission Delegated Regulation (EU) n. 815/2019 for the regulatory technical standards on the specification of a single electronic reporting format (ESEF – European Single Electronic Format) to the financial statement, to be included in the annual financial report.

We have performed the procedures under the auditing standard SA Italia no. 700B, in order to express an opinion on the compliance of the financial statement with the provisions of the Delegated Regulation.

In our opinion, the financial statements have been prepared in the XHTML-format, in compliance with the provisions of Delegated Regulation.

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated January 27, 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated February 24, 1998

The Directors of Banca Popolare di Sondrio S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and Ownership Structure of Banca Popolare di Sondrio S.p.A. at December 31, 2022, including their consistency with the related financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information 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 February 24, 1998, with the financial statements of Banca Popolare di Sondrio S.p.A. 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 financial statements of Banca Popolare di Sondrio S.p.A. 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 January 27, 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Milan, April 5, 2023

EY S.p.A.
Signed by: Davide Lisi, Auditor

This independent auditor's report has been translated into the English language solely for the convenience of international readers. Accordingly, only the original text in Italian language is authoritative.

Banca Popolare di Sondrio

CONSOLIDATED FINANCIAL STATEMENTS OF THE BANCA POPOLARE DI SONDRIO GROUP

REPORT ON OPERATIONS

Shareholders,

As Parent Company of the Banca Popolare di Sondrio Banking Group, registration No. 5696.0, we are obliged to present consolidated financial statements.

COMPOSITION OF THE BANKING GROUP

The Banca Popolare di Sondrio Banking Group comprises:

Parent Company:

Banca Popolare di Sondrio spa - Sondrio;

Group Companies:

Banca Popolare di Sondrio (SUISSE) SA - Lugano CH.

The Parent Company holds all the capital of Banca Popolare di Sondrio (SUISSE) SA, 180,000,000 CHF.

Factorit spa - Milan.

The Parent Company holds the entire capital of Factorit spa, 85,000,002 euro.

Sinergia Seconda srl - Milan

The Parent Company holds all the capital of Sinergia Seconda Srl, 60,000,000 euro.

Banca della Nuova Terra spa - Sondrio

The Parent Company holds all the capital of Banca della Nuova Terra spa, 31,315,321 euro.

PrestiNuova srl - Financial services agency - Rome

Banca della Nuova Terra spa holds all the capital of PrestiNuova srl - Financial services agency, 100,000 euro.

Popso Covered Bond srl - Conegliano (Tv).

The Parent Company holds 60% of the capital of Popso Covered Bond srl, 10,000 euro.

Equity investments are consolidated as follows:

CONSOLIDATED EQUITY INVESTMENTS:

Company Name	Head office	Share capital (in thou-sands)	Held %
Banca Popolare di Sondrio (SUISSE) SA	Lugano	(CHF) 180,000	100
Factorit spa	Milan	85,000	100
Sinergia Seconda srl	Milan	60,000	100
Banca della Nuova Terra spa	Sondrio	31,315	100
Pirovano Stelvio spa*	Sondrio	2,064	100
Servizi Internazionali e Strutture Integrate 2000 srl *	Milan	75	100
Immobiliare San Paolo srl*	Tirano	10 **	100
Immobiliare Borgo Palazzo srl*	Tirano	10 **	100
Prima srl*	Milan	25 ****	100
PrestiNuova srl - Agenzia in Attività Finanziaria	Rome	100 ***	100
Rent2Go srl*	Bolzano	12,050	100
Popso Covered Bond srl	Conegliano V.	10	60

* equity investments not included in the banking group
** held by Sinergia Seconda srl
*** held by Banca della Nuova Terra spa
**** held by Immobiliare San Paolo srl

EQUITY INVESTMENTS MEASURED USING THE EQUITY METHOD:

Company Name	Head office	Share capital (in thou-sands)	Held %
Alba Leasing spa	Milan	357,953	19.264
Arca Vita spa	Verona	208,279	14.837
Arca Holding spa	Milan	50,000	34.715
Unione Fiduciaria spa	Milan	5,940	24.000
Polis Fondi srgpa	Milan	5,200	19.600
Sofipo SA *	Lugano	(CHF) 2,000	30.000
Rajna Immobiliare srl	Sondrio	20	50.000

* held by Banca Popolare di Sondrio (Suisse) SA

GENERAL ECONOMIC CONTEXT

The report on operations accompanying the Parent Company's 2022 financial statements contains information on the international, Swiss and Italian economic situation in which the Group operated during the year.

TERRITORIAL EXPANSION

Branches are the main tool through which the relationship between the Banca Popolare di Sondrio Banking Group and its customers is devel-oped. This explains the attention that is constantly paid to the addiction network, which has always been the object of strengthening and rationali-sation initiatives. Also in the year under review, Banca Popolare di Sondrio expanded its network with the opening of its first branch in Naples and agency No. 40 in Rome. For its part, Banca Popolare di Sondrio (SUISSE) SA opened the Manno agency in the Canton of Ticino. At the end of 2022, the Group had a total of 373 branches.

FUNDING

The year under review saw a marked reversal in the monetary policies implemented by the central banks, which made repeated interventions to combat inflation. The dynamics of bank deposits, after years of growth, also witnessed a change in trend, with corporate deposits in particular retreating.

In this context, our Group has nonetheless recorded a positive trend in direct funding which, comprising balance sheet liability items 10b «cus-tomer deposits» and 10c «securities issued», stood at 41,771 million, +6.28%.

Indirect funding from customers, at market values, totalled 39,058 million euro, -4.69%.

Direct funding from insurance premiums reached 1,958 million, +2.54%.

Total funding from customers therefore amounted to 82,787 million, +0.72%.

Deposits from banks amounted to 11,382 million, compared with 10,875 million. This exposure is largely linked to longer-term refinancing operations with the European Central Bank for a total of 8,874 million, which are described in the chapter on securities and treasury activities.

Securities under administration lodged by banks have decreased from 8,885 to 8,796 million, -1%.

Total funding from customers and banks therefore amounts to 102,965 million, +0.99%.

As for the individual components, current accounts and sight depos-its, down 3.48% to 33,617 million, accounted for 80.48% of all direct fund-ing. Bonds have decreased slightly by -1.16%, to 3,532 million. Deposits maturing amounted to 2,662 million, +429%. Repos, which were not pre-sent as at 31 December 2021, amounted to 1,576 million. Bank drafts amounted to 117 million, -7.95%. The item represented by lease liabilities, deriving from the accounting method envisaged by IFRS 16, amounted to 171 million, -6.56%, while other forms of funding increased from 87 to 96 million, +10.86%. As regards asset management, please see the chapter on treasury and trading activities.

DIRECT FUNDING FROM CUSTOMERS

(thousands of euro)	31/12/2022	Compos. %	31/12/2021	Compos. %	Change %
Current accounts and sight deposits	33,616,828	80.48	34,829,814	88.62	-3.48
Fixed-term deposits	2,661,831	6.37	503,572	1.28	428.59
Repo transactions	1,576,069	3.77	–	–	–
Lease liabilities	171,146	0.41	183,170	0.47	-6.56
Bonds	3,531,946	8.46	3,573,400	9.09	-1.16
Bank drafts and similar	116,815	0.28	126,901	0.32	-7.95
Other payables	96,372	0.23	86,928	0.22	10.86
Total	**41,771,007**	**100.00**	**39,303,785**	**100.00**	**6.28**

TOTAL FUNDING

(thousands of euro)	31/12/2022	Compos. %	31/12/2021	Compos. %	Change %
Total direct funding from customers	41,771,007	40.57	39,303,785	38.55	6.28
Total direct funding from insurance premiums	1,957,819	1.90	1,909,353	1.87	2.54
Total indirect funding from customers	39,058,623	37.93	40,981,667	40.20	-4.69
- Asset management	6,386,243	16.35	6,796,323	16.58	-6.03
- Assets under administration	32,672,380	83.65	34,185,344	83.42	-4.43
Total	**82,787,449**	**80.40**	**82,194,806**	**80.62**	**0.72**
Due to banks	11,381,703	11.05	10,874,856	10.67	4.66
Indirect funding from banks	8,795,626	8.55	8,884,756	8.71	-1.00
Grand total	**102,964,778**	**100.00**	**101,954,418**	**100.00**	**0.99**

LOANS TO CUSTOMERS

In the year under review, the dynamics of bank lending were generally affected by several factors. The rise in official interest rates implemented by the monetary authorities was gradually transmitted to the cost of credit. In addition, the dynamics of lending were affected on the one hand by the weakening of demand from businesses for investment purposes, and on the other by the decline in mortgage applications from households for the purchase of homes.

Loans to customers, as shown in the table below, constitute a restatement of the balances reported in the balance sheet and consist solely of loans, with the exclusion of securities, except for those that do not constitute a financial investment because of their nature. They are equal to the sum of the loans included in line item «40. financial assets measured at amortised cost – b) loans and receivables with customers» and line item «20. financial assets measured at fair value through profit or loss – c) other financial assets mandatorily measured at fair value».

LOANS TO CUSTOMERS

(thousands of euro)	31/12/2022	Compos. %	31/12/2021	Compos. %	Change
Current accounts	3,601,999	10.91	3,278,239	10.55	9.88
Mortgage loans	19,989,083	60.54	18,804,099	60.55	6.30
Personal loans and assignments of one-fifth of salary or pension	502,524	1.52	456,903	1.47	9.98
Factoring	3,273,352	9.91	2,736,835	8.81	19.60
Other loans	4,864,391	14.73	5,034,062	16.21	-3.37
Fixed-yield securities	788,830	2.39	749,180	2.41	5.29
Total	**33,020,179**	**100.00**	**31,059,318**	**100.00**	**6.31**

Overall, loans to customers total 33,020 million, +6.31%. The ratio of loans to direct funding from customers has thus reached 79.05%, from 79.02%.

The various items have contributed to total customer loans to a different extent.

The principal item consists of mortgage and unsecured loans that, following an increase of 6.30% to 19,989 million, now represent 60.54% of total lending. They also include assets sold but not derecognised in connection with the issue of covered bonds, which were not derecognised as they did not meet the requirements of IAS 39 for derecognition. Significant, as in the comparative year, was the increase in residential mortgage loans by the subsidiary Banca Popolare di Sondrio (SUISSE) SA. This was followed by other financing (advances, grants, etc.), which amounted to 4,864 million, -3.37%, or 14.73% of financing. Factoring operations, +19.60% to 3,273 million, current accounts, +9.88% to 3,602 million, personal loans, +9.98% to 502 million, and fixed-yield securities, at 789 million, +5.29%, performed well. The latter derive from securitisation transactions of loans to customers carried out by the investee companies Banca della Nuova Terra spa and Alba Leasing spa, and also include securities issued as part of the four sales of NPLs from the SPV Diana, POP NPLS 2020, POP NPLS 2021 and POP NPLS 2022.

Total net non-performing loans have fallen by 27.27% to 609 million, compared with 837 million; in the comparative period there was a decrease of 23.38%. This aggregate comes to 1.84% (2.69%) of loans to customers; its contraction is due to the sales of NPLs, as well as to the policy to strengthen the corporate structures responsible for granting, managing and monitoring credit.

The total adjustments recorded for non-performing loans total 852 million, -18,05%, representing 58.32% of the gross amount compared with 55.39% last year. The effect of the sales of NPLs carried out also played a role here. Adjustments for the period were higher compared with those of the previous year. Gross non-performing loans fell from 1,876 million to 1,460 million, -22.16%.

The table gives an overview of performing and non-performing loans.

NON-PERFORMING AND PERFORMING LOANS TO CUSTOMERS

(thousands of euro)		31/12/2022	31/12/2021	change	change %
Non-performing loans	Gross exposure	1,460,176	1,875,969	-415,793	-22.16
	Value adjustments	851,580	1,039,163	-187,583	-18.05
	Net exposure	**608,596**	**836,806**	**-228,210**	**-27.27**
Bad loans	Gross exposure	517,931	736,657	-218,726	-29.69
	Value adjustments	396,094	544,367	-148,273	-27.24
	Net exposure	**121,837**	**192,290**	**-70,453**	**-36.64**
Unlikely-to-pay loans	Gross exposure	880,694	1,074,758	-194,064	-18.06
	Value adjustments	450,688	485,596	-34,908	-7.19
	Net exposure	**430,006**	**589,162**	**-159,156**	**-27.01**
Past due and/or non-performing overdrawn exposures	Gross exposure	61,551	64,554	-3,003	-4.65
	Value adjustments	4,798	9,200	-4,402	-47.85
	Net exposure	**56,753**	**55,354**	**1,399**	**2.53**
Performing loans	Gross exposure	32,557,337	30,340,809	2,216,528	7.31
	Value adjustments	145,754	118,297	27,457	23.21
	Net exposure	**32,411,583**	**30,222,512**	**2,189,071**	**7.24**
Total loans and receivables with customers	Gross exposure	34,017,513	32,216,778	1,800,735	5.59
	Value adjustments	997,334	1,157,460	-160,126	-13.83
	Net exposure	**33,020,179**	**31,059,318**	**1,960,861**	**6.31**

Net bad loans, adjusted for write-downs, amounted to 122 million, -36.64% (44.39% in the comparison period), and correspond to 0.37% of total loans to customers, compared to 0.62% at 31 December 2021. The adjustments to cover estimated losses on bad loans went from 544 million to 396 million (-27.24%), representing 76.48% of the gross amount of such loans compared with 73.90% in the previous year. It is one of the highest coverage percentages at national level. Considering the amounts written off in prior years against bad loans and that are still tracked by the Bank, in view of possible future recoveries, the coverage of such loans amounts to 93%.

Probable defaults fell, net of write-downs, to 430 million, -27.01% (-15.19% in the comparison period), corresponding to 1.30% of total loans to customers, compared to 1.90% in the previous year. The related adjustments, with the current coverage ratio of 51.17%, amounted to 451 million, -7.19% on the comparative period, when they amounted to 486 million; the coverage ratio was 45.18% last year.

The decrease in unlikely-to-pay loans and the related provisions is due to the transfer to bad loans of the positions at greatest risk, the reduction of incoming flows with respect to those outgoing and to the closing of sale operations.

Net non-performing past due loans, determined in accordance with supervisory regulations, amounted to 57 million (+2.53%), and represent 0.17% of total loans with customers, compared to 0.18%.

Provisions, for performing loans, added up to 146 million, +23.21%, and amounted to 0.45% of the same compared to 0.39%. This increase reflects the worsening of the macroeconomic and geopolitical context, the still high level of inflation, as well as the uncertainties linked to the Russian-Ukrainian conflict, less favourable prospective scenarios, but also the result of the identification of possible criticalities concerning, in particular, stage 2 positions, which are the most exposed to crisis events.

Adjustments totalled 997 million overall, -13.83%.

TREASURY AND TRADING OPERATIONS

The performance of the financial markets is discussed in the report on operations presented by the Parent Company.

The net interbank position was 9,516 million negative at 31 December 2022, compared with 7,598 million negative at the end of 2021. Cash and cash equivalents amounted to 6,991 million, compared with 5,653 million.

At 31 December 2022, the Parent Company had three TLTRO loans outstanding with the ECB for a total of 8,874 million. The first transaction was entered into for 4,368 million on 24 June 2020, with a maturity date of 28 June 2023 and an early repayment option from 29 September 2021. The second, for the amount of 806 million, is effective from 24 March 2021, with maturity on 27 March 2024 and early repayment option from 30 March 2022. The third was granted on 29 September 2021 (at the same time as the early repayment of two tranches of, respectively, 1,600 million, maturing in December 2022, and 2,100 million, maturing in March 2023) for 3,700 million, maturing on 25 September 2024 and with the option of early repayment from 29 June 2022. Given the observance of the targets outstanding assigned by the ECB on net loans disbursed, all transactions envisage a financing rate indexed to the average of the Deposit Facility from the opening date until 22 November 2022 (for the period from 24/6/2020 to 23/6/2022, the rate is instead fixed at -1%). As of 23 November, the interest rate on outstanding transactions is indexed to the interest rate of the Point Deposit Facility, subject to compliance with the requirements set out above.

Liquidity, although declining, remained abundant throughout the period under review. The exposure to this risk is monitored both in the short term, taking a 3-month view every day, and over the long term with a monthly check. The ratios required by Basel 3, being the short-term Liquidity Coverage Ratio and the structural Net Stable Funding Ratio, are also calculated. Both are higher than the established minimums. The stock of high quality financial assets eligible for refinancing with the ECB, net of haircuts, was consistent and amounted to 16,321 million, of which 5,252 million free and 11,069 million committed.

Treasury operations still favoured, albeit to a lesser extent than in the previous year due to the gradual decrease in stocks, recourse to the Deposit Facility with the ECB. Part of the liquidity was raised on the electronic repo market with institutional counterparties (MMF Money Market Facility), through Cassa di Compensazione e Garanzia, and on the OTC market, through bilateral reverse repo transactions with leading financial counterparties.

At 31 December 2022, the portfolio of financial assets comprising financial instruments other than securitisations totalled 13,667 million, following a decrease of 0.26% compared to 31 December 2021. The following table summarises the various amounts involved and the percentage changes.

FINANCIAL ASSETS (FIXED-YIELD SECURITIES, EQUITY SECURITIES, MUTUAL FUNDS AND DERIVATIVES) BY PORTFOLIO

(thousands of euro)	31/12/2022	31/12/2021	Change %
Financial assets held for trading	179,665	204,294	-12.06
of which, derivatives	*63,361*	*29,280*	*116.40*
Other financial assets mandatorily measured at fair value	686,768	794,286	-13.54
Financial assets measured at fair value through other comprehensive income	2,555,705	3,102,150	-17.62
Financial assets measured at amortised cost	10,245,242	9,602,860	6.69
Total	**13,667,380**	**13,703,590**	**-0.26**

The well-diversified portfolio shows a steady decrease in Italian sovereign debt securities, offset by investments in securities of foreign states. Said portfolio as a whole decreased slightly by -0.26% compared to the end of 2021, mainly due to sales of financial assets measured at fair value (-17.62%) and those held for trading (-12.06%). Financial assets mandatorily measured at fair value also decreased (-13.54%), mainly as a result of lower valuations. By contrast, financial assets measured at amortised cost increased by 6.69%.

Operations continued to focus on the component at floating-rate of

Italian government securities, in addition to foreign government securities and corporate bonds, mainly ESG (Environmental, Social, Governance).

The total amount of floating-rate and inflation-indexed government bonds was around 6.3 billion, up from 5.7 billion at the end of 2021.

The financial duration of the government bond portfolio, substantially in line with 31 December 2021, was just over 4 years (4.1), while the modified duration, down due to the high floating-rate component, stood at 1.56%.

Financial assets held for trading

The trading book, which represents an insignificant part of the total securities portfolio, amounted to 180 million, down 12.06% from 204 million at the end of 2021.

(thousands of euro)	31/12/2022	31/12/2021	Change %
Fixed-rate Italian government securities	-	24,255	-100.00
Equity securities	50,856	65,378	-22.21
Mutual funds	65,448	85,381	-23.35
Net book value of derivative contracts	63,361	29,280	116.40
Total	**179,665**	**204,294**	**-12.06**

Operations mainly focused on equities and mutual funds (ETFs), as well as Italian and US dollar government bonds. At 31 December 2022, the balance of Italian and foreign government securities in foreign currency is zero.

Other financial assets mandatorily measured at fair value

The financial assets mandatorily measured at fair value amounted to 687 million, down 13.54% from 794 million at the end of 2021.

(thousands of euro)	31/12/2022	31/12/2021	Change %
Bank bonds	17,250	6,433	168.15
Other bonds	33,100	34,681	-4.56
Mutual funds in euro	617,273	719,286	-14.18
Mutual funds in foreign currency (USD)	19,145	33,886	-43.50
Total	**686,768**	**794,286**	**-13.54**

The portfolio remained mainly concentrated on mutual funds in euro and, to a lesser extent, in foreign currencies. Units in bond ETF are predominant, down in terms of derisking; there are also units in equity, real estate, balanced and flexible ETF.

Financial assets measured at fair value through other comprehensive income

The portfolio of financial assets measured at fair value through other comprehensive income (Held To Collect and Sell) has decreased significantly overall since the end of 2021, coming to 2,556 million (-17.62%). During the period, the segment was not particularly utilised due to the high volatility of the markets.

In general, the exposure to floating-rate Italian government bonds was maintained, which, although down compared to 31 December 2021 (-16.69%), stood at 1,493 million and accounted for 58.42% of the segment, while the fixed-rate component decreased further, especially with regard to Italian government bonds (-40.22%). The overall weight of Italian government bonds on the segment stands at 66.40%.

Bank bonds (-11.65%) and foreign government bonds (-9.15%) showed variations in absolute terms that are not particularly high; corporate bonds also decreased (-19.90%). There was little change in equities.

(thousands of euro)	31/12/2022	31/12/2021	Change %
Floating-rate Italian government securities	1,492,991	1,792,012	-16.69
Fixed-rate Italian government securities	203,978	341,230	-40.22
Foreign government securities	338,768	372,902	-9.15
Bank bonds	295,117	334,020	-11.65
Other bonds	129,192	161,284	-19.90
Equity securities	95,659	100,702	-5.01
Total	**2,555,705**	**3,102,150**	**-17.62**

Financial assets measured at amortised cost

The securities measured at amortised cost that are classified among the financial assets measured at amortised cost (Held To Collect) amounted to 10,245 million, following a rise of 6.69% from 9,603 million at December 2021.

With regard to the composition of the portfolio, we highlight, compared to 31 December 2021, the further net increase in floating-rate Italian government bonds (+47.22%), the decrease in fixed-rate Italian government bonds (-44.67%), especially inflation-linked, and the robust increase in foreign government securities (+24.76%), undertaken to decrease the concentration in domestic government securities gradually.

Transactions during the period favoured the floating-rate government bond component to contain generalised increases in the yield curve. Furthermore, investments in bonds that meet ESG (environmental, social and governance) criteria continued to be favoured: green bonds, social bonds and sustainability bonds.

(thousands of euro)	31/12/2022	31/12/2021	Change %
LOANS AND RECEIVABLES WITH BANKS	**872,396**	**787,249**	**10.82**
Italian bank bonds	662,648	572,117	15.82
Foreign bank bonds	209,748	215,132	-2.50
LOANS AND RECEIVABLES WITH CUSTOMERS	**9,372,846**	**8,815,611**	**6.32**
Floating-rate Italian government securities	4,413,601	2,997,900	47.22
Fixed-rate Italian government securities	1,689,096	3,052,782	-44.67
Foreign government securities	2,329,482	1,867,113	24.76
Other public administration bonds	315,996	144,227	119.10
Other bonds	624,671	753,589	-17.11
Total	**10,245,242**	**9,602,860**	**6.69**

Asset management

In 2022, the asset management industry was heavily impacted by the negative market performance, characterised by the simultaneous decline in stocks and bonds. The countervalue of assets under management, based on the first available data, has dropped significantly from the historical record reached in 2021. In terms of sub-funds, the favourable performance of equity and balanced products was offset by the negative performance of bond and flexible products. Conversely, the scenario of rising bond yields attracted inflows to monetary assets. It is worth noting the growing interest in instruments characterised by an ESG footprint.

For our Group, the assets managed in various forms totalled 6,386 million at the end of 2022, down by 6.03% since 31 December 2021, of which 4,637 million, -6.14%, relates to mutual funds and Sicavs, including Popso (SUISSE) Investment Fund Sicav; the Group's asset management schemes came to 1,749 million, -5.75%.

Banca Popolare di Sondrio stock

The Banca Popolare di Sondrio share, traded on the Euronext Milan market of Borsa Italiana, part of the FTSE Italia All-Share index, closed the year 2022 with a positive performance of 2.22%, marking a reference price on 30 December 2022 of 3.78 euro, compared to 3.698 euro at the end of 2021. The general index Ftse Italia All-Share in the same period recorded a decrease equal to 14.10%, while the sectoral index Ftse Italia All-Share Banks had a contraction of 4.55%.

With regard to treasury shares, transactions of which are carried out in compliance with the specific shareholders' resolution, it should be noted that the Parent Company held 3,641,718 shares, down 8,282 shares compared to the end of 2021 as a result of the assignments made in implementation of the remuneration policies of the Banca Popolare di Sondrio Banking Group for the year 2021, in addition to the 36,098 shares held by Banca Popolare di Sondrio (SUISSE) SA, as part of the remuneration plan based on financial instruments envisaged by the Group's remuneration policies, for a book value of 25.402 million.

EQUITY INVESTMENTS

Equity investments amounted to 323 million, a decrease of 16 million, mainly due to the change in the scope of consolidation following the full acquisition of Rent2Go srl and, to a lesser extent, to the equity valuation of the investees, with the exception of the less significant ones.

The reader is referred to the report accompanying the Parent Company's 2022 financial statements and to Part A, section 3 and Part B, section 10 of the explanatory notes.

Related-party transactions

Transactions with related parties, identified in accordance with the provisions of IAS 24 and the Consob Regulation issued with Resolution No. 17221 and subsequent amendments, are part of the Group's normal operations and are normally carried out at market conditions and in any case on the basis of assessments of mutual economic benefit.

In compliance with the disclosure requirements of article 5 of the above Consob Regulation, in the period 1 January - 31 December 2022 the competent bodies of the Parent Company approved the following transactions of greater importance with related parties (the other Group companies did not carry out any transactions of greater importance during 2022):

– Factorit spa, subsidiary company; revolving facility financial advances 600,000,000 euro repayable on demand; resolution of 28/06/2022;
– Banca Popolare di Sondrio (SUISSE) SA, subsidiary company; unsecured loan in currency of 900,000,000 euro, maturing on 27/05/2023; renewal of credit lines for a total of 2,220,922,000 euro repayable on demand; resolutions of 30/06/2022;
– Alba Leasing spa, associated company; renewal of credit lines totalling 420,348,500 euro repayable on demand; resolution of 11/10/2022;
– Banca della Nuova Terra spa, subsidiary; renewal of lines of credit for a total of 11,500 euro repayable on demand and 320,000,000 euro with maturity 25/09/2024; resolution of 08/11/2022;
– Banca Popolare di Sondrio (SUISSE) SA, a subsidiary; unsecured loan in currency of 900,000,000 euro, maturing on 17/10/2023; resolution of 24/11/2022;
– Factorit spa, subsidiary; revolving facility for guarantees in favour of residents of up to 130,000,000 euro repayable on demand; renewal of lines of credit totalling 3,920,101,500 euro repayable on demand; resolution of 06/12/2022.

We also inform you that on 22/12/2022, the Bank signed the renewal of the bancassurance agreements with Arca Vita spa, a company under significant influence, and with the subsidiary Arca Assicurazioni spa.

During 2022, no transactions of greater or lesser importance were carried out with related parties, which could have had a significant impact on the Group's balance sheet or results. Additionally, there have not been any developments and/or modifications of the transactions carried out with related parties during 2021 - in any case none of an atypical, unusual or non-market nature - with a significant effect on the Group's balance sheet or results for 2022.

In relation to Consob Communication DEM/6064293 of 28 July 2006, note that transactions or balances with related parties, as defined by IAS 24 and the Consob Regulation, have a limited incidence on the balance sheet and financial position, as well as on the Group's economic results and cash flows. In Part H of the notes to the financial statements, the section entitled «Related party transactions» includes a table that summarises these figures.

During 2022 and the current year, there have not been any positions or transactions deriving from atypical or unusual transactions. According to Consob Circular DEM/1025564 of 6 April 2001, atypical and/or unusual transactions are any that may raise doubts concerning the accuracy of the disclosures in the financial statements, conflicts of interests, the protection of the corporate assets or the safeguarding of the shareholders, by virtue of their magnitude, the nature of the counterparties, the subject of the transaction, the methods in which the transfer price is set or the time at which the transaction is carried out.

TRANSACTIONS WITH NON-CONSOLIDATED SUBSIDIARY AND ASSOCIATED COMPANIES

	Associated companies of the Parent Company		Associated companies of subsidiaries	
(thousands of euro)	31/12/2022	31/12/2021	31/12/2022	31/12/2021
ASSETS	**701,255**	**941,788**	**72,908**	**73,237**
LIABILITIES	**92,214**	**164,218**	**11,347**	**19,384**
GUARANTEES AND COMMITMENTS	**210,634**	**230,963**	**685**	**31,783**
Guarantees given	20,402	42,168	364	29,996
Commitments	190,232	188,795	321	1,787

Article 15 of the Market Regulation

In relation to Article 15 (formerly Article 36) of Consob Regulation No. 16191/2007 (Market Regulation), on the subject of conditions for the listing of parent companies incorporated or regulated under the laws of non-EU countries and of significant relevance for the purposes of the consolidated financial statements, it is hereby certified that the only company concerned is Banca Popolare di Sondrio (SUISSE) SA, which has already adopted adequate procedures to ensure full compliance with the aforementioned regulation.

GOODWILL

Intangible assets include goodwill of 16.997 million, of which 7.847 million relating to the acquisition of Factorit spa in 2010, 4.785 million relating to PrestiNuova spa acquired in 2018, and subsequently incorporated by Banca della Nuova Terra spa and 4.365 million relating to Rent2Go srl, a company of which the Parent Company acquired total control on 1 April 2022. In compliance with IAS 36, said goodwill has been subjected to related impairment testing in order to check for any impairment in value. Information about this is provided in Part B, section 10 Intangible assets, of the notes to the financial statements. Together, the evaluation processes did not highlight any need to write down the balance of goodwill on the books.

HUMAN RESOURCES

The Group had 3,474 employees at the end of 2022, an increase of 79 persons from 3,395 at the end of the previous year.

The personnel departments have been heavily involved in selecting, training and managing staff, in order to ensure that the necessary professional resources are available for the Group's operational development and growth, having regard for the changes taking place in the reference markets.

A breakdown of personnel by individual category is contained in the notes.

CAPITAL AND RESERVES

Shareholders' equity at 31 December 2022, inclusive of valuation reserves and the profit for the year, amounts to 3,387.436 million. Compared with the total at 31 December 2021 of 3,270.494 million, this represents an increase of 116.942 million (+3.57%). The change resulted from the recognition of the profit for the year under review, as well as, on the negative side, from the decrease in valuation reserves and the distribution of a portion of the profit for the year 2021.

The Shareholders' Meeting of the Parent Company held on 30 April 2022, called to approve the financial statements for the year 2021 and the allocation of profit, resolved to distribute a dividend paid from 25 May 2022 of 0.20 euro for each of the 453,385,777 shares outstanding as at 31 December 2021.

The Parent Company's share capital, which consists of 453,385,777 ordinary shares without nominal value, amounts to 1,360.157 million, unchanged with respect to the comparative period.

There was a slight change in issue premiums, amounting to 78.978 million, due to negative differences between the discharge price and the corresponding book value of the shares sold.

The item reserves rose to 1,790.468 million (+15.09%); the increase of 234.750 million derives from the allocation of a portion of the profit for the year 2021 and from the inclusion of gains/losses on equity securities sold already in the valuation reserves; a positive effect on reserves was also achieved from the total acquisition of Factorit spa, as well as by the revaluation of the Swiss franc when the financial statements of the Swiss subsidiary were converted into euro.

Valuation reserves, represented by the balance between capital gains and losses recognised on financial assets designated at fair value through comprehensive income (FVOCI), on properties at fair value and between actuarial gains and losses on defined benefit plans for employees, presented a negative balance of 68.086 million, worsening compared to the end of 2021, when it was positive for 32.437 million; this effect is to be connected to the unfavourable trend of the financial markets. Treasury shares in portfolio changed slightly to 25.402 million.

With regard to capital adequacy, the harmonised legislation for banks and investment firms is contained in Regulation (EU) No. 575/2013 (CRR) and in Directive 2013/36/EU (CRD IV), which define the general limits on capital ratios, which are equal to 7% for the CET 1 Ratio, 8.50% for the Tier 1 Capital Ratio and 10.50% for the Total Capital Ratio. The European Central Bank, by virtue of its powers and on the basis of the evidence gathered within the prudential review and assessment process, sets capital and/or liquidity ratios tailored to each intermediary subject to EU supervision. In a communication dated 3 February 2022, at the conclusion of the annual Supervisory Review and Evaluation Process (SREP) conducted in 2021, it forwarded to the Parent Company the decision of the Supervisory Board regarding the minimum ratios to be complied with on a consolidated basis.

The minimum capital levels required of our banking Group in 2022 are:

– a minimum requirement of Common Equity Tier 1 Ratio of 8.56%, calculated as the sum of the Pillar 1 regulatory minimum requirement (4.50%), the Capital Conservation Buffer (2.50%, unchanged), and an additional Pillar 2 requirement (1.56%);
– a minimum requirement of Tier 1 Capital Ratio of 10.58%, calculated as the sum of the Pillar 1 regulatory minimum requirement (6%), the Capital Conservation Buffer (2.50%) and an additional Pillar 2 requirement (2.08%);
– a minimum requirement of Total Capital Ratio of 13.27%, calculated as the sum of the Pillar 1 regulatory minimum requirement (8%), the Capital Conservation Buffer (2.50%) and an additional Pillar 2 requirement (2.77%).

While the first two additions are specified by the prudential regulations and are identical for all banks in a given country, the third is determined by the ECB based on the actual degree of risk faced by the individual bank.

On 15 December 2022, at the conclusion of the annual SREP («Supervisory Review and Evaluation Process») conducted in 2022, notification was received from the European Central Bank of the new decision regarding the prudential requirements to be met on a consolidated basis, effective as of 1 January 2023. The additional Pillar 2 Requirement (or «P2R2») is 2.66%, down from the previous 2.77%. The new ratio, to be held in the form of Tier 1 (CET 1) capital for at least 56.25% and Tier 1 capital for at least 75%, includes a quota of 0.01% as an increase in the second pillar requirement for non-performing exposures. Consequently, the minimum required Common Equity Tier 1 Ratio is 8.50%, the minimum required Tier 1 Capital Ratio is 10.50%, and the minimum required Total Capital Ratio is 13.16%.

Since 2017, the ECB has been providing «Pillar 2 Guidance», which acts a guide to the future evolution of the Group's capital. This parameter is confidential, by contrast with the two minimum requirements, and – based on guidelines issued by the ECB – is not deemed relevant for the determination of distributable dividends.

Consolidated own funds for Supervisory reporting purposes, including a portion of the profit as at 31 December 2022, amounted to 3,779.302 million

(Phased-in) and 3,759.569 million (Fully Phased), while risk-weighted assets amounted to 21,049.013 million.

In the interests of full disclosure, the Group decided to take advantage of EU Regulation 2017/2395, which granted supervised intermediaries the possibility to include, temporarily, in the calculation of their Tier 1 capital an additional amount aimed at «neutralising» the effects the higher accounting provisions caused by immediate adoption of IFRS 9, which came into force on 1 January 2018. With Regulation (EU) 2020/873 of 24 June 2020, changes were made to these transitional provisions, both with regard to the time frame and the computability percentages. The additional adjustments related to the entry into force of IFRS 9 will continue to be calculated on the basis of the percentages already provided (i.e. percentages of computability decreasing over time, from 95% in 2018 to 25% in 2022, up to its total zeroing in 2023), while for those related to the Covid-19 emergency, they will be applied to the value of CET 1 assets taking into account a percentage of declining computability over time, from 100% in 2020 and 2021, to 75% in 2022, 50% in 2023, 25% in 2024, until it reaches zero in 2025.

The following are the requirements referring to the Group as at 31 December 2022:

Group's capital ratios	Phased-in	Fully Phased
CET1 Ratio	15.39%	15.30%
Tier1 Capital ratio	15.39%	15.32%
Total Capital Ratio	17.95%	17.86%

The consolidated Leverage Ratio was 5.15% applying the transitional arrangements (phased-in) and 5.12% according to the criteria to be applied at the end of the transition (fully phased).

In accordance with the provisions of the ESMA document No. 725/2012, which originated from the observation that the market value of various listed companies was lower than their book value, the Parent Company carried out an impairment test on the entire structure. The results of this test showed that the economic value of the Group was more than its consolidated equity. Further details are provided in Part F «Information on equity» of the Notes.

The following ratios of capital (and reserves, including profit for the period) to the principal balance sheet aggregates are shown with comparative figures at 31 December 2021:

– *capital/direct funding from customers*
  8.11% v. 8.32%
– *capital/customer loans*
  10.26% v. 10.53%
– *capital/financial assets*
  24.78% v. 23.87%
– *capital/total assets*
  5.86% v. 5.94%
– *net bad loans/capital*
  3.60% v. 5.88%

RECONCILIATION BETWEEN THE PARENT COMPANY'S AND THE CONSOLIDATED FINANCIAL STATEMENTS

The following table reconciles profit for the period and equity as shown in the Parent Company's financial statements and the equivalent figures in the consolidated financial statements.

RECONCILIATION OF THE EQUITY AND PROFIT FOR THE YEAR REPORTED BY THE PARENT COMPANY WITH THE CONSOLIDATED FINANCIAL STATEMENTS

(thousands of euro)	Equity	of which: Profit for the period
Equity of the Parent Company at 31.12.2022	2,872,858	212,902
Consolidation adjustments	-29,860	-29,860
Difference with respect to the carrying amounts of equity investments in:		
– companies consolidated on a line-by-line basis	436,356	38,336
– companies valued using the equity method	108,082	29,943
Balance at 31.12.2022, as reported in the consolidated financial statements	**3,387,436**	**251,321**

RATINGS

The solvency of the Banca Popolare di Sondrio Banking Group has been assessed by the rating agencies Fitch Ratings, DBRS Morningstar and Scope Ratings. For further information, see the directors' report accompanying the 2022 financial statements of the Parent Company.

INCOME STATEMENT

In an undoubtedly difficult overall situation, our Group was able to post an excellent result, albeit slightly down on the previous year.

The year 2022 closed with a profit of 251.321 million, a decrease of 6.44% compared with 268.634 million in 2021. The result derives, first and foremost, from the performance of core business, driven by the strong increase in net interest income, followed by a good performance of commissions, although the contribution of the securities business was significantly reduced and loan adjustments increased.

KEY FIGURES OF THE CONSOLIDATED INCOME STATEMENT

(thousands of euro)	31/12/2022	31/12/2021	Absolute changes	Changes %
Net interest income	681,067	528,924	152,143	28.76
Dividends	6,464	5,208	1,256	24.12
Net fee and commission income	380,590	357,654	22,936	6.41
Result of financial activities [a]	69,565	113,211	(43,646)	-38.55
Result of other financial assets and liabilities measured at FVTPL [b]	(67,588)	26,726	(94,314)	n.s.
of which LOANS	(10,460)	4,198	(14,658)	n.s.
of which OTHER	(57,128)	22,528	(79,656)	n.s.
Total income	**1,070,098**	**1,031,723**	**38,375**	**3.72**
Net adjustments [c]	(169,754)	(134,372)	(35,382)	26.33
Net financial income	**900,344**	**897,351**	**2,993**	**0.33**
Personnel expenses [d]	(269,146)	(258,701)	(10,445)	4.04
Other administrative expenses [e]	(262,003)	(248,007)	(13,996)	5.64
Other operating income/expense [d]	82,194	61,610	20,584	33.41
Net accruals to provisions for risks and charges [f]	(14,288)	(15,972)	1,684	-10.54
Adjustments to property, equipment and investment property and intangible assets	(62,480)	(54,034)	(8,446)	15.63
Operating costs	**(525,723)**	**(515,104)**	**(10,619)**	**2.06**
Operating profit (loss)	**374,621**	**382,247**	**(7,626)**	**-2.00**
Charges for stabilising the banking system [e]	(45,909)	(43,105)	(2,804)	6.51
Net gains (losses) on equity investments and other investments	25,178	35,403	(10,225)	-28.88
Profit (loss) before tax	**353,890**	**374,545**	**(20,655)**	**-5.51**
Income taxes	(102,569)	(99,525)	(3,044)	3.06
Profit (loss)	**251,321**	**275,020**	**(23,699)**	**-8.62**
(Profit) loss attributable to non-controlling interests	–	(6,386)	6,386	n.s.
Profit (loss) attributable to the Parent Company	**251,321**	**268,634**	**(17,313)**	**-6.44**

Notes:
[a] The result of financial activities is made up of the sum of items 80 - 90 - 100 in the income statement.
[b] The result of other financial assets measured at FVTPL is comprised in item 110 of the income statement.
[c] Net adjustments consist of the sum of items 130 - 140 - 200 a) in the income statement inclusive of losses on disposals of 0.517 million euro;
[d] Personnel expenses and other operating income have been stated net of the income generated by the post-employment benefits fund of 3.185 million euro;
[e] Charges for stabilising the banking system have been separated from other administrative expenses and presented separately.
[f] Net allocations to provisions for risks and charges refer to item 200 b).
The results as at 31/12/2021 have been made consistent.

The comments below refer to the data shown in the «Summary consolidated income statement». Note that they have been reclassified with respect to those shown in the tables foreseen in Bank of Italy provision No. 262/2005. A table showing quarterly changes in the reclassified consolidated income statement is also provided, highlighting changes in the income statement during the year.

Net interest income, which grew significantly in all four quarters, recorded an increase of 28.76%, reaching 681.067 million. Restrictive monetary policies and inflationary expectations drove up government bond rates, as well as interbank indices, thus significantly impacting variable-rate customer loans and new loans. The interest margin also reflected the positive effect of the significant expansion of loans, the widening of the commercial spread and the strong exposure in variable-rate and inflation-linked securities.

RECLASSIFIED CONSOLIDATED INCOME STATEMENT QUARTER BY QUARTER

	2022				2021			
(thousands of euro)	IV Quarter	III Quarter	II Quarter	I Quarter	IV Quarter	III Quarter	II Quarter	I Quarter
Net interest income	203,815	156,943	164,119	156,190	138,565	126,322	134,776	129,261
Dividends	365	413	5,448	238	550	452	3,412	794
Net fee and commission income	104,231	91,840	93,057	91,462	98,770	87,903	86,193	84,788
Result of financial activities [a]	24,183	4,029	24,260	17,093	37,621	21,837	24,721	29,032
Result of other financial assets and liabilities measured at FVTPL [b]	6,563	-6,566	-33,999	-33,586	1,628	12,726	9,274	3,098
of which LOANS	4,708	2,076	-4,279	-12,965	-2,804	7,329	3,637	-3,964
of which OTHER	1,855	-8,642	-29,720	-20,621	4,432	5,397	5,637	7,062
Total income	**339,157**	**246,659**	**252,885**	**231,397**	**277,134**	**249,240**	**258,376**	**246,973**
Net adjustments [c]	-65,873	-60,483	-16,096	-27,302	-43,136	-41,763	-20,582	-28,891
Net financial income	**273,284**	**186,176**	**236,789**	**204,095**	**233,998**	**207,477**	**237,794**	**218,082**
Personnel expenses [d]	-69,096	-69,326	-64,247	-66,477	-67,123	-66,535	-61,399	-63,643
Other administrative expenses [e]	-71,288	-60,059	-68,154	-62,502	-67,157	-57,019	-64,372	-59,459
Other operating income/expense [d]	20,357	22,887	22,053	16,897	16,348	15,009	15,089	15,164
Net accruals to provisions for risks and charges [f]	-6,545	-1,495	-6,653	405	-14,469	-1,534	-687	718
Adjustments to property, equipment and investment property and intangible assets	-18,180	-16,778	-15,547	-11,975	-14,714	-13,595	-13,194	-12,531
Operating costs	**-144,752**	**-124,771**	**-132,548**	**-123,652**	**-147,116**	**-123,676**	**-124,564**	**-119,752**
Operating profit (loss)	**128,532**	**61,405**	**104,241**	**80,443**	**86,882**	**83,801**	**113,230**	**98,330**
Charges for stabilising the banking system [e]	-2,865	-3,004	-10,040	-30,000	-8,362	-10	-14,732	-20,001
Net gains (losses) on equity investments and other investments	10,609	5,331	2,578	6,660	9,821	9,504	7,596	8,482
Profit (loss) before tax	**136,276**	**63,732**	**96,779**	**57,103**	**88,342**	**93,297**	**106,095**	**86,812**
Income taxes	-36,241	-17,507	-32,018	-16,803	-19,442	-26,556	-27,194	-26,333
Profit (loss)	**100,035**	**46,225**	**64,761**	**40,300**	**68,900**	**66,741**	**78,901**	**60,479**
(Profit) loss attributable to non-controlling interests	-	-	-	-	-1,737	-1,958	-1,471	-1,220
Profit (loss) attributable to the Parent Company	**100,035**	**46,225**	**64,761**	**40,300**	**67,163**	**64,783**	**77,430**	**59,259**

Notes:

[a] The result of financial activities is made up of the sum of items 80 - 90 - 100 in the income statement;

[b] The result of other financial assets measured at FVTPL is comprised in item 110 of the income statement;

[c] Net adjustments consist of the sum of items 130 - 140 - 200 a) of the income statement;

[d], [e] and [f] The figures are shown in accordance with the reclassifications presented in the summary of the reclassified consolidated income statement.

Interest income showed good growth, up 29.98% to 834.558 million, driven by the increase in interest rates, which was reflected in both the coupon flow of fixed-yield securities and interest from customers. Income on acquired tax credits related to the Cura Italia and Rilancio («Relaunch») Decree-Laws also increased sharply, amounting to approximately 40 million. Negative interest on T-LTRO III loans, due to the ECB's decisions to end the negative interest rate season, declined by around 35 million, with an average rate of 0.4%. Interest expense amounted to 153.491 million, +35.66%. The trend reflected the rise in interest rates and affected both short-term funding and bond issues; interest to banks decreased significantly.

Net commissions amounted to 380.590 million, +6.41%; significant increases were recorded for commissions related to guarantees granted, loans, current accounts, and collections and payments; commissions related to order collection were essentially stable.

Dividends totalling 6.464 million were collected, compared with 5.208 million in the previous year.

The result from financial activities, items 80-90-100 of the income statement, was a positive 69.565 million compared to 113.211 million, having been affected by the high volatility in the financial markets due to the aforementioned critical issues. The portfolio of assets held for trading (item 80) generated a positive result of 28.404 million, compared with 63.650 million. Profits from trading in securities of 11.485 million fell to 2.652 million, while the foreign exchange business made a contribution of 39.987 million, compared to 37.957 million.

The net imbalance between gains and losses on securities was negative for 17.630 million compared to a positive 8.515 million. The derivatives business was also negative for 0.919 million compared to a positive figure of 5.729 million. Exchange rate differences, which were negative by 36 thousand euro, were positive and increased significantly to 4.314 million due to the rate trend. Item 90 - net hedging gain (loss) - was a negative 0.181 million compared to a positive 243 thousand euro. The profit on sale/repurchase (item 100), reclassified, was 41.324 million compared with 49.318 million. This amount of the year does not include 0.517 million of losses from the sale of NPL loans, which were reclassified to adjustments to loans and financial assets. In its breakdown, envisaged by IFRS 9, it is made up as follows: result from financial assets measured at amortised cost 29.489 million; financial assets measured at fair value with an impact on comprehensive income 11.848 million; financial liabilities 0.005 million. The net result of other assets and liabilities measured at fair value through profit or loss (item 110), which in the comparison period was positive for 26.726 million, was negative for 67.588 million. Specifically, it is the sum of 10.460 million in losses on loans to customers measured at fair value, compared to gains of 4.198 million, and losses of 57.128 million mainly related to bond fund units compared to gains of 22.528 million.

Net banking income amounted to 1,070.098 million, +3.72%, reflecting the good performance of the core business, net interest income and commissions. Within this aggregate, the weighting of net interest income was 63.65% compared with 51.27%.

Despite the positive performance of the economy during the year, the deterioration of forecasts regarding the general macroeconomic context, inflationary dynamics, the energy crisis and uncertainties related to the Russian-Ukrainian conflict affected the methodological and modelling framework for calculating adjustments on a lump-sum basis, while analytical assessments were carried out with the usual rigour. Therefore, the adjustments also incorporate extraordinary and prudential provisions related to the conflict, without prejudice to the Group's limited exposure to the geographical area involved, as well as those for portfolio exposures to companies operating in energy-intensive sectors.

The adjustments/write-backs for credit risk on the exposures to customers, banks and securities totalled 169.754 million, compared with 134.372 million, +26.33%. In the year under review, a massive sale of NPLs called POP NPLS 2022 and several Single Name sales were finalised, with a net loss of 0.517 million reclassified in this aggregate. The finalisation of the NPL disposal transactions carried out during the three-year period is in line with the Group's policy on the reduction of NPLs and responds to the ECB's recommendations.

In its components, the sub-item 130a) «adjustments to financial assets measured at amortised cost», which come from exposures to customers and banks in the form of loans and securities, reclassified for the above losses from the sale, amounted to 152.505 million compared with 140.195 million, +8.78%, which, net of provisions and net write-backs on securities and banks for modest amounts refers to loans to customers. The improvement in asset quality should be noted, as evidenced by the slowdown in the dynamics of non-performing loans and the default rate. This was influenced, at least in part, by what had been put in place both to improve credit quality and to refine the processes for evaluating loans, particularly those posted in bad loans, in probable defaults, in past due loans, and of course in performing positions.

Sub-item 130b), relating to financial assets measured at fair value through other comprehensive income was negative for 0.360 million compared with a positive figure of 1.009 million.

Item 140, comprising the gains/losses on contractual amendments to cash flows not resulting in derecognition, shows profits for the period of 3.565 million compared with losses of 6.099 million.

There was an allocation of provisions for commitments and guarantees issued of 19.937 million compared to a release of provisions for 15.124 million in the comparative period.

The ratio of net adjustments to customer loans/total customer loans, which is defined as the cost of credit, increased from 0.43% to 0.51%.

Financial income has therefore increased to 900.344 million, +0.33%.

Extreme attention has been paid, as always, to the efficiency of the structures and to the containment of costs, which have nevertheless increased. Operating costs in fact rose from 525.723 million to 515.104 million, +2.06%.

The ratio of operating costs to income from banking activities, otherwise known as the cost/income ratio, has fallen to 49.13%, from 49.93% in the prior year, while the ratio of operating costs to total assets eased to 0.91% from 0.94%. As for the individual components, the administrative expenses, normalised with the exclusion of the provision for the income from the pension fund, which have a counterpart for the same amount in the other operating expenses/income, amounted to 531.149 million, +4.82%; of these, personnel expenses went from 258.701 to 269.146 million, +4.04%, essentially due to the increase in the workforce, while other administrative expenses rose from 248.007 to 262.003 million, +5.64%. Expenses for hardware and software rental and maintenance, outsourced activities, maintenance on property, equipment and investment property, surveillance, insurance premiums and data registration with third parties increased. Legal fees and energy and heating costs decreased.

The item «Net provisions for risks and charges» reflect allocations of 14.288 million compared with 15.972 million. The depreciation of property, equipment and investment property and the amortisation of software amounted to 62.480 million compared with 54.034 million, +15.63%. Other income, stated after the above mentioned reclassification and net of other operating expenses, amounted to 82.194 million, +33.41%. Charges for stabilisation of the banking system, contributions to the National Resolution Fund and F.I.T.D., amounted to 45.909 million, compared to 43.105 million, +6.51%. The aggregate profits/losses on equity and other investments shows a positive balance of 25.178 million, compared with 35.403 million, -28.88%.

Profit before income taxes therefore totalled 353.890 million, -5.51%. After deducting income taxes of 102.569 million, up 3.06% on the previous year, the profit for the year was 251.321 million, -6.44%.

The tax rate, understood as the simple ratio between income taxes and pre-tax result, stood at 28.98% compared to 26.57%.

RESULTS IN BRIEF AND ALTERNATIVE PERFORMANCE INDICATORS

The Group's main balance sheet and income statement figures and indicators at 31 December 2022 are shown below, compared with what they were the previous year.

RESULTS IN BRIEF

(in millions of euro)	31/12/2022	31/12/2021	Change %
Balance sheet figures			
Loans and receivables with customers	33,020	31,059	6.31
Loans and receivables with customers measured at amortised cost	32,633	30,625	6.56
Loans and receivables with customers measured at fair value through profit or loss	387	434	-10.83
Loans and receivables with banks	1,865	3,276	-43.07
Financial assets that do not constitute loans	13,667	13,704	-0.26
Equity investments	323	339	-4.92
Total assets	57,854	55,016	5.16
Direct funding from customers	41,771	39,304	6.28
Indirect funding from customers	39,059	40,982	-4.69
Direct funding from insurance premiums	1,958	1,909	2.54
Customer assets under administration	82,787	82,195	0.72
Other direct and indirect funding	20,177	19,760	2.11
Equity	3,387	3,270	3.58

(in millions of euro)	31/12/2022	31/12/2021	Change %
Income statement			
Net interest income	681	529	28.76
Total income*	1,070	1,032	3.72
Profit from continuing operations	354	375	-5.51
Profit (Loss) for the period	251	269	-6.44
Capital ratios			
CET1 Capital ratio	15,39%	15,78%	
Total Capital ratio	17,95%	18,88%	
Free capital	2,095	2,181	
Other information on the banking group			
Number of employees	3,456	3,392	
Number of branches	373	370	

* Total income is represented as per the reclassification made in the table commenting on the income statement

** The ratios indicated were calculated using the figures shown in the table commenting on the income statement

The ratios indicated were calculated using the figures shown in the summary reclassified income statement.

Loans and receivables with customers: this includes the portion of loans to customers held for the purpose of financing included in financial assets measured at amortised cost and financial assets mandatorily measured at fair value.

Direct funding: this brings together the items relating to funding from customers included in amounts due to customers at amortised cost and securities in issue.

Indirect funding: this represents the custody, administration and management activity – of securities, mutual funds, asset management – carried out by the Group on behalf of third parties or in connection with the management of financial portfolios. The stocks are marked to market.

Financial assets that do not constitute loans: this includes the portion of financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, financial assets at amortised cost (banks and customers) that are not held for financing purposes. They therefore consist of fixed-yield securities, bonds, mutual funds, derivatives and equity securities that do not constitute equity investments.

The Alternative Performance Indicators (APIs) reported in this section take into account the Guidelines issued by ESMA on 5 October 2015, which Consob incorporated into its supervisory practices (Communication No. 0092543 of 3 December 2015). These Guidelines became applicable as of 3 July 2016. It should be noted that, in line with the indications contained in the update of the document «ESMA32_51_370 – Question and answer – ESMA Guidelines on Alternative Performance Measures (APMS)», published on 17 April 2020, no changes have been made to the IAPs aimed at taking into account the effects of the Covid-19 crisis. It should be noted that the definition and methods of calculation of IAPs not directly attributable to financial statement items are provided; the amounts used therein can be traced through the information contained in the tables above or in the reclassified financial statements contained in this consolidated report on operations. These economic and financial indicators are based on accounting figures and are used in internal management and performance management systems, in line with the most common metrics used in the banking sector in order to ensure that published figures are comparable.

ALTERNATIVE PERFORMANCE INDICATORS

	31/12/2022	31/12/2021
Key ratios		
Equity/Direct funding from customers	8.11%	8.32%
Equity/Loans to customers	10.26%	10.53%
Equity/Financial assets	24.78%	23.87%
Equity/Total assets	5.86%	5.94%
Profitability indicators*		
Cost/Income ratio**	49.13%	49.93%
Net interest income/Total income	63.65%	51.27%
Administrative expenses/Total income	49.64%	49.11%
Net interest income/Total assets	1.18%	0.96%
Net financial income/Total assets	1.56%	1.63%
Profit for the year/Total assets	0.43%	0.49%
Asset quality indicators		
NPL ratio	4.29%	5.82%
Texas ratio	18.16%	25.83%
Net bad loans/Equity	3.60%	5.88%
Net bad loans/Loans to customers	0.37%	0.62%
Loans to customers/Direct funding from customers	79.05%	79.02%
Cost of credit	0.51%	0.43%

The ratios were calculated using the figures shown in the summary reclassified income statement.
Cost/Income ratio: the ratio between operating costs and total income
Texas ratio: the ratio between bad loans and the difference between equity and intangible assets, as the denominator.
Cost of credit: ratio of net adjustments/write-backs of impairment losses on loans in the income statement to total loans and advances to customers.

With regard to the Group's main balance sheet figures as at 31 December 2022, there were excellent levels of capitalisation and significant growth in both deposits and loans, as well as an excellent economic result, albeit down compared to the comparative year, achieved in a difficult context and sustained by the good performance of core business, such as interest margins and commissions. Margins grew due to the positive effect of the expansion of lending, however, in particular due to the large contribution of the coupon flow on the securities portfolio, driven by inflationary trends, followed by the strong increase in income related to tax credits purchased, while at the same time discounting the strong volatility of the financial markets and the macroeconomic consequences of the Russian-Ukrainian conflict. In particular:

– net commissions showed an increase, due to an increase in commissions on guarantees issued, loans, current accounts, and collections and payments, while commissions related to securities business remained largely stable;
– the result of financial activities was negatively impacted, as already reported, by the volatility of the financial markets, which were affected by interest rate increases, the adverse macroeconomic scenario, the uncertainty caused by the Russian-Ukrainian conflict and the restrictive monetary policy of the European Central Bank;
– the cost of credit shows an increase. This effect is also due to the additional extraordinary and prudential provisions related to the aftermath of the Russian-Ukrainian conflict, although the Group's exposure to the geographic area involved remains limited. For details on the quantification of losses due to the impairment of loans, please refer to the paragraph relating to the relevant accounting policies and uncertainties related to the use of estimates in the consolidated Explanatory Notes - Part A;
– loans to customers increased as at 31 December 2022. This increase occurred particularly in the first three quarters, in line with the general economic context and driven mainly by household consumption. In the fourth quarter, this growth weakened sharply, due to the contraction of household consumption, which was affected by the marked increase in prices. At 31 December 2022, the incidence of bad and non-performing loans, as well as the Texas ratio, dropped significantly, in continuity with what was experienced last year. The degree of hedging has increased;
– with reference to the other balance sheet aggregates, however, there was an increase in Direct Deposits and, markedly, in Time Deposits. Indirect deposits, on the other hand, declined, attributable to the extremely negative market performance during the year due to the Russian-Ukrainian conflict and the sharp rise in inflation. Therefore, comparing shareholders' equity, which also increased by virtue of the realised profits, with the main balance sheet indicators, the balance sheet indicators show a general alignment with the previous year, with the exception of financial assets, which on the whole recorded a slight decrease, mainly attributable to sales of financial assets at fair value with an impact on overall profitability.

In summary, therefore, the credit quality indicators showed improvements compared to last year. The profitability ratios related to net interest income showed an improvement correlated to the strong increase in interest income, particularly income from the securities portfolio related to indexed government bonds driven by both rising inflation and the ECB's restrictive policies. On the other hand, the significant deterioration of the net result from financial operations negatively impacted the net result from financial assets/total assets ratio as well as the profit/total assets ratio. The other profitability ratios did not show any particular deviations. The balance sheet indicators were affected by an increase in shareholders' equity that was not proportional to that of direct deposits, loans to customers and total assets, and were therefore lower. On the other hand, the decrease in total financial assets, shown above, led to an increase in the equity/financial assets indicator.

SUBSEQUENT EVENTS AND BUSINESS PROSPECTS

The reader is referred to the report accompanying the Parent Company's financial statements for information on events that took place after the end of the financial year.

With regard to the subsidiaries, there is nothing to report.

With regard to the general economic context, uncertainties related to the Russian-Ukrainian conflict, inflationary pressures, albeit decreasing, and forecasts of declining growth, also due to restrictive monetary policies, continue to weigh heavily. The economic slowdown could affect credit quality.

Despite these dynamics, the Group's profitability should reasonably improve and however, remain no lower than the business plan approved in June last year, thanks to further growth in net interest income and commissions and careful cost containment. All this, in the presence of high levels of credit coverage.

Sondrio, 17 March 2023

THE BOARD OF DIRECTORS

CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2022

Name of the entity that prepares the Financial Statements
Banca Popolare di Sondrio S.p.A

Registered Office
Sondrio (SO)

Legal form
Joint-stock company

Country
Italy

Address of the Registered Office
Piazza Garibaldi 16 - Sondrio (SO)

Main place of business
Sondrio

Nature of business carried out
Monetary intermediation by monetary institutions other than central banks

Name of the controlling entity
Banca Popolare di Sondrio S.p.A

Name of the Parent Company
Banca Popolare di Sondrio S.p.A

CONSOLIDATED BALANCE SHEET

(thousands of euro)

	ASSETS	31/12/2022	31/12/2021
10.	**Cash and cash equivalents**	**6,990,689**	**5,652,733**
20.	**Financial assets measured at fair value through profit or loss**	**1,254,070**	**1,432,185**
	a) financial assets held for trading	179,665	204,294
	c) other financial assets mandatorily measured at fair value	1,074,405	1,227,891
30.	**Financial assets measured at fair value through other comprehensive income**	**2,555,705**	**3,102,150**
40.	**Financial assets measured at amortised cost**	**43,870,637**	**42,717,673**
	a) Loans and receivables with banks	1,865,249	3,276,349
	b) Loans and receivables with customers	42,005,388	39,441,324
50.	**Hedging derivatives**	**248**	**-**
60.	**Change in value of macro-hedged financial assets (+/-)**	**(198)**	**-**
70.	**Equity investments**	**322,632**	**339,333**
90.	**Property, equipment and investment property**	**650,908**	**579,446**
100.	**Intangible assets**	**36,669**	**31,013**
	of which:		
	- goodwill	16,997	12,632
110.	**Tax assets**	**342,647**	**330,343**
	a) current	17,654	8,658
	b) deferred	324,993	321,685
130.	**Other assets**	**1,830,354**	**831,273**
	TOTAL ASSETS	**57,854,361**	**55,016,149**

LIABILITIES AND EQUITY		31/12/2022	31/12/2021
10.	**Financial liabilities measured at amortised cost**	**53,152,710**	**50,178,641**
	a) due to banks	11,381,703	10,874,856
	b) customer deposits	38,122,246	35,603,482
	c) securities issued	3,648,761	3,700,303
20.	**Financial liabilities held for trading**	**115,871**	**104,339**
40.	**Hedging derivatives**	**227**	**2,446**
60.	**Tax liabilities**	**32,359**	**39,872**
	a) current	3,160	4,258
	b) deferred	29,199	35,614
80.	**Other liabilities**	**834,629**	**986,522**
90.	**Provision for employee severance pay**	**35,597**	**40,190**
100.	**Provisions for risks and charges**	**295,528**	**289,062**
	a) commitments and guarantees given	63,204	43,225
	b) pension and similar obligations	167,827	191,565
	c) other provisions for risks and charges	64,497	54,272
120.	**Valuation reserves**	**(68,086)**	**32,437**
150.	**Reserves**	**1,790,468**	**1,555,718**
160.	**Share premium accounts**	**78,978**	**79,005**
170.	**Share capital**	**1,360,157**	**1,360,157**
180.	**Treasury shares (-)**	**(25,402)**	**(25,457)**
190.	**Non-controlling interests (+/-)**	**4**	**104,583**
200.	**Profit (Loss) for the year (+/-)**	**251,321**	**268,634**
	TOTAL LIABILITIES AND EQUITY	**57,854,361**	**55,016,149**

CONSOLIDATED INCOME STATEMENT

(thousands of euro)

INCOME STATEMENT ITEMS		31/12/2022	31/12/2021
10.	INTEREST AND SIMILAR INCOME	834,558	642,068
	of which: interest income calculated using the effective interest method	*824,601*	*633,565*
20.	INTEREST AND SIMILAR EXPENSES	(153,491)	(113,144)
30.	**NET INTEREST INCOME**	**681,067**	**528,924**
40.	FEE AND COMMISSION INCOME	401,174	374,802
50.	FEE AND COMMISSION EXPENSE	(20,584)	(17,148)
60.	**NET FEE AND COMMISSION INCOME**	**380,590**	**357,654**
70.	DIVIDENDS AND SIMILAR INCOME	6,464	5,208
80.	NET TRADING INCOME	28,404	63,650
90.	NET HEDGING GAIN (LOSS)	(181)	243
100.	GAINS (LOSSES) FROM SALES OR REPURCHASES OF:	40,825	46,616
	a) financial assets measured at amortised cost	*28,972*	*32,878*
	b) financial assets measured at fair value through other comprehensive income	*11,848*	*13,756*
	c) financial liabilities	*5*	*(18)*
110.	NET GAINS/LOSSES ON OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	(67,588)	26,726
	b) other financial assets mandatorily measured at fair value	*(67,588)*	*26,726*
120.	**TOTAL INCOME**	**1,069,581**	**1,029,021**
130.	NET ADJUSTMENTS/WRITE-BACKS FOR CREDIT RISK RELATED TO:	(152,865)	(139,186)
	a) financial assets measured at amortised cost	*(152,505)*	*(140,195)*
	b) financial assets measured at fair value through other comprehensive income	*(360)*	*1,009*
140.	GAINS/LOSSES FROM CONTRACTUAL AMENDMENTS NOT RESULTING IN DERECOGNITION	3,565	(6,099)
150.	**NET FINANCIAL INCOME**	**920,281**	**883,736**
180.	**BALANCE OF FINANCIAL AND INSURANCE MANAGEMENT**	**920,281**	**883,736**
190.	ADMINISTRATIVE EXPENSES:	(580,243)	(561,012)
	a) personnel expenses	*(272,331)*	*(269,900)*
	b) other administrative expenses	*(307,912)*	*(291,112)*
200.	NET ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES	(34,225)	(848)
	a) commitments and guarantees given	*(19,937)*	*15,124*
	b) other net provisions	*(14,288)*	*(15,972)*
210.	DEPRECIATION AND NET IMPAIRMENT LOSSES ON PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY	(45,268)	(37,359)
220.	AMORTISATION AND NET IMPAIRMENT LOSSES ON INTANGIBLE ASSETS	(17,212)	(16,675)
230.	OTHER OPERATING INCOME/EXPENSE	85,379	71,300
240.	**OPERATING COSTS**	**(591,569)**	**(544,594)**
250.	GAINS (LOSSES) ON EQUITY INVESTMENTS	27,768	35,901
260.	NET RESULT OF FAIR VALUE MEASUREMENT OF PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY AND INTANGIBLE ASSETS	(2,762)	(882)
280.	GAINS (LOSSES) ON SALES OF INVESTMENTS	172	384
290.	**PRE-TAX PROFIT (LOSS) FROM CONTINUING OPERATIONS**	**353,890**	**374,545**
300.	INCOME TAXES FOR THE YEAR FROM CURRENT OPERATIONS	(102,569)	(99,525)
310.	**POST-TAX PROFIT (LOSS) FROM CONTINUING OPERATIONS**	**251,321**	**275,020**
330.	**PROFIT (LOSS) FOR THE YEAR**	**251,321**	**275,020**
340.	PROFIT (LOSS) FOR THE YEAR ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	–	(6,386)
350.	**PROFIT (LOSS) FOR THE YEAR ATTRIBUTABLE TO THE PARENT COMPANY**	**251,321**	**268,634**

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

(thousands of euro)

ITEMS	2022	2021
10. **Profit (loss) for the year**	**251,321**	**275,020**
Other income items net of income taxes that will not be reclassified to profit or loss		
20. Equity securities measured at fair value through other comprehensive income	(5,822)	506
50. Property, equipment and investment property	2,033	9,818
70. Defined-benefit plans	18,758	2,495
90. Share of valuation reserves of equity investments measured at equity	349	1,170
Other income items net of income taxes that may be reclassified subsequently to profit or loss		
110. Exchange rate differences	(752)	1,274
140. Financial assets (other than equity securities) measured at fair value through other comprehensive income	(84,492)	(12,232)
160. Share of valuation reserves of equity investments measured at equity	(30,436)	1,661
170. **Total other income items net of income taxes**	**(100,362)**	**4,692**
180. **Other comprehensive income (Item 10+170)**	**150,959**	**279,712**
190. **Consolidated comprehensive income attributable to minorities**	**161**	**6,481**
200. **Consolidated other comprehensive income attributable to the parent company**	**150,798**	**273,231**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(thousands of euro)

	Balance at 31.12.2021	Changes in opening balances	Balance at 1.1.2022	Allocation of prior year result: Reserves	Allocation of prior year result: Dividends and other allocations	Changes during the year: Changes in reserves	Equity transactions: Issue of new shares	Equity transactions: Purchase of treasury shares	Equity transactions: Extraordinary distribution of dividends	Equity transactions: Changes in equity instruments	Equity transactions: Derivatives on treasury shares	Equity transactions: Stock options	Equity transactions: Changes in interests held	Other comprehensive income at 31.12.2022	**Equity attributable to the Group at 31.12.2022**	**Equity attributable to non-controlling interests at 31.12.2022**
Share capital																
a) ordinary shares	1,393,736	–	1,393,736	–	–	–	–	–	–	–	–	–	(33,575)	–	1,360,157	4
b) other shares	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Share premium accounts	**83,363**	**–**	**83,363**	**–**	**–**	**–**	**(27)**	**–**	**–**	**–**	**–**	**–**	**(4,358)**	**–**	**78,978**	**–**
Reserves																
a) from earnings	1,578,288	–	1,578,288	184,773	–	56,363	–	–	–	–	–	–	(64,850)	–	1,754,574	–
b) other	37,851	–	37,851	–	–	–	–	–	–	–	–	–	(1,957)	–	35,894	–
Valuation reserves	**32,276**	**–**	**32,276**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(100,362)**	**(68,086)**	**–**
Equity instruments	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Treasury shares	**(25,457)**	**–**	**(25,457)**	**–**	**–**	**–**	**69**	**(14)**	**–**	**–**	**–**	**–**	**–**	**–**	**(25,402)**	**–**
Profit for the year	**275,020**	**–**	**275,020**	**(184,773)**	**(90,247)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**251,321**	**251,321**	**–**
Equity attributable to the Group	**3,270,494**	**–**	**3,270,494**	**–**	**(90,247)**	**56,363**	**42**	**(14)**	**–**	**–**	**–**	**–**	**–**	**150,798**	**3,387,436**	**–**
Equity attributable to non-controlling interests	**104,583**	**–**	**104,583**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(104,740)**	**161**	**–**	**4**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(thousands of euro)

				Allocation of prior year result		Changes during the year										
							Equity transactions									
	Balance at 31.12.2020	Changes in opening balances	Balance at 1.1.2021	Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Changes in interests held	Other comprehensive income at 31.12.2021	**Equity attributable to the Group at 31.12.2021**	**Equity attributable to non-controlling interests at 31.12.2021**
Share capital																
a) ordinary shares	1,393,736	–	1,393,736	–	–	–	–	–	–	–	–	–	–	–	1,360,157	33,579
b) other shares	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Share premium accounts	**83,363**	**–**	**83,363**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**79,005**	**4,358**
Reserves																
a) from earnings	1,468,785	–	1,468,785	82,459	–	27,044	–	–	–	–	–	–	–	–	1,519,824	58,464
b) other	37,851	–	37,851	–	–	–	–	–	–	–	–	–	–	–	35,894	1,957
Valuation reserves	**27,584**	**–**	**27,584**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**4,692**	**32,437**	**(161)**
Equity instruments	**–**	**–**	–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Treasury shares	**(25,388)**	**–**	**(25,388)**	**–**	**–**	**–**	**–**	**(69)**	**–**	**–**	**–**	**–**	**–**	**–**	**(25,457)**	**–**
Profit for the year	**109,743**	**–**	**109,743**	**(82,459)**	**(27,284)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**275,020**	**268,634**	**6,386**
Equity attributable to the Group	**2,997,571**	**–**	**2,997,571**	**–**	**(27,284)**	**27,045**	**–**	**(69)**	**–**	**–**	**–**	**–**	**–**	**273,231**	**3,270,494**	**–**
Equity attributable to non-controlling interests	**98,103**	**–**	**98,103**	**–**	**–**	**(1)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**6,481**	**–**	**104,583**

CASH FLOW STATEMENT (indirect method)

	31/12/2022	31/12/2021
A. **OPERATING ACTIVITIES**		
1. **Operations**	**769,584**	**584,945**
- profit for the year (+/-)	251,321	275,020
- gains/losses on financial assets held for trading and financial assets/liabilities measured at fair value through profit or loss (-/+)	60,518	(49,289)
- gains (losses) on hedging (-/+)	181	(243)
- net adjustments/write-backs for credit risk (+/-)	169,728	147,781
- net adjustments/write-backs for property, equipment and investment property	65,241	54,915
- provisions for risks and charges and other costs/revenues (+/-)	62,517	26,655
- unpaid taxes, duties and tax credits (+)	102,569	99,525
- other adjustments (+/-)	57,509	30,581
2. **Cash generated/absorbed by financial assets**	**(1,676,266)**	**(4,921,865)**
- financial assets held for trading	39,886	(2,226)
- financial assets designated at fair value	–	–
- financial assets mandatorily measured at fair value	92,890	(142,256)
- financial assets measured at fair value through other comprehensive income	464,583	(490,485)
- financial assets measured at amortised cost	(1,051,404)	(3,797,532)
- other assets	(1,222,221)	(489,366)
3. **Cash generated/absorbed by financial liabilities**	**2,485,995**	**4,681,430**
- financial liabilities measured at amortised cost	2,681,848	4,569,993
- financial liabilities held for trading	(1,932)	62,166
- financial liabilities measured at fair value	–	–
- other liabilities	(193,921)	49,271
Net cash generated/absorbed by operating activities	**1,579,313**	**344,510**
B. **INVESTING ACTIVITIES**		
1. **Cash generated by**	**16,209**	**15,071**
- sales of equity investments	2,500	–
- dividends collected from equity investments	12,765	10,949
- sales of property, equipment and investment property	944	4,122
- sales of intangible assets	–	–
- sales of subsidiaries and business units	–	–
2. **Cash absorbed by**	**(214,655)**	**(58,393)**
- purchases of equity investments	(84,491)	–
- purchases of property, equipment and investment property	(111,901)	(39,091)
- purchases of intangible assets	(18,263)	(19,302)
- purchase of subsidiaries and business units	–	–
Net cash generated/absorbed by investing activities	**(198,446)**	**(43,322)**
C. **FUNDING ACTIVITIES**		
- issues/purchases of treasury shares	523	(69)
- issues/purchases of equity instruments	–	–
- distribution of dividends and other uses	(90,463)	(26,353)
- sale/purchase of third party control	–	–
Net cash generated/absorbed by financing activities	**(89,940)**	**(26,422)**
NET CASH GENERATED/ABSORBED IN THE YEAR	**1,290,927**	**274,766**

Key:
(+) generated (–) absorbed

RECONCILIATION

Financial statement items	31/12/2022	31/12/2021
Cash and cash equivalents at beginning of year	5,652,733	5,337,880
Total net cash generated/absorbed in the year	1,290,927	274,766
Cash and cash equivalents: effect of exchange rate fluctuations	47,029	40,087
Cash and cash equivalents - closing balance	**6,990,689**	**5,652,733**

CONSOLIDATED NOTES

PART A *Accounting policies*

A.1 General information

Section 1 *Declaration of compliance with international accounting standards*

Banca Popolare di Sondrio, a joint-stock company, declares that these consolidated financial statements have been prepared in accordance with the International Accounting Standards (IAS/IFRS) adopted by the International Accounting Standards Board (IASB), and the related interpretations of the International Financial Reporting Interpretations Committee, in force at 31 December 2022 and endorsed by the European Commission according to the procedure established by EU Regulation 1606/2002.

The adoption of these international accounting standards has taken advantage of the provisions of art. 4, paragraphs 1 and 2, of Legislative Decree No. 38 dated 28 February 2005 «Making the elections envisaged by art. 5 of the EC Regulation No. 1606/2002 concerning international accounting standards».

The format of the consolidated financial statements complies with the Bank of Italy's Instructions 262 dated 22 December 2005, issued within the powers defined by Legislative Decree 38/2005 and subsequent updates and additions.

The consolidated financial statements at 31 December 2022 were approved by the Board of Directors on 17 March 2023.

Section 2 *Basis of preparation*

The consolidated financial statements have been prepared in accordance with the following general criteria described in IAS 1:

1) Going concern. The financial statements have been prepared on a going concern basis: assets, liabilities and off-balance sheet transactions have therefore been valued according to their operating values. In this regard, it should be noted that the boards of directors and auditors have carefully assessed the prospect of the company's continuation as a going concern and have not detected any symptoms in the balance sheet and financial structure or in the operating performance that could lead to uncertainties on the point of business continuity, even taking into account the difficulties highlighted in the past by the so-called «sovereign debt securities» as well as the macroeconomic context created by the pandemic and the Russian-Ukrainian conflict. In this regard, it is believed that the Group, despite possible negative repercussions regarding the trend of some types of revenues and the cost of credit, and the presence of the risk and risk elements referred to in the paragraph «Risk management» can continue to operate as a going concern in the foreseeable future in accordance with the provisions of the 2022-2025 Business Plan.
2) Accruals basis. Costs and revenues are matched in the accounting periods to which they relate, regardless of when the transactions are settled.
3) Consistency of presentation. Items are presented and classified in the same way from one year to the next, in order to ensure the comparability of information, unless changes are required by an international accounting standard or related interpretation, or a different presentation or classification would be more appropriate for the meaningful and reliable disclosure of information.
   If the presentation or classification of items is changed, the comparative amounts are also reclassified, if feasible, and the nature of the reclassification is explained together with the reasons for it.

4) Significance and grouping. Each significant group of similar items is shown separately in the financial statements. Items with a dissimilar nature or use are reported separately, unless they are insignificant.
5) No offsetting of balances. Assets, liabilities, costs and revenues are not offset against each other unless required or allowed by an international accounting standard or related interpretation, or unless this is specifically envisaged in the reporting formats established for banks.
6) Comparative information. Prior period comparative information is provided for all the data reported in the financial statements, except if a different approach is allowed by an international accounting standard or its interpretation. Explanatory and descriptive information is included when this helps to provide a better understanding of the consolidated financial statements.

   The financial statements are prepared in accordance with Italian regulations to the extent that they are compatible with IAS. Accordingly, the financial statements incorporate the requirements of Legislative Decree 136/2015, the articles of the Italian Civil Code and the corresponding provisions of the Consolidated Finance Act («TUF»). All the data contained in the tables and in the explanatory notes are expressed in thousands of euro unless otherwise specified.

Section 3 Scope of consolidation and methodology

1. Investments in wholly-controlled companies

Investments in wholly-controlled companies are listed in the following table.
The following companies have been consolidated on a line-by-line basis:

Company Name	Operative Office	Registered Office	Type of relationship (1)	Share capital (in thousands)	Ownership percentage Parent company	% Held	% of votes(2)
Banca Popolare di Sondrio (Suisse) S.A.	Lugano	Lugano	1	(CHF) 180,000	Banca Popolare di Sondrio S.p.a.	100	
Factorit S.p.a.	Milan	Milan	1	85,000	Banca Popolare di Sondrio S.p.a.	100	
Sinergia Seconda S.r.l.	Milan	Milan	1	60,000	Banca Popolare di Sondrio S.p.a.	100	
Banca della Nuova Terra S.p.a.	Sondrio	Sondrio	1	31,315	Banca Popolare di Sondrio S.p.a.	100	
Pirovano Stelvio S.p.a.(3)	Sondrio	Sondrio	1	2,064	Banca Popolare di Sondrio S.p.a.	100	
Servizi Internazionali e Strutture Integrate 2000 srl(3)	Milan	Milan	1	75	Banca Popolare di Sondrio S.p.a.	100	
Immobiliare San Paolo S.r.l.(3)	Tirano	Tirano	1	10	Sinergia Seconda S.r.l.	100	
Immobiliare Borgo Palazzo S.r.l.(3)	Tirano	Tirano	1	10	Sinergia Seconda S.r.l.	100	
PrestiNuova S.r.l – AAF	Rome	Rome	1	100	Banca della Nuova Terra S.p.a.	100	
Popso Covered Bond S.r.l.	Conegliano V.	Conegliano V.	1	10	Banca Popolare di Sondrio S.p.a.	60	
Rent2Go S.r.l.(3)	Bolzano	Bolzano	1	12,050	Banca Popolare di Sondrio S.p.a.	100	
Prima S.r.l.(3)	Milan	Milan	1	25	Immobiliare San Paolo S.r.l.	100	
Centro delle Alpi Real Estate(3)	Milan	Milan	4	69,913	Banca Popolare di Sondrio S.p.a.	100	

(1) 1 = majority of voting rights at ordinary shareholders' meeting. 4 = other forms of control
(2) Availability of votes in the ordinary shareholders' meeting, only if different from the shareholding, distinguishing between actual and potential votes
(3) Equity investments not included in the Banking Group for supervisory purposes.

On 1 March 2022, the purchase of the minority shares of the subsidiary Factorit S.p.a. was finalised; the interest held by the Parent Company increased from 60.5% to 100%, for a consideration of 75 million euro.

The perimeter of the companies consolidated on a line-by-line basis expanded compared to 31 December 2021 following the purchase of 66.7% of the company Rent2Go S.r.l. on 1 April 2022, of which the Parent Company now holds 100% of the share capital, and the purchase on 28 July 2022 of the company Prima S.r.l. by the subsidiary Immobiliare San Paolo S.r.l. following a transaction aimed at protecting the Parent Company's credit reasons.

With reference to the acquisition of Rent2Go S.r.l. and Prima S.r.l., refer to as set forth in the specific section of these notes PART G - Business combinations involving companies or business units.

2. Ratings and significant assumptions to determine the scope of consolidation

The Consolidated Financial Statements of the Banca Popolare di Sondrio Group include the balance sheet and income statement of the Parent Company and the directly and indirectly controlled entities; they also include subsidiaries operating in business sectors dissimilar to that of the Parent Company and special purpose entities (SPE/SPV), when the requirements of effective control are met, even regardless of the existence of an equity interest.

Control, as defined by IFRS 10, is the power over the investee entity (i.e. holding valid rights that give the current capacity to direct the activities of the investee entity) and exists when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Control can therefore be obtained in various ways, including via exposure to risks and rewards, and not just as a consequence of the power to influence financial and operating policies.

The assets, liabilities, revenues and costs of the subsidiary acquired or sold during the year are included in the consolidated financial statements from the date on which the Group obtains control until the date on which the Group no longer exercises control over the company.

With line-by-line consolidation, the carrying amount of the investments is eliminated against the related equity and all of the assets and liabilities, guarantees, commitments and other memorandum accounts are included, as are the revenues and costs of the subsidiaries.

All of the assets and liabilities, equity, revenues, costs and intercompany financial flows relating to transactions between group entities are completely eliminated on consolidation, except for any income and charges of insignificant amount. The financial statements of these group companies are reclassified appropriately and, where necessary, restated in accordance with the accounting policies adopted by the Group.

Companies in which the Bank does not have an investment, but for which it has received pledged voting shares, are not consolidated, because the pledge is designed to protect the loans granted and not to influence the company's operating policies to obtain economic benefits.

Changes in the investment in a subsidiary that do not involve the loss of control are recognized in equity.

If the Group loses control of a company, it must derecognise the related assets (including goodwill), liabilities, minority interests and other components of equity, while any profit or loss is recognised in the income statement. If an interest is maintained, it has to be shown at fair value.

The reference standard for the accounting treatment of joint control arrangements in the Group's consolidated financial statements is IFRS 11 «Joint arrangements». The arrangement entered into constitutes a joint venture, whereby the parties that have joint control thereof have rights to the net assets of the arrangement. Joint control exists when control over the investment is shared equally with others, is agreed contractually and only exists if the decisions about relevant activities require the unanimous consent of the parties sharing control. In accordance with this standard, the correct accounting treatment for such an arrangement requires the interest in the joint venture to be recognised as an investment and to be accounted for using the equity method in accordance with IAS 28 «Investments in associates and joint ventures».

The joint ventures indicated below are valued at equity:

Company Name	Head office	Type of relationship (1)	Share capital (in thousands)	Held %	% of votes
Rajna Immobiliare srl	Sondrio	7	20	50	50

(1) 7 = joint control.

The scope of consolidation also includes the equity investments where the Parent Company exercises a significant influence in that the shareholding is between 20% and 50%; or, if it has an interest of less than 20%, if one or more of the following circumstances apply:

a) the Bank has a representative on the Board of Directors or the equivalent body of the affiliate;
b) the Bank takes part in the decision-making process, including decisions regarding dividends;
c) there are significant transactions between the parent company and the affiliate;
d) there is an exchange of managers;
e) essential technical information is being provided.

These holdings are valued using the equity method, except for insignificant interests.

The equity method involves initial recognition of the investment at cost and its subsequent remeasurement based on the portion of equity held. The portion of the subsidiary's net result for the year attributable to the Bank is shown in a specific item in the income statement.

Any change in the other components of comprehensive income relating to these subsidiaries is presented as part of the Group's comprehensive income.

In the event that an associate or joint venture recognises a change with direct allocation to equity, the Group recognises its share, where applicable, in the statement of changes in equity. Unrealised profits and losses deriving from transactions between the Group and associates or joint ventures are eliminated in proportion to the shareholding in the associates or joint ventures.

Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not subject to a separate impairment test. At each reporting date, the Group assesses whether there is objective evidence that the investments in associates or joint ventures have suffered impairment. In this case, the Group calculates the amount of the impairment as the difference between the recoverable value of the investment in the associate or joint venture and its carrying amount in its financial statements, recognising this difference in the profit or loss for the year under the heading «portion pertaining to the result of associates and joint ventures». Any subsequent write-backs cannot exceed the impairment losses recorded previously.

Upon loss of significant influence over an associated company or joint control over a joint venture, the Group assesses and recognizes the residual shareholding at fair value. The difference between the carrying amount of the investment at the date of the loss of significant influence or of the joint control and the fair value of the residual investment and the amount received is recognized in the income statement.

On 2 May 2022, the Parent Company, having successfully completed the restructuring operation, sold 18.25% of the share capital of Cossi Costruzioni S.p.a. to Webuild S.p.a.

The percentages of ownership in associated companies are specified in the following table:

Company Name	Head office	Share capital (in thousands)	Held %
Alba Leasing S.p.a.	Milan	357,953	19.264
Arca Vita S.p.a.	Verona	208,279	14.837
Arca Holding S.p.a.	Milan	50,000	34.715
Unione Fiduciaria S.p.a.	Milan	5,940	24.000
Polis Fondi S.g.r.p.a.	Milan	5,200	19.600
Bormio Golf S.p.a.	Bormio	317	25.237
Lago di Como GAL S.c.r.l.	Canzo	22	28.953
Sofipo S.A.	Lugano	(CHF) 2,000*	30.000
Acquedotto dello Stelvio S.r.l.	Bormio	21**	27.000
Sifas S.p.a.	Bolzano	1,209**	21.614

* held by Banca Popolare di Sondrio (Suisse) SA
** held by Pirovano Stelvio S.p.a.

Special purpose vehicle for the securitisation of non-performing loans

Based on the provisions of IFRS 10, the Vehicle Companies Diana S.P.V. S.r.l., Pop Npls 2020 S.r.l., Pop Npls 2021 S.r.l. and Pop Npls 2022 S.r.l., specifically established pursuant to Law 130/1999, do not fall within the scope of consolidation of Banca Popolare di Sondrio, as:

- Banca Popolare di Sondrio and the other Group companies have no shareholding relationship with the SPVs nor do they have the de facto or de iure to appoint the directors of the company;
- the SPVs are not a related party of Banca Popolare di Sondrio or of the other Group companies pursuant to IAS 24;
- Banca Popolare di Sondrio and the other Group companies have no power, whether de facto or de iure, to manage the key activities of the SPVs (credit recovery);
- the servicing contracts provide that investors (and therefore also Banca Popolare di Sondrio as the Transferring Bank) are not entitled to revoke the Master Servicer and/or the Special Servicers; with reference to the Master Servicer, the SPVs are the entity that will have the right or the obligation to revoke the assignment of the Master Servicer and to appoint another one;
- the structures of the securitisation allowed the derecognition from the financial statements of Banca Popolare di Sondrio of the loans sold as the rights to receive the financial flows were transferred to the SPVs (para. 3.2.4 (a) of IFRS 9) and «substantially all of the risks and benefits» associated with them (para. 3.2.6 (a) of IFRS 9).

Please refer to Part E, Section 2, C. Securitisations of these notes for more details regarding the securitisation completed during the period.

3. Investments in wholly-owned subsidiaries with significant non-controlling interests

As at 31 December 2022, there were no wholly-owned subsidiaries with significant non-controlling interests considered significant for the Group.

4. Significant restrictions

Within the scope of the Banks and Companies forming the Banca Popolare di Sondrio Group's consolidation area, there are no significant restrictions as set forth in paragraph 13 of IFRS 12.

5. Other information

For the consolidation of companies using the full line-by-line method, data referring to the 2022 financial statements approved by the respective shareholders' meetings are used, or in the absence thereof, to the draft financial statements approved by the respective boards of directors. For investments that are jointly controlled or subject to significant influence, where such information is not available, reference has been made to the latest available balance sheet and income statement in accordance with IAS 28.

Translation of financial statements in currencies other than the euro

The financial statements of Banca Popolare di Sondrio (SUISSE) SA are translated into euro at the official year-end exchange rate for balance sheet assets and liabilities, while costs and revenues are translated into euro at average exchange rate. Differences arising on translation are booked in the statement of comprehensive income.

Section 4 *Subsequent events*

No events have taken place between the reference date for these financial statements and the date of their approval by the Board of Directors on 17 March 2023 that would require the adjustment of such approved information, and nothing of significance has occurred that would require changes in the figures of the financial statements.

Section 5 *Other aspects*

1. New international accounting standards endorsed and applied in the preparation of the financial statements at 31 December 2022

Below is an illustration of the new accounting standards or amendments to existing standards approved by the IASB, as well as the new interpretations or amendments to existing ones published by the IFRIC, with separate indication of those applicable in the financial year 2022 and those applicable in subsequent financial years.

New documents issued by the IASB and endorsed by the EU to be mandatorily adopted for the preparation of the 2022 financial statements

– *Regulation (EU) 2021/1080 of 28 June 2021* correcting Regulation 1126/2008. This regulation introduces a number of formal amendments to International Accounting Standards (IAS) 16, 37 and 41 and International Financial Reporting Standards (IFRS) 1, 3 and 9.

  In detail, the IASB published the following amendments to the IFRS:

  - amendments to IFRS 3 Business Combinations: they update the reference in IFRS 3 to the Conceptual Framework in the revised version, without this involving any changes to the standard;
  - amendments to IAS 16 Property, Plant and Equipment: they do not allow the amount received from the sale of goods produced before the asset is ready for use to be deducted from the cost of the fixed asset. Such sales revenues and costs will be recognised in the income statement;
  - amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets: they clarify which cost items have to be considered to assess whether a contract will make a loss;
  - Annual Improvements 2018-2020: amendments made to IFRS 1 First-time Adoption of International Financial Reporting Standards, to IFRS 9 Financial Instruments, to IAS 41 Agriculture and to the Illustrative Examples accompanying IFRS 16 Leases.

Taking into account the extent of the amendments in question, the application of the amendments in question did not have any impact on the Group.

New accounting standards, amendments and interpretations, whose application will become mandatory after 31 December 2022.

– *Regulation (EU) No. 2021/2036 of 19 November 2021,* amending Regulation (EC) No. 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council with regard to International Financial Reporting Standard 17. IFRS 17 – Insurance contracts published on 18 May 2017 and the amendments to IFRS 17 published on 25 June 2020. This applies from 1 January 2023.
– *Regulation (EU) No. 357 of 2 March 2022,* amending Regulation (EC) No. 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council, with regard to the international accounting standards IAS 1 (Presentation of financial statements) and IAS 8 (Accounting standards, changes in accounting estimates and errors).

  These amendments clarify the differences between accounting principles and accounting estimates in order to ensure the consistent application of accounting principles and the comparability of financial statements. With reference to IAS 1, the IASB introduced amendments with the aim of developing guidelines and examples in the application of materiality and relevance judgments to accounting policy disclosures. In particular, information about accounting policies is material if, taken together with other information included in the entity's financial statements, it is reasonable to expect that it will influence the decisions of users of the financial statements. With regard to the amendments to IAS 8, the IASB introduced the definition of an accounting estimate. Accounting estimates are to be understood as the «monetary amounts in the financial statements subject to valuation uncertainty».

  The amendments are applicable from 1 January 2023, with the possibility of earlier application.
– *Regulation (EU) 2022/1392 of 11 August 2022* amending Regulation (EC) No. 1126/2008 as regards International Accounting Standard IAS 12. These amendments clarify how companies should account for deferred taxes on transactions such as leases and decommissioning obligations and aim to reduce diversity in the recognition of deferred tax assets and liabilities on leases and decommissioning obligations. The amendments are applicable on or after 1 January 2023.
– *Regulation (EU) 2022/1491 of 8 September 2022* amending Regulation (EC) No. 1126/2008 as regards International Financial Reporting Standard 17. This amendment relates to financial assets for which comparative information is required to be disclosed at the date of transition of IFRS 17 and IFRS 9, which, however, is not restated under IFRS 9, with the aim of avoiding temporary accounting mismatches between the valuation of financial assets and those of insurance contracts, thereby contributing to improving the relevance of comparative information for users of financial statements.

  The amendments are applicable from 1 January 2023.

IAS/IFRS and SIC/IFRIC interpretations issued by the IASB/IFRIC, pending endorsement

– Amendments to IAS 1 – Presentation of Financial Statements: classification of liabilities as current or non-current. On 23 January 2020, the IASB published an amendment to IAS 1, which seeks to clarify one of the IAS 1 criteria for the classification of a liability as non-current, namely the requirement that the entity must have the right to defer settlement of the liability for at least 12 months after the end of the reporting period.

  The amendment includes:
  - clarification that the right to defer settlement must exist at the end of the reporting period;
  - clarification that classification is unaffected by management intentions or expectations about possible exercise of the deferral right;
  - clarification about how loan conditions influence classification;

- clarification of the requirements for classifying a liability that the entity intends to settle or might settle by the transfer of its own equity instruments.

2. Interest Rate Benchmark Reform

The so-called «IBOR reform» follows the recommendations of the Financial Stability Board (FSB) following the G20 request for a radical revision of the main benchmark interest rates. The request is a direct consequence of the loss of reliability of certain benchmark rates following their alleged manipulation, corroborated by the scarcity of liquidity in interbank markets in the period after the economic crisis.

At the European level, this reform was translated into the European Union Regulation 2016/1011 of 8 June 2016 (the so-called Benchmarks Regulation, BMR) in force since January 2018, implemented in Italy by Legislative Decree No. 19 of 13 February 2019. The regulation defined the new regulatory framework on reference rates, EURIBOR, LIBOR and EONIA, creating uncertainty about the long-term availability of some Benchmarks. In this context, the Banca Popolare di Sondrio group has launched an assessment project from which it emerged that the impact of the reform is of low significance with regard to the following areas of investigation: products, contracts, models and information systems.

With reference to the EURIBOR, the reference rate used for numerous types of funding and lending transactions and derivative products, calculated for different maturities and administered by the European Money Markets Institute (EMMI), from 28 November 2019 it is calculated using a new methodology in order to adapt to this regulation. This innovative methodology does not change the economic variable that the index represents, which remains the cost of funding for the contributing European banks. The change relates to the figure being measured, which now consists of the actual cost of funding recorded by the transactions effectively concluded and no longer, as was previously the case, from that relating to the purchase or sale proposals declared by the contributing banks.

Publication of the EONIA benchmark rate as previously calculated ceased as of 1 October 2019. The publication of €STR (Euro Short-Term Rate) replaced this parameter from 2 October 2019. As regards the €STR rate, the Group's exposure appears to have no impact given the limited presence of products indexed to the new €STR. In the end of the day, publication of LIBOR ceased from the end of 2021 and in the individual countries concerned there are already alternative risk-free rates that replace LIBOR.

With regard to the disclosures pursuant to IFRS 7, paragraphs 24 I and 24 J concerning the reform of the reference indices for determining interest rates, no significant impact was seen on instruments that have already experienced the transition. As of 2021, Regulation No. 25/2021 dated 13 January 2021, which implements the document «Reform of interest rate benchmarks - phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16», is mandatorily applicable for the first time. From the point of view of accounting presentation, it is clarified that the amendments made as a result of the IBOR Reform relating to the replacement of the existing IBOR rate with the new Risk Free Rate should not constitute a derecognition, but should be considered for accounting purposes as a modification. In this regard, a practical expedient is introduced to represent such modifications, if made as a direct consequence of the IBOR Reform and on equivalent economic bases, with a prospective adjustment of the effective interest rate, with impacts on the interest margin of future periods.

On the subject of hedge accounting, in the second phase of the project, the IASB introduced certain exceptions to IAS 39, in the case of modifications required as a direct consequence of IBOR Reform and carried out on an equivalent economic basis, which make it possible not to carry out discontinuing following the updating of the documentation on the hedging (for the change in the hedged risk, the underlying hedged item or the hedging derivative or the method of verifying the solidity of the hedge). Any effect of ineffectiveness must, however, be recognised in the income statement. It should be noted that the Group did not experience any significant impact from the reform.

Please see Part E, 1.3 Derivative instruments and related hedging policy, 1.3.2. Accounting hedges in these explanatory notes for further information in regard.

3. TLTRO III

The TLTRO III refinancing operation consists of a programme of ten refinancing operations, each with a three-year maturity, starting in September 2019 with a quarterly frequency, at an interest rate set at a level equal to the average interbank refinancing cost. In 2020, with the aim of further supporting lending to households and businesses, some of the parameters of existing operations were revised, with particular reference to the maximum amount that can be financed and the related remuneration. TLTRO III operations are indexed to the average interest rate on the main refinancing operations (MRO), or alternatively, depending on the achievement of certain benchmarks, at the average interest rate on deposits at the central bank's Deposit Facility (DF).

As a result of the crisis linked to Covid-19, a cut of 50 basis points was envisaged in the above rates for the period between 24 June 2020 and 23 June 2021, and with the ECB decision of December 2020 the reduction was also extended to the period between 24 June 2021 and 23 June 2022. Again, the concessional terms are subject to the achievement of certain growth targets measured at 31 March 2021 and 31 December 2021.

As the Parent Company has achieved all required growth targets, it will be eligible for the application of the Deposit Facility rate, as well as the reduction of an additional 50 b.p. for the period from June 2020 to June 2022, from all funds held by the Parent Company, depending on their allocation date. As from 27 July 2022, the banks will no longer benefit from the reduction of an additional 50 b.p.

In order to counter rising inflation, the ECB started a series of rate increases from July onwards at a steady pace to reach levels sufficiently restrictive to ensure a timely return of inflation to the 2% target in the medium term.

The ECB intervened by changing the way the final rate applicable to transactions is counted, in order to normalise the cost of funding for the banking sector. In detail, the current rate calculation methodology is maintained for the period up to 22 November 2022, and from 23 November 2022, the applicable interest rate has been indexed to the average interbank rates applicable from that date onwards (essentially raising the applicable rate over the entire life).

With regard to the way in which these transactions are recognised in the accounts, they present such peculiarities that they cannot be immediately attributed to a specific accounting principle.

The Group considered the funding provided to be non-arm's length and qualified the TLTRO III operations as a loan from a government whose benefit is treated as a government grant, in accordance with IAS 20. In line with the provisions of paragraph 8 of IAS 20, a government grant cannot be recognised until there is reasonable certainty that the entity meets the conditions.

Based on this approach, the «premium» paid for the achievement of the planned net lending levels, amounting to 63 million euro, was recognised in the income statement systematically in the period to which it referred (24/06/2020-24/06/2022), and therefore in 2020 for 11.5 million euro, in 2021 for 30.1 million euro and in 2022 for 21.4 million euro.

Ordinary interest is recorded taking into account the refinancing conditions defined by the ECB as floating market rates defined within the framework of monetary policy measures, which the Governing Council may change prospectively at any time. Interest is then recognised time-by-time on the basis of the interest rate of the instrument defined as the average of the rate on outstanding deposits in each of the reference periods. This interest component in the financial year 2022 amounted to 13.2 million euro. Thus, the positive contribution to the income statement in the financial year 2022 was 34.6 million euro.

From an accounting point of view, in consideration of paragraph 12 of IAS 20, the recognition of the benefit must be made in the years in which the entity recognizes as costs the related expenses that the contributions are intended to offset. Considering that the benefit was granted to the banks in order to support the provision of loans during the pandemic which, for the Parent Company, mainly consisted of granting of new loans directly linked to the pandemic, it can be concluded that the «higher cost» incurred by the Parent Company is attributable to both the cost of the new funding to finance new disbursements, and to a loss of cash flow on transactions subject to moratoria for the period of the suspension, which resulted in an additional financial requirement.

4. Interbank Deposit Protection Fund - Voluntary Scheme

In December 2015, the Parent Company joined the Voluntary Scheme established as part of the Interbank Deposit Protection Fund to support measures in favour of member banks in receivership or distress or in danger of collapse. This is an additional tool to resolve banking crises intended for interventions when there is a reasonable chance of turning round the Bank or when the intervention is likely to cost less than liquidating it. The Fund intervened in support of Banca Carige in 2018, resulting in a payment by the Bank of 5.257 million matched by the recognition of a financial asset represented by securities measured at fair value through profit and loss. The financial asset was fully impaired in the 2018 financial statements. No charges for other operations were recorded in subsequent years or in the year under review.

5. Risks and uncertainties related to estimates

The preparation of the consolidated financial statements requires the use of estimates and valuations that may have a significant impact on the values recorded in the balance sheet and income statement concerning in particular:
- the quantification of impairment losses on loans and financial assets in general;
- the use of valuation models for recording the fair value of financial instruments not listed in active markets;
- the assessment of the fairness of the value of goodwill and other intangible assets;
- the quantification of the fair value of investment properties;
- the quantification of personnel provisions and provisions for risks and charges;
- estimates of the recoverability of deferred tax assets.

The Parent Company and other Group companies defined the estimation processes to support of the carrying amount of the more significant items requiring valuation in the consolidated financial statements at 31 December 2022, as required by prevailing accounting standards and relevant regulation.

These processes are largely based on estimating the future recoverability of amounts reported in the financial statements in accordance with rules dictated by current regulation and have been performed on a going concern basis, i.e. valuations are not based on the assumption of a forced sale. Specifically, with reference to the estimates that could potentially be most impacted by the Russian-Ukrainian conflict and the Covid Pandemic, please refer to paragraph 16 of Section A.2 of these notes.

The outcome of this work supports the carrying amount of these items at 31 December 2022. It should be stated, however, that this valuation process was particularly complex in view of the current macroeconomic and market context, characterised by high levels of uncertainty about the prospects, and the consequent difficulty in making even short-term forecasts for these financial parameters which have a significant impact on estimates.

The parameters and information used to verify the above figures have been heavily affected by the macroeconomic and market framework that could experience rapid changes that are currently unforeseeable, with effects - even significant effects - on the amounts reported in the financial statements at 31 December 2022.

6. Terms for the approval and publication of financial statements

Article 154-*ter* of Legislative Decree 58/98 («TUF») provides that, within one hundred and twenty days from the end of the financial year, the annual financial statements must be approved and the annual financial report including the draft financial statements, the consolidated financial statements, the report on operations, and the certification of the Financial Reporting Manager of preparing the company's financial reports referred to in Article 154-*bis*, paragraph 5, must be published. The draft financial statements of Banca Popolare di Sondrio were approved by the Board of Directors at its meeting of 17 March 2023 and will be submitted for approval to the Shareholders' Meeting called for 29 April 2023.

7. The single electronic reporting format for annual financial reports

Directive 2013/50/EU, which amended Directive 2004/109/EC (Transparency Directive), established that all annual financial reports of issuers whose securities are admitted to trading on a regulated market must be prepared in a single electronic reporting format. The European Securities and Markets Authority (ESMA) has been tasked by the Transparency Directive with developing technical standards to specify such an electronic reporting format. The European Commission adopted the aforementioned technical standards with Delegated Regulation 2019/815 of 17 December 2018 (ESEF- European Single Electronic Format Regulation, hereinafter the Regulation), which established the following main obligations for issuers: - issuers prepare and publish their annual financial report in the XHTML (eXtensible HyperText Markup Language) format; - issuers that prepare consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) use the iXBRL (Inline eXtensible Business Reporting Language) language for marking such consolidated financial statements. The combination of the XHTML format with iXBRL markings aims to make annual financial reports readable by both human users and automated devices, thereby improving the accessibility, analysis and comparability of the information included in annual financial reports. InlineXBRL technology enables XBRL mark-ups to be embedded in XHTML. XBRL (eXtensible Business Reporting Language) is machine-readable and allows for the automated use of large amounts of information. The XBRL language is well-established and used in several jurisdictions and is currently the only appropriate markup language for marking information contained in financial statements. Using the XBRL markup language involves applying a taxonomy to convert human-readable text into machine-readable information. The IFRS taxonomy, made available by the IFRS Foundation, is a consolidated taxonomy developed to mark information presented under IFRS. The use of the IFRS taxonomy facilitates worldwide comparability of markups in financial statements prepared in accordance with IFRS. From 1 January 2021, following the extension in the Milleproroghe Decree (Decree-Law No. 183 of 31 December 2020 converted into Law No. 21 of 26 February 2021), and therefore starting with the consolidated financial statements for the year ended 31 December 2021, the obligation to mark the following information was introduced: – Basic Master Data – Consolidated Financial Statements (Consolidated Balance Sheet, Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Cash Flow Statement) Starting with the consolidated financial statements for the year ending 31 December 2022, the obligation to prepare in accordance with the new ESEF format has also been extended to the information contained in the notes to the financial statements.

This Annual Financial Report has been prepared in accordance with the ESEF Regulations and approved by the Bank's Board of Directors on 17 March 2023, and will be made public in accordance with the law.

8. Information pursuant to art. 1, paras. 125-129 of Law 124/17 dated 4 August 2017 «Annual law for the market and competition - Measures on the transparency of public payments» as amended by Decree Law 30/4/2019 No. 34 (so-called «Growth Decree») art. 35

With regard to the above legislation, the contributions or aid received by the Bank in cash or kind, that were not generally available and did not represent consideration, remuneration or reimbursements, have been published on the National Register of State Aid, to which reference is made pursuant to art. 125-*quinquies* of that law.

9. Statutory audit

The consolidated financial statements as at 31 December 2022 are audited by EY S.p.A., which was assigned the task of auditing for the nine-year period 2017/2025 with a resolution of the shareholders' meeting of 29 April 2017, pursuant to Legislative Decree No. 39 of 27 January 2010.

A.2 Main financial statement items

Below are the accounting policies, broken down by item, that have been adopted for the preparation of the consolidated financial statements as at 31 December 2022, with reference to the classification, recognition, measurement and derecognition of the various asset and liability items, as well as the methods for recognising revenues and costs introduced by certain general elements inherent to the classification of financial assets.

Classification of financial assets

The classification of financial assets is guided, on the one hand, by the contractual characteristics of the cash flows of the instrument itself linked to the generation of cash flows represented solely by payments of principal and interest on the principal to be repaid (i.e. which involve passing the so-called «SPPI test» – «Solely Payment of Principal and Interest test»).

The other factor guiding the classification of financial assets is the business model adopted, which determines whether cash flows will arise from the collection of contractual cash flows, the sale of financial assets, or both.

Business models

Held to Collect (HTC)

The objective of this business model is to hold financial assets to collect the contractual cash flows during the instrument's life. Sales are only deemed to be eligible if they are frequent but not significant, or significant but not frequent, or if due to an increase in credit risk, and if close to the maturity date of the financial asset. Frequency is measured based on the number of sales made in the period, while significance is measured on the total amount of sales compared to the portfolio at the beginning of the period. The criteria used to determine these requisites have been included by the Group in specific internal regulations.

Banca Popolare di Sondrio Group holds the following within an HTC business model:

- Almost the entire portfolio of loans to customers and Banks, given that the Group mainly undertakes traditional banking activities and holds a loan portfolio that originates from finance granted to households, individuals and businesses;
- Fixed-yield securities that may be subjected to this business model's management logic.

Held to Collect & Sell (HTC&S)

The objective of this business model is to collect contractual cash flows and to sell the financial assets. The Group decided not to use the HTC&S business model for receivables, but decided to use it for securities.

Others (FVTPL)

This business model is adopted when the Group takes decisions based on the fair value of financial assets and it manages them in order to dispose of the latter or when the objective of the business model does not fall within that of the previous two (HTC and HTC&S). Banca Popolare di Sondrio Group holds the following within an «Others» business model:

Financial instruments held within a trading business model

Financial instruments held with management on a fair value basis.

The Group does not require ex post monitoring for credit and loans to verify the consistency of the loan portfolio with the HTC business model within which they are held, while it is required for securities to verify the consistency of securities portfolio management with the HTC and HTC&S business models.

SPPI Test - Solely Payment Principal Interest Test

By means of an SPPI test, it is possible to check whether a financial asset may be considered to be a «basic lending arrangement», whereby the contractual cash flows consist solely of payments of principal and interest accrued on the principal amount outstanding. If the test of the characteristics of the contractual cash flows shows compliance with the requirements of IFRS 9 (SPPI test has been passed), the asset may be measured at amortised cost, provided that it is held within a business model the objective of which is to collect the contractual cash flows during the instrument's life (HTC business model), or at fair value through other comprehensive income (FVOCI), provided that the asset is held within a business model the objective of which is to collect contractual cash flows over the entire life of the asset and to sell the asset (HTC&S business model).

If the test of the characteristics of the contractual cash flows from a financial asset does not show compliance with the requirements of IFRS 9 (SPPI test has not been passed), the asset is measured at fair value through profit or loss (FVTPL). In accordance with Group-wide guidelines, the Test is performed before a loan is disbursed or a security purchased (origination). Test procedures make use of the so-called SPPI tool.

For credit and loans, the approach for the execution of the SPPI test differs based on whether they consist of:

- Standard products (e.g. current accounts or loans), for which the test is performed at product level. Upon granting a loan, account is taken of the outcome of the SPPI test at product level, updated following verification of the remuneration of credit risk and a benchmark test, where required.
- Non-standard contracts, for which the test is performed individually for each amount.

For the securities portfolio, the results of the SPPI test and benchmark test are acquired for each ISIN from an external info provider. For amounts for which the results of the SPPI test and/or benchmark test obtained from an external info provider are not available and/or complete, the tests are performed within the Group, using the aforementioned tool.

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

Classification

Financial assets held for trading (fixed-yield securities, equity securities, loans, mutual funds) have been allocated to this line item. It also includes the derivative contracts with a positive fair value, except those offset pursuant to IAS 32. A derivative contract is a financial instrument whose value is linked to movements in an interest rate, the prices struck for a financial instrument, the price of a commodity, a currency exchange rate, a price index, a rate index or other type of index, is settled on maturity and requires a limited initial net investment. If the derivative qualifies as a hedging derivative, it is recognised in the item «hedging derivatives». If a financial asset contains an embedded derivative, it is measured by measuring the entire asset at fair value. A derivative that is attached to a financial instrument but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

This item also includes financial assets designated at fair value (fixed-yield securities and loans) as the result of the exercise of the fair value option. For the time being, the Group does not apply the fair value option, but does not exclude the exercise thereof in the future.

Lastly, it includes other financial assets mandatorily measured at fair value (fixed-yield securities, equity securities, mutual funds and loans) or financial assets that do not meet the requirements for classification at amortised cost or at fair value through other comprehensive income, since they do not pass the contractual cash flow characteristics test (SPPI test), as well as equity securities and mutual funds (that are not held for trading) and debt instruments held within a business model managed based on fair value.

Recognition

Assets measured at fair value through profit or loss are recognised at the settlement date at fair value, which normally corresponds to the consideration paid, with the exception of transaction costs and revenues that are recognised directly in profit or loss. Trading derivatives are recognised at the «contract» date and are stated at their current value at the time of acquisition.

Accounting policies

Subsequent to initial recognition, financial assets measured at fair value through profit or loss are measured at fair value at the reporting date. With regard to instruments listed on official markets, fair value is calculated with reference to their official bid price at the close of trading, while the fair value of instruments not listed on official markets is determined by reference to prices supplied by information providers such as Bloomberg and Reuters. If this is not possible, estimates and valuation models that take account of market data are used, where available; these methods are based on the valuation of listed instruments with similar characteristics, calculations of discounted cash flows or models for the determination of option prices, taking into account the credit risk profile of the issuer.

If data is not available for measurement under the above models, fair value measurement is performed using unobservable inputs (e.g. adjusted equity).

As regards loans and receivables (due from banks and customers), the models used differ based on the nature and the characteristics of the instruments being measured. Currently, three main base models are applied:

- Discounted Cash Flow Model (DCF)
- Reverse Mortgage Model (RMM)
- ABS model

The above models are used to measure performing exposures.

In the case of loans on demand or maturing in the short term, the book value is considered a good approximation of fair value.

Recognition of components affecting the income statement

Income statement components generated by changes in fair value are recognised in the income statement in the period they arise under «Net trading income» and «Net gains/losses on other financial assets and liabilities measured at fair value through profit or loss» split between the sub-items: «financial assets and liabilities designated at fair value» and «other financial assets mandatorily measured at fair value».

Interest income and dividends are reported in the income statement under «interest and similar income» and «dividends and similar income» respectively.

Derecognition criteria

Financial assets measured at fair value through profit or loss are derecognised when the contractual rights over the cash flows deriving from them expire or are closed out, or when they are sold with the transfer of substantially all the related risks and benefits, or when no control is retained over them even though substantially all the related risks and benefits are neither transferred nor retained.

2. Financial assets measured at fair value through other comprehensive income

Classification

This item includes all financial assets (fixed-yield securities, equity securities and loans) classified in the portfolio measured at fair value through other comprehensive income, distinguishing between those that will subsequently be reclassified to the income statement (fixed-yield securities and loans) and that will not (equity securities). The following are classified in the portfolio measured at fair value through other comprehensive income:

- fixed-yield securities and loans held within an HTC&S business model and that pass the SPPI test;
- equity securities for which the FVOCI option has been irrevocably exercised upon initial recognition.

Recognition

Assets included in this item are recognised at the settlement date at fair value, which normally corresponds to the consideration paid to acquire them.

With regard to fixed-yield securities and loans, the Group requires any changes in the business model due to inconsistency between the way that the portfolio is managed and the business model that was chosen, or to significant changes in the strategic decisions made, to be decided by the Boards of Directors of each Group member, which will determine if, in rare circumstances, reclassification is needed.

No possibility exists for the reclassification of equity securities. The exercise of the FVOCI option, being the option envisaged by the standard that permits equity instruments to be designated at fair value through other comprehensive income upon initial recognition, is in fact irrevocable.

Accounting policies

Subsequent to initial recognition, financial assets measured at fair value through other comprehensive income are measured at fair value, determined in the same manner as financial assets measured at fair value through profit or loss.

The item «Financial assets measured at fair value through other comprehensive income» comprises equities held by way of support for the core business and to encourage the development of initiatives in the territories where the Group operates. These instruments represent the majority in this portfolio. For these investments and in consideration of the fact that the application of valuation techniques would use significant discretionary factors, valuation at cost is considered the best expression of their fair value.

At each year-end or interim reporting date, fixed-yield securities classified in this item are subject to impairment testing based on a calculation framework similar to the one used for financial instruments measured at «amortised cost». Any subsequent write-backs cannot exceed the impairment losses recorded previously.

As regards equity securities classified in the item «Financial assets measured at fair value through other comprehensive income», they are not subject to impairment and changes in value, also due to deterioration in creditworthiness, are recognised in an equity reserve.

Recognition of components affecting the income statement

The interest calculated using the effective interest method, which takes account of the difference between cost, including transaction costs, and redemption value, is recorded in the income statement.

Changes in fair value of assets, net of the related deferred tax effect, are recorded in specific equity reserve, the «Valuation reserve», consisting of «Valuation reserves: Equity securities measured at fair value through other comprehensive income» and «Valuation reserves: Financial assets (other than equity securities) measured at fair value through other comprehensive income». An exception is made for fixed-yield securities, value adjustments and reversals related to changes in credit risk, which are recognised in the income statement under item 130(b) «Net adjustments/write-backs for credit risk».

If the reasons for impairment cease to apply following events subsequent to the reduction in the value of the financial asset, the write-backs relating to fixed-yield securities are reflected in the income statement, while those relating to equity securities are recorded in a specific «Valuation reserve» within equity.

Upon derecognition, the cumulative gain or loss on fixed-yield securities are recorded in the income statement while on equity securities, they are recorded in the equity reserve (item 150).

Dividends are shown under «dividends and similar income».

Derecognition criteria

Financial assets measured at fair value through other comprehensive income are derecognised when the contractual rights over the cash flows deriving from them expire or are closed out, or when they are sold with the transfer of substantially all the related risks and benefits, or when no control is retained over them even though substantially all the related risks and benefits are neither transferred nor retained.

3. Financial assets measured at amortised cost

Classification

This item includes financial assets, fixed-yield securities and loans, managed through an HTC business model that have passed the SPPI Test. The following are recognised in this item:

a) amounts due from banks (current accounts, guarantee deposits, fixed-yield securities, etc.), other than those «on demand» included under «Cash and cash equivalents». These include operating loans linked to the provision of financial services and activities as defined by the Consolidated Banking Act (TUB) and the Consolidated Finance Act (TUF) (e.g., distribution of financial products) and receivables due from Central Banks (e.g. compulsory reserve), other than current accounts and «on demand» deposits included under «Cash and cash equivalents», are also included;

b) loans and receivables with customers (mortgage loans, finance leases, factoring, fixed-yield securities, etc.). These also include deposits with post offices and Cassa Depositi e Prestiti, variation margins with clearing houses arising from derivative transactions and operating loans linked to the provision of financial services and activities as defined by the Consolidated Banking Act and the Consolidated Finance Act (for example, servicing activities).

Also included are:

– advances in respect of the assignment of loans with recourse or without recourse without the substantial transfer of risks and rewards, and loans acquired by the company recognised against the assigned debtor for which the substantial transfer of risks and rewards to the assignee has been recognised;
– finance leases relating to assets under construction and assets about to be leased under «transfer of risks» contracts, whereby the risks are transferred to the lessee prior to delivery of the asset and the start of lease instalments;
– loans granted through government or other public entity funding in connection with particular lending transactions provided for and governed by specific laws («loans through

third-party funds under administration»), provided that the loans and funds bear interest due and payable to the lender;
- trade notes and documents that the banks receive subject to collection or subsequent to collection and for which the banks handle the collection service on behalf of assignors (recognised only upon settlement of the related amounts).

Recognition

Financial assets measured at amortised cost are recognised on the settlement date at fair value, which normally coincides with the amount paid, including transaction costs.

Repurchase agreements are recorded in the financial statements as funding or lending transactions. In particular, spot sales with forward repurchases are recorded as a payable for the spot amount collected, while spot purchases with forward resales are recorded as a receivable for the spot amount paid.

The Group requires any changes in the business model due to inconsistency between the way that the portfolio is managed and the business model that was chosen, or to significant changes in the strategic decisions made, to be decided by the Boards of Directors of each Group member, which will determine if, in rare circumstances, reclassification is needed.

Accounting policies

Subsequent to initial recognition, valuations are carried out on an amortised cost basis, using the effective interest method. Amortised cost is represented by the initial value, including transaction costs, net of any repayments of principal, as uplifted or decreased by adjustments or write-backs and the amortisation of the difference between the amount paid and that recoverable on maturity. The effective interest rate is the rate using which the present value of future cash flows equals the amount of the loan granted, as adjusted by directly-related costs and revenues. Short-term loans (less than 12 months) without a specific repayment date and loans repayable on demand are recognised at cost, as the calculation of the amortised cost does not produce significant differences. The effective interest rate identified initially, or when the indexing parameter for the loan is modified, is used subsequently to discount expected cash flows, even if there has been a credit change associated with the loan followed by loan forbearance measures that has led to a change in the contractual rate.

At each reporting date, financial assets measured at amortised cost are subject to impairment according to the rules set forth in IFRS 9; the value adjustments made are recognised in the income statement under item «130. Net adjustments/write-backs for credit risk: a) financial assets measured at amortised cost». For the definition of value adjustments, financial assets measured at amortised cost are classified into different Stages:
- Stage 1: performing positions for which there has been no significant increase in credit risk since the date of initial recognition;
- Stage 2: performing positions for which there has been significant increase in credit risk since the date of initial recognition;
- Stage 3: impaired positions (impaired past-due positions, likely defaults, bad loans) are included.

Classification in one of the stage 3 credit-impaired categories complies with the definition of «Non-performing exposures» provided by the Implementing Technical Standards (ITS) of the EBA and adopted by the European Commission, where impaired financial assets are to be split between bad loans, unlikely to pay and non-performing past due exposures.

Specifically:
- Bad loans reflect the exposure to parties that are insolvent or in essentially equivalent situations, regardless of any loss forecasts made by the Group. Accordingly, no account is taken of any guarantees received in support of such exposures.
- Exposures classified as unlikely-to-pay loans are exposures, other than bad loans, for

which the Bank deems it improbable that the obligor will pay its credit obligations (principal and/or interest) in full without recourse to measures such as the enforcement of guarantees.

- Non-performing past due exposures are exposures other than bad or unlikely to pay loans, which, at the reference date, are past due and/or overdrawn continuously for more than 90 days and which exceed set absolute materiality thresholds (100 euro for retail exposures or 500 euro for non-retail exposures) and relative materiality (set at one percent (1%) for both retail and non-retail exposures). Non-performing past due exposures are determined by reference to the individual debtor.

At each reporting date, an entity must assess whether there has been a significant increase in credit risk since the date of initial recognition. The determination of a significant increase in credit risk (SICR) and the subsequent estimation of impairment, which may either be annual (for positions classified in stage 1) or multiannual based on the residual life of the exposure (for positions classified in stage 2), is performed via the use of specific methodologies, which combine the use of absolute criteria – specifically, information relating to the number of continuous days past due/overdrawn, any forbearance measures, POCI and use of the low credit risk exemption for limited and particular types of counterparties and technical forms – and relative criteria. More precisely, the latter enable the measurement, via the analysis of an appropriate PD-based metric («Probability of Default»), of the change in the riskiness of the position over a timescale equating to the residual life thereof that has elapsed since the origination date up to the analysis/reporting date. For the construction thereof, use is made of probability of default term structures (lifetime PD curves, which differ according to appropriate granularity), which are constructed starting with an internal rating system, where available, or that assigned by an external rating agency, and by also taking into consideration elements of a predictive-evolutionary nature and specific to the macroeconomic scenario deemed to be most plausible at the analysis/reporting date in compliance with the underlying rationale of the new accounting standard.

If there has been a significant change in credit risk, there will be a transfer between stages: this model is symmetrical, and assets can move between stages. In the case of positions subject to forbearance measures, it should be noted that in accordance with prudential principles, an observation period of at least two years is envisaged before the position is returned to a better stage.

The measurement of financial assets carried at amortised cost is based on a computation of expected credit loss, which is defined as an estimate of the weighted probability of credit losses over the expected life of the financial instrument weighted for the probability of occurrence and is calculated based on the classification in stages as indicated above.

In particular:

- 12-month expected credit losses, for assets classified in stage 1. 12-month expected credit losses are those that result from default events that are possible within 12 months (or within a shorter period if the expected life is less than 12 months), weighted for the probability of occurrence of the default event.
- Lifetime expected credit losses, for assets classified in stage 2 and 3. Lifetime expected credit losses are those that result from all possible default events over the expected life of the financial instrument, weighted for the probability of occurrence of the default event.

For stage 2 positions, the provisions relating to each counterparty may be increased to a level considered appropriate by the competent business functions, based on the results of applying the statistical methodology defined by the Group and specific operational information, if the theoretical expected loss does not accurately reflect the level of risk identified.

As regards performing positions, measurement is performed on a collective basis, taking account of the risk parameters consisting of probability of default (PD) and loss given default (LGD), as well as exposure at default (EAD).

As regards credit-impaired positions, measurement may be performed on a collective or detailed basis.

Impairment of individual assets measured at amortised cost is the extent to which their recoverable value is lower than their amortised cost. In the case of detailed analysis, recoverable value is defined as the present value of expected cash flows, determined with reference to the following elements:

- value of contractual cash flows net of any expected losses, estimated with reference to both the ability of the borrower to meet its obligations and the value of any collaterals or personal guarantees assisting the loan;
- expected timing of recoveries, considering the progress made by recovery procedures;
- internal rate of return.

The specific analysis of non-performing financial assets takes the following parameters into account:

- recoveries forecast by the account managers;
- expected timing of recoveries based on historical-statistical data;
- original discounting rates or the actual contractual rates applying at the time of classifying the loans as doubtful.

Collective assessments are made of positions with limited total exposures that do not exceed given «threshold values». These thresholds are determined from time to time, using simple processes that mainly involve the automatic application of specific coefficients defined internally with reference to detailed quantitative analyses.

Unlikely-to-pay loans, which include loans subject to restructuring agreements, are also assessed on either a detailed or an overall basis. The detailed analysis takes the following parameters into account:

- recoveries forecast by the offices concerned;
- expected timing of recoveries based on historical-statistical data;
- original discounting rates represented by the actual contractual rates applying at the time the loans were classified as unlikely-to-pay or, with specific reference to loans subject to restructuring agreements, in force before signing the agreement with the debtor.

Collective write-downs are made using similar methodology to that applied in relation to the overall write-down of bad loans for which no specific estimate of the loss attributable to each individual relationship has been made.

These financial assets are adjusted on an overall basis with reference to specific historical/statistical analyses of the related losses incurred in the past.

Non-performing past due exposures are identified using automated procedures that extrapolate anomalous positions with reference to specific parameters established by regulations in force from time to time.

For the positions in question, it is not possible to quantify expected losses on a detailed basis at the level of individual position. The measurement of the level of impairment thereof – and, thus, of the adjustments to be applied on a collective basis – is performed by taking account of the possibility of return to performing of the positions or of a further deterioration of default and, accordingly, of the amount of the estimated expected losses arising from the established work-out process. Measurement is also performed based on the availability of appropriate information of a macroeconomic and prospective nature that is deemed significant for the estimation of the adjustments.

It should be noted that the impairment model relating to bad loans (Stage 3) envisaged by IFRS 9 is based on an estimate of the difference between the original contractual flows and expected cash flows. So, in determining the expected flows, it is necessary to include estimates at the reporting date of the various expected scenarios, including any loan disposal programmes and/or settlement agreements. If the entity expects to recover a portion of the cash flow of the exposures through sales procedures or settlement agreements, these can be included in the calculation of the Expected Credit Losses verified under certain conditions.

The Group incorporates the various recovery strategies considering the different probabilities that they will take place.

In the context of calculating the ECL, internal regulations require the expected loss and the recoverable value of non-performing loans to be estimated in disposal scenarios in accordance with a specific procedure, comprising several phases, that starts with identification of the scenarios.

In general, the accounting rules require the estimate of the loss on non-performing loans to reflect a range of possible outcomes for different scenarios, each associated with a specific probability of occurrence.

Currently, the following possible scenarios have been identified, each with different models and estimated outcomes:

- internal management of credit recovery activities;
- adoption of settlement agreements for a selected number of non-performing positions;
- disposal to third parties of non-performing exposures.

The next phase consists in identifying the portfolio to be sold, based on knowledge of its characteristics, the existence of any internal and/or external constraints, the monitoring of market conditions and any more complex strategic and operational objectives. The aggregate is defined with reference to the specific factors attributed to each position, such as their contractual characteristics (e.g. type of guarantee, ageing, size of the exposure etc.) and relevant operational information, including the type of recovery procedures already in progress, the geographical location of the counterparty, any impediments or obstacles to disposal, the strategic orientation of the group, the conditions existing from time to time in the market for the disposal of loans, the strategies adopted by competitors, and any other internal and/or external factors that can be explained appropriately.

Each operational scenario identified is assigned a specific probability of occurrence. This probability is determined on both qualitative and quantitative bases, the latter taking into account the correlation between the target and extended portfolios selected for each scenario.

The next phase involves estimating the expected loss for each scenario. The estimate of losses on non-performing loans must reflect reasonable and well-founded information, available without excessive cost or effort, including details of past events, current conditions and the economic situation expected in future. In line with the internal regulations for quantifying the loss expected on non-performing exposures, an estimate is made of the cash flows expected from each operational scenario identified. Without prejudice to specific regulatory instructions, the estimate of cash flows from internal credit management scenarios takes account of macroeconomic and sector information, the situation faced by the debtor, the cash flows expected from the debt restructuring to «unlikely-to-pay exposures», any collaterals or personal guarantees, the period for which the position has been impaired and the expected time to obtain recovery.

The estimate of cash flow from loan disposal scenarios takes account of similar transactions carried out in the past by the group, as well as specific information available about the «underlying» (situation faced by the borrower and any loan guarantees obtained) and the market for the disposal of non-performing loans (e.g. prices of similar transactions carried out by other intermediaries and historical and forecast market curves).

The expected loss on each impaired position is therefore determined using the following formula:

Expected Loss - Individual position	=	Expected Loss - Disposal Scenario * Probability of occurrence of Disposal	+	Expected Loss - Internal Management Scenario * Probability of occurrence of Internal Management

Recognition of components affecting the income statement

Interest income on financial assets measured at amortised cost is classified in the item «interest and similar income».

As regards financial assets classified in stage 3 and loans purchased or originated credit-impaired (POCI), interest is calculated using the net interest method and is recognised in the item «interest and similar income».

Adjustments and write-backs for changes in credit risk, calculated as specified above, are recognised in the income statement. Any write-backs do not exceed the (specific and general) impairment adjustments recorded previously.

Derecognition criteria

Financial assets measured at amortised cost are derecognised when the contractual rights over the cash flows deriving from them expire or are closed out, or when they are sold with the transfer of substantially all the related risks and benefits, or when no control is retained over them even though substantially all the related risks and benefits are neither transferred nor retained.

IFRS 9 also includes the following provisions on:

- Write-off of financial assets: when an entity does not reasonably expect to fully or partly recover contractual cash flows from a financial asset, it must directly reduce the gross carrying amount of the financial asset. This write-down constitutes partial or total derecognition of the asset.
- Change in contractual cash flows: when a change in contractual cash flows occurs, the entity must assess whether the original asset should continue to be recognised in the financial statements or whether the original instrument should be derecognised and a new financial instrument recognised. When the modification of contractual cash flows of a financial asset is substantial, the Entity should derecognise the existing financial asset and subsequently recognise the modified financial asset: the modified financial asset is deemed to be a «new» financial asset for the purpose of this standard (IFRS 9 B5.5.25). When the modification of contractual cash flows from a financial asset is not substantial, the Entity should redetermine whether there has been a significant increase in credit risk and/or whether the financial asset should be reclassified to stage 3. At the time of a modification that does not lead to derecognition, the Group adjusts the carrying amount to the present value of the modified cash flows determined using the original effective interest rate, with a matching entry to the income statement.

3.1 Commitments and guarantees given

Classification

These comprise all the collaterals and personal guarantees given for third-party obligations and commitments to grant loans.

Recognition and measurement

Endorsement loans are valued on the basis of the riskiness of this particular form of loan, taking into account the creditworthiness of the borrower. The impairment model envisaged for this category of financial assets is the same as that for financial assets measured at amortised cost (see paragraph 3 above).

Recognition of components affecting the income statement

The commissions accrued are shown in the income statement under «fee and commission income». Impairment losses, and subsequent write-backs, are booked to the income statement under «net provisions for risks and charges» with a contra-entry to «Provisions for risks and charges - a) Commitments and guarantees given».

4. Hedging transactions

Classification and recognition

Financial and credit derivatives held for hedging purposes with a positive or negative fair value are recognised in the corresponding balance sheet item. The IASB is still developing new macro hedging requirements to complete the hedge accounting requirements already included in IFRS 9, which will replace the rules set out in IAS 39 and, accordingly, until the completion and publication of the new standard, the Group has decided to continue to apply the hedge accounting requirements set out in IAS 39, as this option is allowed under IFRS 9.

The portfolio of hedging derivatives comprises the derivative instruments used by the Group to neutralise or minimise the losses arising in relation to hedged assets and liabilities.

The hedging of market risks can take two different forms:

- fair value hedges, to hedge the exposure to changes in the fair value of a balance sheet item attributable to a particular risk; this also includes generic fair value hedges («macro hedges») whose objective is to reduce fair value fluctuations, attributable to interest rate risk, of a monetary amount, arising from a portfolio of financial assets and liabilities;
- cash flow hedges of the exposure to changes in future cash flows attributable to specific risks associated with balance sheet items.

If the test reveals that the hedge is not sufficiently effective, the instrument is reclassified to the trading book. Hedging instruments are recorded using the «contract date» method.

For a transaction to be accounted for as a «hedging transaction», the following conditions must be met: a) the hedging must be formally documented, b) the hedge must be effective at the time it starts and prospectively throughout its life. Effectiveness is tested using specific techniques and exists when the changes in the fair value (or cash flows) of the hedging instrument almost entirely offset the related changes in the hedged instrument (the results of the test fall into the 80% - 125% interval). The effectiveness of the hedge is assessed at each interim reporting date and at year end.

Derivative hedging instruments are initially recorded at fair value on the date the contract is entered into and are classified, depending on their positive or negative value, respectively, in assets under item «50. Hedging derivatives» or on the liabilities side of the balance sheet under item «40. Hedging derivatives».

Measurement and recognition of components affecting the income statement

Fair value hedges are measured and recorded on the following basis:

- hedging instruments are stated at their fair value; the fair value of instruments listed on active (efficient) markets is represented by their closing market price, while the fair value of instruments not listed on active markets corresponds to the present value of expected cash flows, which are determined having regard for the different risk profiles of the instruments subject to measurement. The measurement techniques used are those normally adopted by the market. The resulting gains and losses are recorded in the income statement item «90. Net hedging gain (loss)»;
- hedged positions are measured by including changes in fair value attributable to the hedged risk. These changes in value are also recognised in the income statement under item «90. Net hedging gain (loss)» as balancing entry against the change in book value of the hedged item.

With regard to interest-earning financial instruments, if the hedge transaction ceases to satisfy the recognition criteria of the standard, the difference between the carrying value of the hedged item at the time the hedge ceases and its carrying value had the hedge never existed is amortised to the income statement; if the financial instruments concerned do not earn interest, this difference is recorded in the income statement immediately.

In the case of generic fair value hedges («macro hedges»), changes in fair value with reference to the hedged risk of the hedged assets and liabilities are recognised in the balance sheet respectively, under item «60. Change in value of macro-hedged financial assets» or «50. Change in value of macro-hedged financial liabilities». The offsetting entry for changes in value referring to both the hedged item and the hedging instrument, like specific fair value hedges, is item «90. Net hedging gain (loss)» in the income statement. In the event of the discontinuation of a generic fair value hedging relationship, the cumulative revaluations/ write-downs recognised in the balance sheet items above are recognised in the income statement under interest income or expense over the remaining term of the original hedging relationships, subject to verification that the underlying conditions are met.

Cash flow hedges are measured and recorded on the following basis:

- derivative instruments are stated at their fair value. The gains and losses deriving from the effective part of the hedge, net of the related deferred tax effect, are recorded among the «Valuation reserves» within equity and only released to income when the hedged change in cash flows takes place or if the hedge is ineffective;
- the hedged item continues to be valued on the basis applicable to the category concerned;
- the amounts recognised among the components of other comprehensive income are reclassified to the income statement for the year in which the hedged transaction affects the income statement, for example when charges or income are recognised in relation to the hedged instrument.

If the hedging instrument expires or is sold, cancelled or exercised without replacement (as part of the hedging strategy), or if it ceases to be designated as a hedging instrument, or if the hedge no longer satisfies hedge accounting criteria, any gains or losses previously recognised as components of other comprehensive income remain classified separately within equity until the expected transaction takes place or the commitment made in relation to foreign currency is called upon.

Derecognition criteria

Risk hedges cease to generate accounting effects when they expire, when they are closed out or terminated early, or when they cease to satisfy the recognition criteria provided.

5. Equity investments

Classification

The portfolio of equity investments comprises holdings in associated companies and companies under joint control, other than those included in the item «financial assets measured at fair value through profit or loss» in accordance with IAS 28 and IFRS 11.

Recognition

Reference should be made to Section «Scope and methods of consolidation».

Accounting policies

Reference should be made to Section «Scope and methods of consolidation».

Measurement and recognition of components affecting the income statement

Reference should be made to Section «Scope and methods of consolidation».

Derecognition criteria

Reference should be made to Section «Scope and methods of consolidation».

6. Property, equipment and investment property

Classification

This item includes buildings, land, installations, furniture, equipment, furnishings and machinery. The rights of use acquired with the lease relating to the use of a tangible asset (for lessees) are also included.

This item includes buildings held for investment purposes in order to earn rentals or enjoy capital appreciation and follow the rules laid down by IAS 40.

This item also includes property, equipment and investment property classified according to IAS 2 Inventories, mainly relating to assets acquired with a view to enhancing the value of the investment, including through renovation or redevelopment, with the explicit intention of selling them, including assets deriving from the enforcement of guarantees received.

Recognition

Property, equipment and investment property are initially recorded at cost, including all expenses directly related to the asset's installation prior to being brought into service. Expenditure on improvements that will generate future economic benefits is added to the value of the assets concerned, while routine maintenance costs are charged to the income statement.

Investment properties, at the time of purchase, are recorded under assets in the balance sheet at cost. In the presence of a change of use of the property from property for business use to investment property, the initial book value is equal to the fair value, deduced from a specific appraisal. The difference between the fair value and the book value of the property at the date of change in use is treated on the basis of IAS 16, i.e. if there is a negative difference between fair value and book value, the decrease is recognised in the income statement, whereas if there is a positive difference between fair value and book value, the increase in value is recognised in the income statement as income for the amount that adjusts any previously recognised decrease in value; any excess must be credited to a revaluation reserve included in equity.

According to IFRS 16, leases are accounted for on the basis of the right of use model, so that, at the initial date, the lessee has a financial obligation to make payments due to the lessor to compensate for his right to use the underlying asset for the duration of the lease.

The start of the lease term is the date from which the lessee is authorised to exercise his right to use the leased asset, it corresponds to the date of initial recognition of the lease and also includes the so-called rent-free period, or those contractual periods in which the lessee makes use of the asset free of charge. When the asset is made available to the lessee for its use (initial date), the lessee recognises:

- an asset consisting of the right to use the asset underlying the lease contract. The asset is recognised at cost, determined by the sum of:
  - the financial liability for the lease;
  - payments for the lease paid before or on the date on which the lease takes effect (net of the lease incentives already received);
  - initial direct costs;
  - any (estimated) costs for the dismantling or restoration of the underlying leased asset;
- a financial liability deriving from the lease agreement corresponding to the present value of the payments due for the lease. The discount rate used is the implicit interest rate, if determinable; otherwise the lesseÈs incremental borrowing rate is used. If a lease contract contains «non-lease components» (for example services, such as routine maintenance, to be recorded according to the provisions of IFRS 15) the lessee has to account for «lease components» and «non-lease components» separately and split the contract consideration between the various components based on the relative prices.

The lease term is determined by taking into account:

- periods covered by a lease extension option, if it is reasonably certain to be exercised;

– periods covered by a lease termination option, if it is reasonably certain to be exercised.

Accounting policies

Subsequent to initial recognition, property, equipment and investment property used for business purposes are stated at cost, net of depreciation and any impairment in value.

Depreciation is provided on a systematic basis over the useful lives of the various categories of asset. The total book value of property has been split, based on specific appraisals, between the value of buildings and that of the related land, which is not depreciated since it has an indefinite life. Property, equipment and investment property are subjected to impairment testing at year end, or at interim reporting dates if there is evidence of a possible loss of value, and any impairment of their carrying amount with respect to their recoverable amount is charged to the income statement. Recoverable amount is defined as the asset's fair value, less any selling costs, or, if greater, its value in use as represented by the present value of future cash flows generated by the asset; subsequent write-backs do not exceed the impairment losses recorded previously.

Property, equipment and investment property «inventories» to which IAS 2 applies are valued at the lower of cost recognised and net realisable value. This case is not subject to periodic depreciation.

For investment properties, falling within the scope of IAS 40, the Group adopts the fair value measurement method, whereby, following initial recognition, all investment properties are measured at fair value. Consequently, these properties are not subject to depreciation, nor are they subject to impairment testing.

With regard to lease contracts, the lessee must:

– assess the right of use at cost, net of accumulated depreciation and accumulated value adjustments determined and accounted for on the basis of the provisions of IAS 36 «Impairment of assets», adjusted to take into account any restatements of the lease liability;
– increase the liability deriving from the lease transaction following the accrual of interest expense calculated at the implicit interest rate of the lease, or, alternatively, at the incremental borrowing rate and reduce it for payments of principal and interest. In the event of changes in payments due for leases, the liability must be restated; the impact of the recalculation of the liability is recognised as a contra-entry to the asset consisting of the right of use.

Recognition of components affecting the income statement

Periodic depreciation, impairment losses and write-backs are recorded in the «depreciation and net impairment losses on property, equipment and investment property» item of the income statement.

The fair value method for investment properties requires that changes in value deriving from the periodic redetermination of the fair value must be recognised in the income statement as income or expenses in «Net result of fair value measurement of property, equipment and investment property and intangible assets». For the methods used to determine the fair value and the periodicity of restatement, reference should be made to the criteria illustrated in «Part A.4 - Information on fair value» below.

With regard to leasing contracts, the amortisation of the Right of Use of the asset is recognised under the item «Depreciation and net impairment losses on property, equipment and investment property», while the interest expense recognised on the financial liability related to the contract is included under the item «Interest and similar expense».

Derecognition criteria

Property, equipment and investment property are derecognised on disposal or when their economic lives are over and they are not expected to generate any further economic benefits.

On disposal of an investment property, the difference between the sale consideration and the carrying amount must be recognised in the income statement, as «Gain (loss) on sale of investments».

The right of use deriving from lease contracts is eliminated from the financial statements at the end of the lease term.

7. Intangible assets

Classification

This item comprises identifiable, intangible, non-monetary assets that will benefit future years. Existing intangible assets consist of software, goodwill and other intangible assets recognised in the case of business combinations as part of the acquisition cost allocation process (e.g. customer lists).

Recognition

Intangible assets are recorded at purchase cost plus any related charges, only if it is probable that the future economic benefits attributable to such assets will be realised and their cost can be measured reliably. In the absence of these conditions, the cost of the intangible asset is expensed in the period incurred; any costs incurred subsequently are only capitalised if they increase the value of or the economic benefits expected from the assets concerned. Goodwill is booked to assets when it derives from a business combination according to the criteria laid down in IFRS 3 as the residual surplus between the overall cost incurred for the operation and the net fair value of the acquired assets and liabilities that constitute businesses or business units.

Accounting policies

Subsequent to initial recognition, intangible assets except for goodwill are stated at cost, net of accumulated amortisation and any impairment in value. Amortisation is provided on a systematic, straight-line basis over the expected useful lives of the intangible assets concerned. At the end of each annual or interim reporting period, if there is evidence of impairment, the recoverable value of the asset is estimated: the amount of the loss is equal to the difference between the book value and the recoverable value and is posted to the income statement.

Once booked, goodwill is not amortised but tested periodically to ensure that the book value is holding up. This test is carried out once a year or more frequently if there are signs of impairment. For this reason, cash generating units (CGUs) to which the individual amounts of goodwill can be allocated are identified. The amount of any reduction in value is determined on the basis of the difference between the carrying value of the goodwill and its recoverable value, if this is less. This recoverable amount is equal to the higher of the fair value of the CGU, net of any costs to sell, and the related value in use, represented by the present value of the estimated cash flows for the years that the CGU is expected to operate, including those deriving from its disposal at the end of its useful life.

Recognition of components affecting the income statement

Periodic amortisation, impairment losses and write-backs are recorded in the «Amortisation and net impairment losses on intangible assets» or «Goodwill adjustments» item of the income statement. For goodwill, it is not permitted to book any subsequent write-backs.

Derecognition criteria

Intangible assets are derecognised when they are not expected to generate any further economic benefits.

8. Non-current assets held for sale

The Group classifies non-current assets and disposal groups as held for sale if their carrying amount will be recovered principally from sale rather than from continuous use. Non-current assets are only classified in this item when disposal is considered very probable, and the asset or disposal group is available for immediate sale in its current condition, given that Management is committed to making the sale, which should be scheduled for completion within one year of the classification date. They are measured at the lower of book value and fair value, net of selling costs.

The results of the valuation are posted in the relevant items of the income statement or in the item «Profit (Loss) from discontinued operations after tax» if these are discontinued operations.

9. Current and deferred taxation

Tax receivables and payables are reported in the balance sheet as «Tax assets» and «Tax liabilities». Current taxes include advance payments (current assets) and amounts due (current liabilities) in relation to income taxes for the year, if these amounts are likely to be recovered from or paid to the tax authorities. Tax liabilities are determined by applying the current tax rates and regulations.

The estimate of tax assets and liabilities takes into account any charges deriving from disputes notified by the Tax Authorities and not yet settled or whose outcome is uncertain, as well as any doubts about the tax treatment adopted by the Company and other Group companies, given the complexity of tax legislation.

If there are deductible or taxable temporary differences between the value of assets and liabilities for tax purposes and the related book values, the corresponding deferred tax assets and liabilities are recognised using the liability method. Deferred tax liabilities are recognised on all related temporary differences, with the following exceptions:

- they derive from the initial recognition of goodwill, or an asset or liability, in a transaction that did not represent a business combination and that, at the time, did not influence the results reported for statutory and tax purposes;
- the reversal of taxable temporary differences associated with equity investments in subsidiary companies, associated companies and joint ventures can be controlled, and it is probable that such reversal will not occur in the foreseeable future.

Deferred tax assets are recognised in relation to all deductible temporary differences, tax credits and unused tax losses available to be carried forward, to the extent it is probable that sufficient taxable income will be available in future to absorb them, with the following exceptions:

- the deferred tax assets associated with deductible temporary differences derive from the initial recognition of an asset or liability in a transaction that did not represent a business combination and that, at the time, did not influence the results reported for statutory and tax purposes;
- in the case of deductible temporary differences associated with equity investments in subsidiary companies, associated companies and joint ventures, deferred tax assets are only recognised if it is probable that they will reverse in the foreseeable future and that sufficient taxable income will be available to absorb them.

Law No. 214/2011 allows, under certain situations, certain types of deferred tax assets recognised in the financial statements to be transformed into tax credits, such as those related to value adjustments/write-backs on receivables.

No deferred taxes are provided in relation to higher asset values or reserves subject to the deferral of taxation as the conditions for payment of such taxation in the future do not currently apply. Deferred tax assets are only recognised when their recovery in future years is reasonably certain.

Deferred tax assets determined on the basis of deductible temporary differences are recognised in the financial statements to the extent that there is a probability of their recovery; this probability is assessed, through the performance of the so-called «Probability test», based on the ability to continuously generate positive taxable income for the Group or, as a result of the «Tax Consolidation» option, for the group of participating companies. Unrecognised deferred tax assets are reviewed at each reporting date and recognised to the extent that it has become probable that future taxable income will be sufficient to absorb them upon reversal.

Deferred tax assets/liabilities are calculated using the tax rates expected to be in force when they reverse or expire, being the rates currently in force or those already communicated or substantially in force at the reporting date.

Tax assets and liabilities are usually recorded with matching entries to the income statement, except when they derive from transactions whose effects are attributed directly to equity; in those cases, they are recognised respectively in the statement of comprehensive income or in equity, consistent with the element to which they relate.

10. Provisions for risks and charges

This item comprises the following provisions:

- The sub-item «commitments and guarantees given» includes provisions for credit risk in connection with commitments to grant loans and financial guarantees given that are subject to IFRS 9 impairment rules and provisions for other commitments and other guarantees that are not subject to IFRS 9 impairment rules.
- Sub-item «Pensions and similar obligations» only includes the supplementary defined benefit and defined contributions pension plans classified as internal funds pursuant to current pension legislation, as well as the other «external» supplementary pension funds, if the return of the principal and/or the yield to the beneficiaries has been guaranteed. These include:
  - Parent Company's pension plan. This is classified as an «internal» pension fund and represents a defined-benefit obligation. The Bank is responsible for any unfunded liabilities.
  - Actuarial liabilities pertaining to BPS (Suisse) SA arising from supplementary pension costs for the employees thereof.
- The sub-item «Other provisions for risks and charges» includes the provision for the long-service bonuses paid to employees with 30 years of service, as well as provisions for liabilities whose timing and amount are uncertain, including legal disputes, which are recognised in the financial statements when the following conditions are met:
  - the company has a present obligation (legal or constructive) as a result of a past event at the reporting date;
  - it is likely that settlement of the obligation will involve the use of economic resources;
  - a reliable estimate can be made of the amount necessary to settle the obligation.

These provisions are stated at their present value if recognition of the time value of money has a significant effect (settlements to be made more than 12 months after the date of recognition).

11. Financial liabilities measured at amortised cost

Classification

This item includes amounts due to banks and due to customers, regardless of their technical form (deposits, current accounts, loans, securities), other than those recognised in items 20. «Financial liabilities held for trading» and 30. «Financial liabilities designated at fair value». It also includes operating payables linked to the financial services and activities defined in the Consolidated Banking Act (TUB) and the Consolidated Finance Act (TUF), variation margins with clearing houses arising from derivative transactions and other operating payables associated with the provision of financial services. Amounts due to customers and banks and securities issued comprise the financial instruments (other than trading instruments) that represent the normal funding of the Group's activities by customers and other banks, or by the issue of securities. They also include payables recorded by the company as a lessee in the context of lease transactions.

Recognition

These financial liabilities are recorded using the settlement date method. They are initially recognised at their fair value, which is usually represented by the amount collected. The initial recognition value includes transaction costs, while all charges that are recovered from the creditor counterparty or that are attributable to internal administrative costs are not included. The elements of structured funding, comprising a host instrument and one or more embedded derivatives, are split and recorded separately from the related implicit derivatives, on condition that the economic characteristics and risks of the embedded derivatives are substantially different to those of the host instrument and that the derivatives can be configured as autonomous derivative contracts.

Accounting policies

Subsequent to initial recognition, financial liabilities are measured at amortised cost, using the effective interest method. Amortised cost is calculated after identifying the acquisition discount or premium and the fees or costs that are an integral part of the effective interest rate. Short-term liabilities are stated at the amount collected.

Liabilities covered by effective hedges are measured in accordance with the regulations applying to such transactions.

Lease payables are redetermined when there is a lease modification (e.g. a change in the scope of the contract), which is not accounted for/considered as a separate contract.

Recognition of components affecting the income statement

Interest expense linked to funding instruments, calculated with the internal rate of return method, are booked to the income statement under «interest and similar expense».

Gains and losses on the repurchase of liabilities are recorded in the income statement under «gains (losses) from sale or repurchase of financial liabilities».

Interest expense on the financial liability under the lease contract is recorded in «Interest and similar expense».

Derecognition criteria

Financial liabilities are derecognised when the underlying obligations expire or are settled, cancelled or satisfied. Funding liabilities that are subsequently repurchased are derecognised from the financial statements.

12. Financial liabilities held for trading

This item comprises derivative instruments with a negative fair value, except for hedging derivatives. The total also includes the negative value of derivatives separated from their underlying structured financial instruments, when the conditions for such separation apply. The criteria for classification, derecognition, measurement and recognition of components affecting the income statement are the same as those described in relation to assets held for trading.

13. Financial liabilities measured at fair value

Currently, the Group does not classify liabilities in the financial statements as financial liabilities measured at fair value.

14. Currency transactions

They include all assets and liabilities denominated in currencies other than the Euro.

Recognition

Assets and liabilities denominated in currencies other than the Euro are recognised initially using the spot exchange rates applying on the transaction dates.

Accounting policies

On the reporting date, monetary assets and liabilities denominated in foreign currencies are translated using the spot exchange rates at that time. Non-current financial assets denominated in foreign currencies are translated using the exchange rates ruling at the time of purchase.

Recognition of components affecting the income

Exchange differences deriving from the settlement of monetary items or from the translation of monetary items using rates other than the initial translation rate, or the closing rate at the end of prior periods, are recorded in the income statement for the period in which they arise. Exchange differences on assets, excluding monetary items, that are classified as financial assets measured at fair value through other comprehensive income, are recognised among the valuation reserves.

Derecognition criteria

The policies applied are those indicated for the corresponding items. The exchange rate used is the one ruling on the date of payment.

15. Termination indemnities

Termination indemnities are considered a defined benefit plan, i.e. a defined benefit obligation, and therefore, as required by IAS 19, the value of the obligation is determined using the projected unit credit method.

Under this method, each year of service originates an additional unit of indemnity that is used to calculate the final obligation. This calculation is performed by forecasting future payments with reference to historical-statistical analyses of the demographic curve, and discounting them using a market interest rate. The actuarial analysis is carried out every six months by an independent actuary.

As a result of the reform of supplementary pensions by Decree No. 252 of 5 December 2005, the termination indemnities accrued up to 31/12/2006 remain in the company, whereas those accruing after that either have to be assigned to some form of supplementary pension fund or kept in the company and subsequently transferred to INPS, depending on the preference of the individual employee. This has entailed changes in the underlying assumptions used for the actuarial calculation: in particular, account no longer has to be taken of the average annual rate of increase in salaries.

The termination indemnities earned after 31 December 2006 are part of defined contributions plans. The Group recognises the contributions payable to these plans as a liability on an accruals basis, after deducting any contributions already paid to supplementary pension funds and to the INPS treasury fund in relation to the work performed by employees, with a matching entry to the income statement.

It is also noted that, in compliance with Law 335/95, employees hired since 28 April 1993 may allocate part of their termination indemnities to a supplementary pension fund established pursuant to current in-house agreements.

Gains and losses arising from changes in actuarial assumptions are booked to equity as shown in the statement of comprehensive income.

16. Other information

16.1 Share-based payments – Transactions settled using equity instruments

A Share-based Remuneration Plan has been devised for top management, in the context of which any variable remuneration exceeding the threshold of significance determined by the Board of Directors is subject to rules regarding its deferral and payment with financial instruments that are considered suitable for ensuring compliance with the Bank's long-term business objectives. The cost of transactions settled using equity instruments is represented by their fair value at the grant date, as determined using an appropriate method of measurement. This cost and the corresponding increase in equity is recognised as a payroll cost over the period in which the conditions for achieving the objectives and/or providing the service are satisfied. The transaction costs already accumulated at each reporting date prior to the vesting date are projected forward to the vesting date, together with the best estimate of the number of equity instruments that will actually vest. The cost or income recognised in the income statement represents the change in accumulated cost between the start and the end of the year. The service or performance conditions are ignored when the fair value of the plan is determined at the grant date. However, the probability that these conditions will be satisfied is considered when estimating the number of equity instruments that will actually vest. Market conditions are reflected in the fair value determined at the grant date. All other plan conditions that do not involve a service obligation are not considered to be vesting conditions. Non-vesting conditions are reflected in the fair value of the plan and result in immediate recognition of the cost of the plan, unless service or performance conditions must also be satisfied.

16.2 Revenue Recognition

In compliance with the provisions of IFRS 15, revenue arises from the transfer of goods or services to the customer and is recognised at an amount that reflects the consideration that the Group deems it is entitled to in exchange for the above goods or services using a five-step model (identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations; recognise revenue when the entity satisfies a performance obligation).

Revenue from contracts with customers is recognised in profit or loss when it is probable that an entity will receive the consideration to which it expects to be entitled in exchange for transferring goods or services to a customer. The consideration is allocated to individual performance obligations in the contract and is recognised in profit or loss based on the timing of the satisfaction of performance obligations. More specifically, revenue is recognised in profit or loss either at a point in time or over time as and when the entity satisfies its performance obligations. The consideration promised in the contract with the customer may include fixed amounts, variable amounts, or both. The contractual consideration may vary as a result of price concessions, discounts, rebates, incentives or other similar items and may be contingent on the occurrence or non-occurrence of a future event. In the presence of variable consideration, revenue is recognised in profit or loss if it is possible to reliably estimate the revenue and only if it is highly probable that the entire consideration, or a significant part thereof, will not be subsequently reversed from profit or loss. If an entity receives from the customer consideration that envisages the reimbursement to the customer of all or part of the revenue obtained, a liability should be recognised for expected future reimbursements. The estimate of this liability is updated at each year end or interim reporting date based on the portion of the consideration that an entity does not expect to be entitled to. The amount of commission recognised on the placement of products is adjusted to take account of any variable revenues that might have to be returned in future. The revenues earned on current accounts are recognised after allocation to the individual products or services comprising the stand-alone package.

16.3 Cost Recognition

Costs are recognised in the income statement in the period in which they are incurred on an accrual basis. Costs related to obtaining and fulfilling contracts with customers are recognised in the Income Statement in the periods in which the relevant revenues are recognised. If costs cannot be associated with revenues, they are immediately recognised in the income statement.

16.4 Revenues and costs relating to financial instruments

With reference to income and expenses related to financial assets/liabilities, it should be noted that:

- interest is recognised *pro rata temporis* based on the contractual interest rate or the effective interest rate if amortised cost is applied. Interest income and interest expense also include differentials or margins, positive or negative, accrued up to the reporting date, relating to:
  - financial derivative contracts to hedge interest-bearing assets and liabilities;
  - derivative contracts classified in the balance sheet as trading instruments, but operationally linked to financial assets and/or liabilities designated at fair value, in accordance with IFRS 9;
  - derivative contracts operationally related to financial assets and liabilities classified in the balance sheet as trading instruments or operationally related to «other financial assets mandatorily measured at fair value» and which provide for the settlement of differentials or margins at multiple maturities;
- default interest on bad loans is recognised in the income statement at the time of actual collection;
- fees for revenues from services are recognised, based on the existence of contractual agreements, in the period in which the services were rendered, with the exception of fees considered in amortised cost for the purpose of determining the effective interest rate;
- dividends are recognised in the Income Statement when paid;
- gains and losses arising from the trading of financial instruments are recognised in the Income Statement, or in equity in the case of capital instruments for which designation at fair value with impact on comprehensive income is opted for, when the sale is completed, based on the difference between the consideration paid or received and the carrying value of the instruments.

16.5 Accounting treatment of tax credits connected with the «Cura Italia» and «Relaunch» Decrees

Decree-Laws No. 18/2020 (so-called «Cura Italia Decree») and No. 34/2020 (so-called «Relaunch Decree») have provided for a series of measures aimed at supporting Italian individuals and businesses in their relaunch following the Covid-19 emergency, including tax incentives related to expenses incurred for specific interventions that can be used in the form of tax deductions or tax credits. These tax incentives are applied to households or businesses, they are commensurate with a percentage of the expenditure incurred (which in some cases even reaches 110%) and are disbursed in the form of tax credits or tax deductions (with an option to convert them into tax credits). With a view to helping to support families and businesses, the Group launched a specific project aimed at acquiring these tax credits in the second half of 2020.

The main features of these tax credits are:

- the possibility of offsetting taxes and contributions under the same rules as for use by the original Beneficiary;
- transferability to third-party purchasers;
- non-refundability by the Treasury in the event of non-use within the prescribed timeframe.

Regulatory amendments were made by Decree-Law No. 4 of 27 January 2022 and Decree-Law 25 February 2022 No. 13, and further, the Government intervened again on the subject through Decree-Law No. 50 of 17 May 2022 (so-called «*Aiuti* Decree»), aimed at unblocking the state of paralysis in which the tax credits market was in, which extended to banks and companies belonging to a banking group the option of assigning tax credits previously acquired in favour of parties, other than consumers, or users who have a current account contract with the Bank itself or the parent bank.

This was accounted for in accordance with international accounting standards and in line with the provisions of Bank of Italy/Consob/Ivass Document No. 9 («*Accounting treatment of tax credits connected with the «Cura Italia» and «Relaunch» Decree-Laws acquired following disposal by direct beneficiaries or previous purchasers*») issued on 5 January 2021.

Based on the document issued, the purchased tax credits do not represent tax assets, government grants, intangible assets or financial assets, so the most appropriate classification in the balance sheet is «other assets».

At the time of initial recognition, the tax credit is recognised at the price of the transaction (value corresponding to its fair value). For subsequent valuations, the provisions of IFRS 9 are expected to be applied.

In view of the expanded business possibility (purchase of tax credits for possible later disposal), the group opted to complement the HTC business model with the HTCS model.

The HTC business model envisages that the measurement subsequent to initial recognition of the credit takes place at amortised cost using the effective interest rate determined at the time of initial recognition, while the HTCS business model envisages that the measurement subsequent to initial recognition of the credit takes place at fair value with a balancing entry in comprehensive income.

No expected loss is calculated on these credits because there is no counterparty credit risk considering that the realisation of the credit takes place by offsetting or in cash in the case of assignment.

16.6 Treasury shares

Any treasury shares held are deducted from equity. Any gains or losses from transactions in treasury shares are also reflected in equity.

16.7 Cash and cash equivalents

The item Cash and cash equivalents includes «sight» cash and all receivables, in the technical forms of current accounts and deposits, from banks and central banks (with the exception of the obligatory reserve). In the income statement, net value adjustments/reversals for credit risk related to the above-mentioned «sight» loans with banks and central banks are recognised under item 130. «Net adjustments/write-backs for credit risk».

16.8 Repurchase agreements, securities lending and contangos

Repurchase agreements or contangos, whereby the Group sells securities to third parties with the obligation to repurchase them at the maturity date of the transactions at a predetermined price, are recorded under liabilities to banks or to customers depending on the counterparty. Similarly, repurchase agreements or contangos, whereby the Group purchases securities from third parties with the obligation to resell them at the maturity date of the transactions at a predetermined price, are accounted for as loans to banks or customers (accounting category of «Financial assets measured at amortised cost»), depending on the counterparty. The difference between the spot and forward prices of these transactions is accounted for as interest and recorded on an accrual basis over the life of the transaction. Securities lending transactions in which the collateral is cash that is fully available to the lender are recognised in the financial statements in the same way as the aforementioned repurchase agreements. In the case of securities lending transactions with collateral in the form of other securities, or without collateral, the lender and borrower continue to recognise in the assets side of the balance sheet, respectively, the security lent and the security given as collateral. The remuneration for such operations is recognised by the lender under item «40. Fee and commission income» and by the borrower under item «50. Fee and commission expense».

16.9 Business Combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is determined as the sum of the amount transferred, measured at fair value at the acquisition date and the amount of the minority shareholding in the acquiree. For each business combination, the Group decides whether to measure any minority interest in the acquiree at fair value or in proportion to the minority share of the acquireÈs net identifiable assets. Acquisition costs are expensed in the period and classified as administrative expenses.

When the Group acquires a business, it classifies or designates the financial assets received and the liabilities assumed in accordance with the terms of the contract and the economic and other conditions in effect on the acquisition date.

Any contingent amount is recognised at the fair value at the acquisition date. The contingent amount classified as equity is not remeasured and its subsequent payment is accounted for with a balancing entry in the income statement. The change in the fair value of the contingent amount classified as an asset or liability, as a financial instrument covered by IFRS 9 Financial instruments must be recognised in the income statement in accordance with IFRS 9. The contingent amount that does not fall within the scope of IFRS 9 is measured at fair value at the reporting date and changes in fair value are recognised in the income statement.

Goodwill is initially stated at cost represented by the excess of the total amount paid and the amount recognised for minority interests in respect of the net identifiable assets acquired and the liabilities assumed by the Group. If the fair value of the net assets acquired exceeds the total amount paid, the Group again verifies whether it correctly identified all the assets acquired and all the liabilities assumed and revises the procedures used to determine the amounts to be recognised at the acquisition date. If the new valuation still shows a fair value of the net assets acquired higher than the amount, the difference (profit) is recognised in the income statement.

After its initial recognition, goodwill is valued at cost net of accumulated impairment. For the purpose of impairment testing, goodwill acquired in a business combination is allocated, from the acquisition date, to each of the Group's cash generating units expected to benefit from the synergies of the combination, regardless of whether other assets or liabilities of the acquiree are assigned to those units.

If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss of the disposal. The goodwill associated with the operation disposed of is determined on the basis of the relative values of the disposed operation and the portion of the cash-generating unit retained.

Impairment testing is carried out annually by determining the value in use or the fair value of the assets and verifying that the value at which the intangible asset or investment is recorded in the financial statements is lower than the value in use or the fair value, whichever is the higher, net of selling costs.

At 31 December 2022, the goodwill recorded relating to Factorit S.p.A., whose acquisition took place in 2010, Prestinuova S.p.a. acquired on 23 July 2018 and Rent2Go whose acquisition was completed on 1 April 2022, amount to a total of 17 million. The impairment test of these assets did not highlight the need to carry out any write-down of the carrying amounts. Part B of these Notes to the Consolidated Financial Statements, «Section 10 – «Intangible assets» – item 100», provides the main assumptions underlying the verification of the recoverability of goodwill and the related results.

16.10 Financial instruments (measurement of financial assets, equity investments and models for determining the fair value of instruments not listed in active markets)

Financial instruments not listed in active markets and illiquid and complex instruments are measured using specific complex models and/or parameters not observable in the market. These measurements are therefore highly complex, as highlighted by their classification in the fair value hierarchy. See Part A.4 – «Information on fair value» in these notes to the financial statements for qualitative and quantitative information on the methods adopted to determine the carrying amounts of instruments measured at fair value and those measured at amortised cost.

With regard to equity investments consolidated using the equity method, the Group did not identify any signs of impairment. The draft financial statements and updated business plans of the companies concerned might not be available, which would increase the uncertainties involved in measuring their value. In such cases, the carrying amounts assigned to the equity investments concerned, based on the available information, might differ from subsequent measurements made on the basis of different information that becomes available.

16.11 Deferred tax assets and valuation of liabilities associated with employee benefits

The assets shown in the Group's balance sheet include deferred tax assets, which principally derive from temporary differences between the date of recognition of costs in the income statement and the date on which they become tax deductible and, to a lesser extent, from tax losses carried forward. Section 11 – «Tax assets and tax liabilities», contained in Part B – Assets of these notes to the financial statements, provides information about the nature of DTAs and the checks carried out on their recoverability, as well as about the results of the sensitivity analysis carried out on the time horizon for their recoverability, considering reasonable changes in the expected cash flows. The measurement of the liability for employee benefits involves a certain degree of complexity, especially with regard to defined benefit plans and other long-term benefits, given that this involves making actuarial assumptions of a demographic (e.g. mortality rate, employee turnover) and financial (e.g. discount rates and inflation rates) nature. In Part B of these Notes, a sensitivity analysis was carried out for defined-benefit company pension funds on changes in the main actuarial assumptions included in the calculation model.

16.12 Significant accounting standards and uncertainties in the use of estimates in the preparation of consolidated financial statements (pursuant to IAS 1 and the recommendations in Bank of Italy/Consob/Isvap Document No. 2 of 6 February 2009 and No. 4 of 3 March 2010)

As stated previously, the adoption of certain accounting policies necessarily requires recourse to estimates and assumptions that influence the value of the assets and liabilities recognised in the financial statements and the disclosures made about any contingent assets and liabilities. When accounting estimates are made, the Group considers all available information at the reporting date, as well as any reasonable assumptions based on external evidence and its own historical experience. However reasonable, it cannot be excluded that these estimates might not be confirmed in the future operating scenarios that unfold for the

Group. The results reported in future might, in fact, also differ from the estimates made when preparing the interim financial statements and, consequently, adjustments to the carrying amounts of reported assets and liabilities might become necessary that are currently unforeseeable and cannot be estimated.

At present, the main uncertainties that could affect the future scenarios in which the Group will operate include the negative consequences on the global and Italian economy directly or indirectly linked to the Coronavirus (COVID-19) epidemic together with the evolutions related to the geopolitical and macroeconomic context.

In relation to the impact of the COVID-19 health emergency, reference is made to the indications provided by the Authorities over the past two financial years, recalling that already in March, the Italian Government had lifted most of the restrictions related to COVID-19, marking an acceleration in the return to the new post-pandemic normality.

In relation to the Russian invasion of Ukraine, which took place at the end of February 2022, it should be noted, however, that it led to a drastic worsening of the macroeconomic context and recovery forecasts. In particular, the conflict had a negative impact on the global economy through rising commodity and energy prices. This added inflationary pressures, imposing a difficult balancing act on central banks in their attempt to keep inflation under control without triggering a recession. In addition, the supply of gas and oil to the EU from Russia has been progressively reduced in 2022, with the risk of further impacts in the coming months. In this context, characterised by growing uncertainty over the macroeconomic outlook, the Group maintained the controls already in place in previous quarters, reinforcing them with additional specific credit risk monitoring activities.

In this respect, in addition to the controls already in place, a specific monitoring activity of companies operating in the sectors with the highest consumption of energy and natural gas was activated in order to identify those with potential elements of increased credit risk. As a result of the analyses and assessments conducted, a prudently defined «high risk» portfolio was identified, comprising counterparties potentially sensitive to the ongoing energy crisis and with active risk triggers. These counterparties were conservatively classified as stage 2.

There were no regulatory changes in 2022. Therefore, classifications and valuations were made in continuity with the 2021 Financial Statements, to which reference should be made for detailed information on regulatory amendments and how they were applied by the Group.

Economic results

The dynamics of the Group's main economic aggregates recorded at 31 December 2022 are summarised below, highlighting those most affected by the effects related to the health crisis brought about by the spread of COVID-19, by the Russian-Ukrainian conflict and by the evolution of the energy market. In particular, net interest income still benefited from the positive effects deriving from the expansion of volumes and the TLTRO III refinancing operations and from the rate hike. On the other hand, the results of the financial activities were affected by the negative development of the financial markets, recording significant losses compared to 2021, which had instead been positively impacted by the recoveries recorded compared to 2020. The cost of credit was impacted by the effects of the changed macroeconomic scenario; there was an increase in the overall cost of credit compared to the previous year due to both extraordinary and prudential provisions related to the conflict between Russia and Ukraine, as well as those related to the segments of the loan portfolio most exposed to the increase in energy commodity prices. On the non-performing receivables portfolio, coverage levels increased further also in relation to the massive sale carried out at year-end and the adoption of calendar provisioning in compliance with the regulatory framework. In the following paragraph, more detail is provided on the impacts on the quantification of expected losses, also highlighting the quantitative ones. Overall, this negatively impacted the partial and total economic results, with a consequent effect also on profitability and credit quality indicators. Please refer to the chapter «Results of brief and alternative performance indicators» contained in the consolidated report on operations for more details and quantitative data.

ECL – Expected credit losses

With reference to the methodological framework used by the Group to quantify the expected losses on performing loans during 2022, we note the usual updating of the macroeconomic scenario parameters and the weight factors associated with them based on the latest forecasts available, including both the effects of the COVID-19 pandemic and the changed macroeconomic and geopolitical context resulting from the outbreak of the Russian-Ukrainian conflict.

With specific reference to the explicit modelling of the prospective and scenario-dependency components postulated by the accounting standard, it is specified that a plurality of macroeconomic scenarios were adopted for the calculation of the write-downs of December 2022:

- a baseline scenario, corresponding to the equivalent scenario released by the official supplier at the time of the last available forecast report at the time of the impairment calculation (i.e. Q3 2022 - monthly update of November 2022);
- a (slightly) adverse scenario, corresponding to the same scenario released by the official supplier on the occasion of the last forecast report available at the time of calculation of the write-downs (i.e. Q3 2022);
- a scenario of an extreme nature, corresponding to the equivalent scenario issued by the official supplier at the time of the last forecast report available at the time of calculation of the write-downs (i.e. Q3 2022);

On the other hand, as regards the probabilistic coefficients assigned to the individual scenarios when weighting the scenario-dependent ECL, the baseline scenario is assigned, by reason of its nature, the prevailing weight factor (equal to 60%), where the alternative scenarios enter with weight factors respectively equal to 35% and 5%.

Lastly, considering the persistence of the high level of uncertainty regarding the evolution of the current macroeconomic and business context in which the Group operates, the specific management overlay framework was maintained and further improved, aimed at better capturing the current and prospective risk profile of the Group's portfolio. In this regard, it is important to note how, in addition to the usual data-driven component, subject to the usual calibration activity based on the evolutionary dynamics of geo-sector risk factors, the so-called prudential add-on was maintained, for which the overall level was updated, consisting of a further increase in the level of write-downs of stock in stage 2, in order to adequately incorporate in the write-down provision the direct and indirect effects of the profound energy and gas supply crisis that occurred following the outbreak of the conflict.

Overall, these revisions resulted in a level of collective write-downs regarding loans with customers on-balance sheet of 146 million euro at 31 December 2022 compared to 118 million euro at 31 December 2021.

In any case, however, it cannot be excluded that the introduction of different methodologies, parameters, assumptions in determining the recoverable value of the Group's performing credit exposures - influenced moreover by the evolution of the reference economic-financial and regulatory context - may determine valuations different from those conducted for the purpose of preparing the financial statements as at 31 December 2022.

For further details on the incorporation of the effects of COVID-19 and the Russian-Ukrainian conflict in the calculation of value adjustments on loans and on the sensitivity analysis, refer to paragraphs «2.3 Methods for measuring expected losses» and «5 Impacts resulting from the COVID-19 pandemic and the Russian-Ukrainian conflict» contained in the section dedicated to credit risk of «Part E - Information on risks and related hedging policies» of the individual Notes.

Lastly, for details in terms of gross exposure, impairment adjustments (overall and for the year), inter-stage transfers of the support measures granted by the Group at 31 December

2022, please refer to the following tables:

- 4.4a of «Section 4 – Financial assets measured at amortised cost», contained in «Part B – Information on the balance sheet» of these consolidated Notes;
- 8.1a of «Section 8 – Net adjustments/write-backs for credit risk» contained in «Part C – Information on the income statement» of these consolidated Notes;
- A.1.3a and A.1.5a included in the quantitative information of the section related to credit risk of «Part E – Information on risks and related hedging policy» of these consolidated Notes.

A.3 Transfer of financial assets held for trading

As in the previous year, the Group did not carry out any reclassifications of financial assets.

In the 2022 financial year, as in previous years, there was no change to the Banca Popolare di Sondrio Group's business model, i.e. the way in which the Group manages financial instruments.

A.4 Information on fair value

Qualitative information

Information on fair value as required by IFRS 13 is provided below. This standard defines fair value as the price that would be received from the sale of an assets or that would be paid for the transfer of a liability in an orderly transaction between market operators on the measurement date. Fair value is a criterion based on market value; however, while transactional or observable market information may be available for certain assets and liabilities, such information may not be available for other assets and liabilities. When the price of an identical asset or liability cannot be found, it is necessary to use measurement techniques that maximise the use of significant observable inputs and minimise the use of unobservable inputs.

IFRS 13 requires the measurement of default risk in determining the fair value of OTC derivatives. This risk relates to changes in the credit rating of both the counterparty and the issuer. Accordingly, a model for the measurement of this component of risk has been devised and is used to adjust the simple market value of the instrument.

With regard to derivatives with positive mark-to-market adjustments, the risk component is known as the Credit Value Adjustment (CVA) and represents the potential loss associated with the counterparty credit risk, while the Debit Value Adjustment (DVA) quantifies the issuer risk in relation to instruments with negative mark-to-market adjustments.

These price adjustments are obtained according to a model-based approach derived from the possibility of default by both the counterparties and the Bank itself, as well as additional representative cost/convenience components associated with the transaction. The Credit Valuation Adjustment represents the fair value adjustment due to the risk that the counterparty will default at a time when the Bank has positive exposure to it. It therefore takes on a negative sign and represents a valuation component that therefore decreases the positive fair value of the instrument. The Debt Valuation Adjustment represents the fair value adjustment that considers the consequences on counterparties of possible bankruptcy of the Bank. In contrast to the CVA, it represents a positive adjustment that therefore decreases the negative fair value of the instrument. If a specific CSA (Credit Support Annex) agreement has been concluded with the counterparty and a cash deposit has therefore been given or taken as security, the value of the instrument is not adjusted for the CVA/DVA component. The CVA/DVA book value for derivative instruments is then calculated as the product of the fair value of the position, the cumulative probability of default and the complement at 1 of the recovery rate (RR). These adjustments are calculated daily directly in the applications that manage the derivative positions held by the Bank.

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

Input values for the determination of level 2 fair value include: prices for similar assets or liabilities listed in active markets, prices for identical or similar assets or liabilities listed in inactive markets, and information other than observable listed prices, such as routinely listed interest rates and yield curves observable at intervals, implicit volatility, credit spreads and inputs corroborated by the market. This information is usually supplied by providers or determined with reference to prices calculated with reference to the market parameters of similar financial assets.

Input values for the determination of level 3 fair value are unobservable market values for the asset or liability and must be used to measure fair value to the extent that relevant observable inputs are not available. They must reflect the assumptions that market operators would use to determine the price of the asset or liability, including those regarding the related risk. The input values not observable on the market derive from internal estimates and valuations based on pricing models that take account of expected cash flows and pricing and spread information, as well as of historical data and series of data concerning the risk factors, and relevant specialist reports.

Derivatives

OTC derivative instruments, for which there are no publicly formulated quotations by independent third parties and which are typically contracts signed bilaterally between the Bank and another financial counterparty, are valued by means of appropriate pricing models and classified in Level 2 or Level 3 (if significant assumptions and/or unobservable market parameters are to be used) of the fair value hierarchy. In particular, all derivative instruments can be reduced to two categories:

- Derivative instruments with symmetric profile, which have as their underlying a transaction that is certain to occur on a specified maturity date (or dates) and which provide for simultaneous actions and identical positions (in terms of value and risk) for both counterparties. This category includes plain vanilla futures, forwards and swaps on all traded underlying types. Such instruments are typically valued using a Discounted Cash Flow model, which discounts, at a risk-free rate, the cash flows implicit in the contract.
- Derivative instruments with asymmetric profile, which have as their underlying a transaction that may occur (or not occur) at the discretion of one of the counterparties. In particular, there is a counterparty that acquires the right and that will be able at its discretion to activate the underlying transaction on the given expiry date (or dates), while the other counterparty that sells the right will be subject to the purchaser's decision.

This category of derivative instruments, to which all types of options belong, requires calculation models based on the volatility of the underlying, with the possible use of models based on numerical methods in the case of the presence of path-dependent elements with respect to the expected evolution of the value of the underlying or elements of exoticism in determining the payoff.

Loans and receivables

The method of measuring loans and receivables at fair value, where parameters relating to credit risk that can be inferred from market prices cannot be used, results in the instrument being classified in Level 3 of the fair value hierarchy. In general, the calculation of the fair value for these loans is carried out by means of a DCF model, whereby the individual cash flows associated with the individual maturities, deducted of the unrecoverable component related to the counterparty's credit risk, are discounted at a risk-free rate plus a premium for the illiquidity of the instrument itself. The cash flows at the individual payment date are determined from the contractual flows and take into account, where relevant, both anticipatory early redemption dynamics and the modelling of any optional components linked to the indexation of the flows. For on sight loans or without contractual maturity, the net book value is considered the best approximation of fair value. The technical form of Life Mortgage Loans (PIV), which, due to their particular contractual structure and risk profile, have a specific valuation model that is more focused on the value of the property being financed.

With regard to tax receivables classified under Other Assets in the balance sheet, pending the consolidation of market practice in terms of valuation, the estimate of fair value is calculated using a «base» method, which replicates the DCF model previously set out, which leads to the substantial confirmation of the carrying value of the receivable, as the transfer price of the receivable is known from the outset. Possible refinements of the valuation model may depend on the observation of comparable transactions in the market, e.g. size, activity levels, time proximity to the assets being valued.

Mutual funds

Undertakings for Collective Investment (UCI) are financial intermediaries that collect private savings and invest them on the basis of specific management rules, arranged with reference to specific limits in terms of risk, asset allocation, concentration and exposure.

UCI generally have segregated assets that are usually dynamically managed and their composition is usually only partially known to investors. The Management Entity shall publish an estimate of the overall net value of the assets of the UCI (denominated Net Asset Value or NAV) with a frequency established by the internal regulations of the UCI, from which the theoretical value of each unit is calculated.

The risk and return profile of an investment in UCI is highly variable, depending on the characteristics and form of the UCI itself, the type of legislation to which it is subject, the type of investments it makes, and the possibilities for disposing of the units held. Most of the factors related to the risk and return profile of the units of a UCI are reflected in the valuation of the assets and, consequently, in the NAV value produced and disclosed by the Management Entity, which is the basis for determining the fair value of the units themselves. However, there may be elements of risk that are not perfectly or fully reflected in the NAV and therefore, require appropriate adjustments to be made to the NAV to identify fair value. This is particularly the case for UCI with the following characteristics:

- Closed-ended UCIs - unlike open-ended UCIs, do not allow investors to obtain (at any time) the immediate disposal of their units. Therefore, such disinvestment is only possible by reselling own units to a third party, which normally entails long lead times and high transaction costs.
- UCIs whose NAV does not represent the fair value of the underlying assets - certain types of UCIs, based on the relevant legislation, may adopt NAV valuation criteria that do not correspond to the valuation criteria that would be used to determine the fair value of the underlying investments. This category includes, for example, funds investing in private equity (whose investments are often valued at the lower of cost or market), those investing in private debt (normally valued at cost subject to impairment), and funds of NPEs, which sometimes value the underlying loans by discounting expected recoveries against rates that are far from market rates. In all these situations, it may be appropriate to make an adjustment to the NAV to realign it to the potential fair value.
- UCIs with infrequent NAV publication - some types of UCIs, especially closed-end UCIs and UCIs with illiquid underlying assets provide NAV calculation with limited frequency. Consequently, the value expressed by the latest available NAV could also be significantly different (as it is not up-to-date) from the actual value at current prices of the assets of the UCI itself. Again, it may be appropriate to make adjustments to the NAV to determine fair value.

Investments and other equity securities

If Level 1 and Level 2 price sources are not available, fair value is determined using an ad-hoc valuation model, specifically defined with respect to the characteristics of the instrument in question and the financial information available at the time of valuation. In said case, the instrument will be classified as Level 3 in the fair value hierarchy. In such circumstances, specific valuation approaches and methodologies are used, developed ad-hoc by the Pricing and Valuation Models Office in accordance with best practices and industry literature in the field of valuation and financial modelling, which can be categorised into the following two macro-typologies of analytical and empirical valuation methods. The so-called analytical methods are usually used as the main valuation approach, if no direct transactions on the company being valued can be detected, referring to the transfer of a significant portion of the share capital between independent market counterparties in a reasonably close time span. These methodologies estimate the value of a company by analysing its fundamentals to determine the inputs (such as cash flows, income, assets, etc.) on which the valuation is based. Analytical methods differ from empirical methods (described below), which estimate the value of a company by relying on the prices of comparable companies on the market.

For unlisted equities with observable inputs, but for which the most recent information available to measure their fair value is insufficient, the best estimate was made considering their adjusted equity value.

Non-financial assets measured at fair value on a recurring basis:

For the Banca Popolare di Sondrio Group, non-financial assets measured at fair value on a recurring basis are represented by real estate assets held for investment purposes measured at fair value on the basis of the provisions of IAS 40.

The fair value of properties held for investment purposes is determined through the use of special appraisals prepared by independent companies, professionally qualified and operating in the specific sector, capable of providing property valuations based on RICS Valuation standards.

These standards ensure that:

- the fair value is determined in accordance with the indications of the international accounting standard IFRS 13, i.e. it represents the estimated amount for which an asset would be sold and purchased, at the date of valuation, by a seller and a buyer with no special ties, both interested in the purchase and sale, at competitive conditions, after adequate marketing in which the parties have both acted in an informed, conscious and non-coerced manner;
- experts have professional, ethical and independence requirements in line with international and European standards.

For properties of a significant amount, i.e. properties with a value of more than 5 million, a «full» appraisal is envisaged, i.e. conducted by means of an inspection of the property, as well as a detailed analysis of the available documentation. For the remaining properties, however, it is possible to have recourse to a «drive-by» type appraisal, that is, based on the examination of the documentation as well as through an external inspection of the unit being appraised.

Taking into account that for real estate held for investment purposes the measurement criterion is fair value, the value is determined on the basis of new appraisals each year.

A.4.2 Processes and sensitivity of the measurements

The Group determines the fair value of assets and liabilities using various methodologies defined in the corporate policies. Based on the inputs that can be used, financial instruments are classified as Level 1, Level 2, Level 3. Financial instruments that are quoted in active markets for which the fair value is assumed based on official market quotations are classified in Level 1. If there is more than one active market, reference is made to the principal market; failing this, the most advantageous market is used. Level 1 inputs cannot be adjusted in normal circumstances. The concept of active market does not coincide with that of official market; rather, it refers strictly to the financial instrument concerned. It follows that a listing in an official market is not sufficient to be considered as listed in an active market. Listed prices are obtained from price boards, dealers, brokers etc. and reflect transactions carried out on an orderly basis. Level 2 financial instruments are those whose inputs are different from the listed prices included in Level 1 that are directly or indirectly observable for the asset or liability concerned. In this case, the measurement techniques used include the market value method, the income method which, in turn, is based on present value techniques and models for measuring the price of options. The use of present value techniques involves determining:

a) the future cash flows deriving from the asset or liability to be measured;
b) the uncertainty inherent in the cash flows, given possible changes in their amount and timing;
c) the rate applicable to risk-free monetary assets of similar duration;
d) the risk premium;
e) for liabilities, the related non-performance risk, including the credit risk associated with the debtor.

Level 3 financial instruments are those whose inputs are not observable. In this case, the best information available in the specific circumstances is used, including all reasonably available information about the assumptions adopted by market operators.

If a financial instrument is measured by recourse to inputs from various levels, it is allocated to the level of the input considered least meaningful. With regard to Level 3 financial assets, IFRS 13 requires the disclosure of information about the sensitivity of the reported results to changes in one or more of the unobservable parameters used to measure their fair value.

Given the limited weighting of such instruments within the Group's portfolio of financial assets and considering that the Level 3 instruments contained in the portfolio of financial assets largely comprise securities carried according to models whose inputs are specific to the entity being valued (for example, the assets of the company) or through prices of previous transactions, without further adjustments (for which no quantitative information is required about the sensitivity of their valuation), any changes in unobservable inputs would not have a significant economic impact.

As regards the Asset Backed Securities (ABS) present in portfolio, deriving from securitisations of bad loan portfolios, the analyses and assessments were carried out on the basis of the most recent information available and following the so-called waterfall structure for modelling the cash flows of the securitisations. From our analyses, no elements emerged that would justify a change in the fair value of the tranches with respect to the values currently recorded in the financial statements.

There are also in portfolio units of funds deriving from corporate loan restructuring, whose measurement at fair value is carried out on the basis of the NAV, corrected if necessary to take into account the investment's poor liquidity.

The instruments classified at level 3, for which non-observable quantitative inputs are used in the determination of the fair value, are largely attributable to financial instruments that did not pass the SPPI test envisaged for the classification of financial assets by IFRS 9. The fair value of most of these financial instruments is determined through a Discounted Cash Flow model or, for revocable products, set equal to the gross exposure adjusted for the credit risk loss component. The economic results do not fluctuate significantly on changes in the unobservable risk parameters. In particular, the following analyses were carried out:

a) analysis of the sensitivity to changes in the PD (Probability of default) parameter under various scenarios: (slightly) favourable and adverse. In both cases, the changes in fair value were very limited (total fair value lower by 0.01% under the adverse scenario and lower by 0.12% under the favourable scenario). The changes were very limited because the credit risk associated with most of these instruments is low.
b) analysis of the sensitivity to changes in the LGD (Loss Given default) parameter under various scenarios: (slightly) favourable and adverse. In both cases, the changes in fair

value were very limited (fair value lower by 0.24% under the adverse scenario and higher by 0.06% under the favourable scenario). Here too, the changes were very limited because the credit risk associated with most of these instruments is low.

c) analysis of the sensitivity to changes in the rate used to discount cash flows, applying a parallel shock to the rate curves of +/-200 basis points. In these cases, fair value decreased by -1.34% following an increase in the rate curves and, conversely, increased by +2.21% following a decrease in them. In particular, for fixed-rate instruments, the capitalisation rate was not affected by the shock which, however, did affect the discounting of cash flows; conversely, with regard to variable-rate instruments, the spread component of the capitalisation rate was not affected by the shock which, however, did affect determination of the variable component of coupons and the discounting cash flows. The fair value, with and without the application of the shock, may be affected by discounting using a negative rate; this is consistent with recent calculations for other purposes and with market practice. The capitalisation phase has a natural limit of zero and no rates are generated with a negative interest rate. The changes in fair value are greater than found with the other two sensitivity analyses, but nevertheless remain low.
d) sensitivity analysis to quantify the effect of modelling explicitly the illiquidity and funding spread component. If this component is not modelled explicitly, the change in fair value is +1.43%; conversely, if a parallel shock to the rate curves of +/-50 basis points is applied, the change in fair value is -2.24% if the rate curves are shifted up, and +2.32% if they are shifted down.

A.4.3 Fair value hierarchy

For the measurement of fair value, IFRS 13 makes use of the hierarchy of criteria concept introduced in an amendment to IFRS 7, adopted by Regulation 1165 of 27/11/2009, which required the classification of measurements using a hierarchy of levels that reflect the meaningfulness of the inputs used. These levels are:

a) prices (without adjustments) on active markets for the assets and liabilities being measured (level 1);
b) inpuinputs other than the listed prices mentioned above; these can be seen directly (prices) or indirectly (derived from prices) on the market (level 2);
c) inputs not based on market observable data (level 3). In this case, the fair value is determined using measurement techniques based on estimates and assumptions by the relevant offices of the Group.

Allocation to the levels is not optional and is carried out in hierarchical order, giving priority to the official prices in active markets; in the absence of such inputs, reference is made to other methods that rely on observable parameters, and then to measurement techniques that use unobservable inputs.

An asset or liability is transferred between different levels of the fair value hierarchy when, following changes, its previous classification is no longer consistent with the inputs used.

Fair value hierarchy of real estate assets

The fair value of real estate held for investment purposes is classified at level 3 in the fair value hierarchy under IFRS 13, as it is determined using valuation techniques for which one of the significant inputs is not based on observable market data.

A.4.4. Other information

The information provided above together with that contained in the following tables represents appropriate disclosure pursuant to paras. 91 and 92 of IFRS 13. The disclosures envisaged in paras. 51, 93 (i) and 96 of that standard are not required.

QUANTITATIVE INFORMATION

A.4.5 Fair value hierarchy

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

	31/12/2022			31/12/2021		
Financial assets/liabilities measured at fair value	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Financial assets measured at fair value through profit or loss**	**151,249**	**600,327**	**502,492**	**196,656**	**721,751**	**513,777**
a) financial assets held for trading	102,157	77,507	–	158,701	43,442	2,150
b) financial assets designated at fair value	–	–	–	–	–	–
c) other financial assets mandatorily measured at fair value	49,092	522,820	502,492	37,955	678,309	511,627
2. **Financial assets measured at fair value through other comprehensive income**	**2,462,529**	**–**	**93,175**	**2,993,614**	**-**	**108,532**
3. **Hedging derivatives**	**–**	**248**	**–**	**-**	**-**	**-**
4. **Property, equipment and investment**	**–**	**–**	**84,476**	**-**	**-**	**81,297**
5. **Intangible assets**	**–**	**–**	**–**	**-**	**-**	**-**
Total	**2,613,778**	**600,575**	**680,143**	**3,190,270**	**721,751**	**703,606**
1. **Financial liabilities held for trading**	**9**	**115,862**	**–**	**-**	**104,339**	**-**
2. **Financial liabilities designated at fair value**	**–**	**–**	**–**	**-**	**-**	**-**
3. **Hedging derivatives**	**–**	**227**	**–**	**-**	**2,446**	**-**
Total	**9**	**116,089**	**–**	**-**	**106,785**	**-**

There were no transfers of financial instruments between the three fair value levels during the year. The impact of the CVA (Credit value adjustment) and DVA (Debit value adjustment) on the determination of the fair value of derivative products is not significant, not least because most of the exposures are covered by credit support annexes (CSA).

A.4.5.2 Annual changes in assets measured at fair value on a recurring basis (level 3)

	Financial assets measured at fair value through profit or loss				Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Property, equipment and investment property	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 mandatorily measured at fair value				
1. **Opening balance**	**513,777**	**2,150**	**-**	**511,627**	**108,532**	**-**	**81,297**	**-**
2. **Increases**	**130,621**	**–**	**–**	**130,621**	**6,288**	**–**	**6,489**	**–**
2.1. Purchases	97,869	–	–	97,869	294	–	–	–
2.2. Profits recognised in:	19,106	–	–	19,106	5,687	–	3,094	–
2.2.1. Income Statement	19,106	–	–	19,106	–	–	208	–
– of which: gains	17,334	–	–	17,334	–	–	208	–
2.2.2. Equity	–	–	–	–	5,687	–	2,886	–
2.3. Transfers from other levels	–	–	–	–	–	–	–	–
2.4. Other increases	13,646	–	–	13,646	307	–	3,395	–
3. **Decreases**	**141,906**	**2,150**	**–**	**139,756**	**21,645**	**–**	**3,310**	**–**
3.1. Sales	2,150	2,150	–	–	–	–	–	–
3.2. Reimbursements	57,896	–	–	57,896	10,150	–	–	–
3.3. Losses recognised in:	32,662	–	–	32,662	9,802	–	2,970	–
3.3.1 Income Statement	32,662	–	–	32,662	–	–	2,970	–
– of which: capital losses	32,678	–	–	32,678	–	–	2,970	–
3.3.2. Equity	–	–	–	–	9,802	–	–	–
3.4. Transfers from other levels	–	–	–	–	–	–	–	–
3.5. Other decreases	49,198	–	–	49,198	1,693	–	340	–
4. **Closing balance**	**502,492**	**–**	**–**	**502,492**	**93,175**	**–**	**84,476**	**–**

The decrease during the year in financial assets mandatorily measured at fair value was largely attributable to the financial instruments (loans in particular) that did not pass the SPPI test and that, accordingly, were classified in this line item. This item also includes the units in mutual funds not held for trading that were previously classified as «financial assets measured at fair value» and «financial assets available for sale».

A.4.5.3 Annual changes in financial liabilities measured at fair value (level 3)

There are no financial liabilities measured at fair value on a recurring basis of level 3.

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

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis	31/12/2022				31/12/2021			
	Book value	Level 1	Level 2	Level 3	Book value	Level 1	Level 2	Level 3
1. Financial assets measured at amortised cost	43,870,637	9,529,803	–	33,414,057	42,717,673	9,647,966	-	33,899,572
2. Investment property	–	–	–	–	–	–	–	–
3. Non-current assets and groups of assets held for sale	–	–	–	–	–	–	–	–
Total	**43,870,637**	**9,529,803**	**–**	**33,414,057**	**42,717,673**	**9,647,966**	**-**	**33,899,572**
1. Financial liabilities measured at amortised cost	53,152,710	3,262,887	222,630	49,503,947	50,178,641	3,504,257	240,653	46,478,339
2. Liabilities associated with assets held for sale	–	–	–	–	–	–	–	–
Total	**53,152,710**	**3,262,887**	**222,630**	**49,503,947**	**50,178,641**	**3,504,257**	**240,653**	**46,478,339**

A.5 Information on the «day one profit/loss»

The «day one profit/loss» provided for in IFRS 7 and IFRS 9 para. B5.1.2A derives from the difference at the time of initial recognition between the transaction price of the financial instrument and its fair value. This difference can generally be found for those financial instruments that do not have an active market. This difference is charged to the income statement over the useful life of the financial instrument concerned. The Group does not have any transactions outstanding which could generate significant income that could be defined as «day one profit/loss».

PART B *Information on the consolidated balance sheet*

Assets

Section 1 *Cash and cash equivalents - Item 10*

1.1 Cash and cash equivalents: breakdown

	31/12/2022	31/12/2021
a) Cash	178,649	137,325
b) Current accounts and sight deposits with central banks	6,660,416	5,315,110
c) Current accounts and sight deposits with banks	151,624	200,298
Total	**6,990,689**	**5,652,733**

Section 2 *Financial assets measured at fair value through profit or loss - item 20*

2.1 Financial assets held for trading: breakdown by category

	31/12/2022			31/12/2021		
Items/Values	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. **Cash assets**	**-**	**-**	**-**	**-**	**-**	**-**
1. Fixed-yield securities	-	-	-	24,255	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other fixed-yield securities	-	-	-	24,255	-	-
2. Equity securities	50,856	-	-	65,378	-	-
3. Mutual funds	50,678	14,770	-	68,755	16,626	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total (A)	**101,534**	**14,770**	**-**	**158,388**	**16,626**	**-**
B. **Derivative instruments**	**-**	**-**	**-**	**-**	**-**	**-**
1. Financial derivatives	623	62,738	-	313	26,816	2,151
1.1 for trading	623	62,738	-	313	26,816	2,151
1.2 associated with the fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 for trading	-	-	-	-	-	-
2.2 associated with the fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total (B)	**623**	**62,738**	**-**	**313**	**26,816**	**2,151**
Total (A+B)	**102,157**	**77,508**	**-**	**158,701**	**43,442**	**2,151**

2.2 Financial assets held for trading: breakdown by debtor/issuer/counterparty

Items/Values	31/12/2022	31/12/2021
A. **Cash assets**		
1. Fixed-yield securities	–	24,255
a) Central banks	–	–
b) Public administrations	–	24,255
c) Banks	–	–
d) Other financial companies	–	–
of which: insurance companies	–	–
e) Non-financial companies	–	–
2. Equity securities	50,856	65,378
a) Banks	14,394	14,623
b) Other financial companies	5,426	11,275
of which: insurance companies	2,575	5,408
c) Non-financial companies	31,036	39,480
d) Other issuers	–	–
3. Mutual funds	65,447	85,381
4. Loans	–	–
a) Central banks	–	–
b) Public administrations	–	–
c) Banks	–	–
d) Other financial companies	–	–
of which: insurance companies	–	–
e) Non-financial companies	–	–
f) Households	–	–
Total (A)	**116,303**	**175,014**
B. **Derivative instruments**		
a) Central Counterparties	–	–
b) Others	63,362	29,280
Total (B)	**63,362**	**29,280**
Total (A+B)	**179,665**	**204,294**

2.5 Other financial assets mandatorily measured at fair value: breakdown by category

	31/12/2022			31/12/2021		
Items/Values	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Fixed-yield securities**	**49,093**	**–**	**26,517**	**37,955**	**–**	**32,649**
1.1 Structured securities	6,246	–	26,517	–	–	32,649
1.2 Other fixed-yield securities	42,847	–	–	37,955	–	–
2. **Equity securities**	**–**	**–**	**–**	**–**	**–**	**–**
3. **Mutual funds**	**–**	**522,820**	**113,599**	**–**	**678,309**	**74,864**
4. **Loans**	**–**	**–**	**362,376**	**–**	**–**	**404,114**
4.1 Repurchase agreements	–	–	–	–	–	–
4.2 Other	–	–	362,376	–	–	404,114
Total	**49,093**	**522,820**	**502,492**	**37,955**	**678,309**	**511,627**

Loans classified under this item are financial instruments that have not passed the SPPI test. The fixed-yield securities classified under this item are instruments that are part of a business model of financial instruments managed at fair value and not held for trading.

Mutual funds are made up of: equity funds and sicavs for 60.682 million euro, bond funds for 514.928 million euro, balanced and flexible funds for 58.141 million euro and real estate funds for 2.668 million euro.

With regard to mutual funds acquired as part of transactions for the sale of receivables included among bond funds, please refer to the specific paragraph reported in Part E of these Explanatory Notes (Subsection D «Disposal transactions» point C «Prudential consolidation - Financial assets sold and fully derecognised»).

2.6 Other financial assets mandatorily measured at fair value: breakdown by debtors/issuers

	31/12/2022	31/12/2021
1. **Equity securities**	**–**	**–**
of which: banks	–	–
of which: other financial companies	–	–
of which: non-financial companies	–	–
2. **Fixed-yield securities**	**75,609**	**70,604**
a) Central banks	–	–
b) Public administrations	31,842	31,522
c) Banks	17,250	6,433
d) Other financial companies	25,258	29,490
of which: insurance companies	–	–
e) Non-financial companies	1,259	3,159
3. **Mutual funds**	**636,419**	**753,173**
4. **Loans**	**362,377**	**404,114**
a) Central banks	–	–
b) Public administrations	46	67
c) Banks	–	–
d) Other financial companies	5,047	12,007
of which: insurance companies	–	–
e) Non-financial companies	239,312	263,012
f) Households	117,972	129,028
Total	**1,074,405**	**1,227,891**

Section 3 Financial assets measured at fair value through other comprehensive income - item 30

3.1 Financial assets measured at fair value through comprehensive income: breakdown by sector

	31/12/2022			31/12/2021		
Items/Values	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Fixed-yield securities**	**2,459,705**	**–**	**341**	**2,990,730**	**–**	**10,721**
1.1 Structured securities	234,855	–	–	409,256	–	10,165
1.2 Other fixed-yield securities	2,224,850	–	341	2,581,474	–	556
2. **Equity securities**	**2,825**	**–**	**92,834**	**2,888**	**–**	**97,811**
3. **Loans**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**2,462,530**	**–**	**93,175**	**2,993,618**	**–**	**108,532**

The fixed-yield securities portfolio is made up mostly of Italian government securities held with the intent of receiving cash flows and benefiting from any gains deriving from their sale.

Equity securities also include equity investments held with a view to supporting the typical business and supporting the development of the territorial realities in which the Group operates.

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

Items/Values	31/12/2022	31/12/2021
1. **Fixed-yield securities**	**2,460,046**	**3,001,451**
a) Central banks	–	–
b) Public administrations	2,040,457	2,511,285
c) Banks	295,117	334,019
d) Other financial companies	69,328	79,940
of which: insurance companies	–	–
e) Non-financial companies	55,144	76,207
2. **Equity securities**	**95,659**	**100,699**
a) Banks	2,505	2,172
b) Other issuers:	93,154	98,527
– other financial companies	82,747	85,583
of which: insurance companies	–	–
– non-financial companies	10,407	12,944
– other	–	–
3. **Loans**	**–**	**–**
a) Central banks	–	–
b) Public administrations	–	–
c) Banks	–	–
d) Other financial companies	–	–
of which: insurance companies	–	–
e) Non-financial companies	–	–
f) Households	–	–
Total	**2,555,705**	**3,102,150**

3.3 Financial assets at fair value through comprehensive income: gross value and total value adjustments

	Gross value					Total write-downs				
	First stage	of which: Instruments with low credit risk	Second stage	Third stage	Impaired purchased or originated	First stage	Second stage	Third stage	Impaired purchased or originated	Total partial write-offs
Fixed-yield securities	2,453,090	360,020	8,274	–	–	1,308	10	–	–	–
Loans	–	–	–	–	–	–	–	–	–	–
Total 31/12/2022	**2,453,090**	**360,020**	**8,274**	**–**	**–**	**1,308**	**10**	**–**	**–**	**–**
Total 31/12/2021	**3,002,406**	**–**	**–**	**–**	**–**	**958**	**–**	**–**	**–**	**–**

3.3a Loans measured at fair value with impact on comprehensive income subject to Covid-19 support measures: gross value and total impairment.

As at 31 December 2022, there are no loans measured at fair value through comprehensive income subject to Covid-19 support measures.

Section 4 *Financial assets measured at amortised cost - Item 40*

4.1 Financial assets measured at amortised cost: breakdown of loans to banks

	Total 31/12/2022						Total 31/12/2021					
	Book value			Fair value			Book value			Fair value		
Type of transaction/Amounts	First and second stage	Third stage	Impaired purchased or originated	Level 1	Level 2	Level 3	First and second stage	Third stage	Impaired purchased or originated	Level 1	Level 2	Level 3
A. **Loans with Central Banks**	**352,511**	**-**	**-**	**-**	**-**	**352,512**	**2,231,679**	**-**	**-**	**-**	**-**	**2,231,679**
1. Fixed-term deposits	5,011	-	-	-	-	-	-	-	-	-	-	-
2. Compulsory reserve	347,500	-	-	-	-	-	2,231,679	-	-	-	-	-
3. Repo transactions	-	-	-	-	-	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-	-	-	-	-	-
B. **Loans and receivables with banks**	**1,512,738**	**-**	**-**	**741,697**	**-**	**690,583**	**1,044,670**	**-**	**-**	**783,387**	**-**	**272,685**
1. Loans	640,337	-	-	-	-	640,627	257,421	-	-	-	-	257,638
1.1 Current accounts	-	-	-	-	-	-	-	-	-	-	-	-
1.2 Fixed-term deposits	568,627	-	-	-	-	-	233,711	-	-	-	-	-
1.3 Other loans:	71,710	-	-	-	-	-	23,710	-	-	-	-	-
- Repurchase agreements	-	-	-	-	-	-	-	-	-	-	-	-
- Lease financing	-	-	-	-	-	-	-	-	-	-	-	-
- Other	71,710	-	-	-	-	-	23,710	-	-	-	-	-
2. Fixed-yield securities	872,401	-	-	741,697	-	49,956	787,249	-	-	783,387	-	15,047
2.1 Structured securities	494,300	-	-	424,809	-	32,538	378,339	-	-	387,291	-	-
2.2 Other fixed-yield securities	378,101	-	-	316,888	-	17,418	408,910	-	-	396,096	-	15,047
Total	**1,865,249**	**-**	**-**	**741,697**	**-**	**1,043,095**	**3,276,349**	**-**	**-**	**783,387**	**-**	**2,504,364**

These loans are not specifically hedged.

The fair value of short-term loans or loans that are repayable on demand is assumed to be the same as their book value.

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

Type of transaction/Amounts	31/12/2022						31/12/2021					
	Book value			Fair value			Book value			Fair value		
	First and second stage	Third stage	Impaired purchased or originated	Level 1	Level 2	Level 3	First and second stage	Third stage	Impaired purchased or originated	Level 1	Level 2	Level 3
1. Loans	**31,211,348**	**550,253**	**107,368**	**-**	**-**	**31,595,135**	**29,042,568**	**731,721**	**131,735**	**-**	**-**	**30,658,657**
1. Current accounts	3,358,799	172,838	22,942	-	-	-	2,925,101	244,858	37,704	-	-	-
2. Repurchase agreements	8,293	-	-	-	-	-	-	-	-	-	-	-
3. Mortgage loans	19,298,777	324,035	78,097	-	-	-	17,977,590	436,205	83,694	-	-	-
4. Credit cards, personal loans and salary-backed loans	493,676	6,503	572	-	-	-	445,516	8,873	637	-	-	-
5. Lease financing	-	-	-	-	-	-	-	-	-	-	-	-
6. Factoring	3,272,354	998	-	-	-	-	2,735,659	1,176	-	-	-	-
7. Other loans	4,779,449	45,879	5,757	-	-	-	4,958,702	40,609	9,700	-	-	-
2. Fixed-yield securities	**10,136,419**	**-**	**-**	**8,788,106**	**-**	**775,827**	**9,535,300**	**-**	**-**	**8,864,579**	**-**	**736,551**
1. Structured securities	1,573,173	-	-	739,237	-	775,827	1,887,531	-	-	1,197,303	-	736,551
2. Other fixed-yield securities	8,563,246	-	-	8,048,869	-	-	7,647,769	-	-	7,667,276	-	-
Total	**41,347,767**	**550,253**	**107,368**	**8,788,106**	**-**	**32,370,962**	**38,577,868**	**731,721**	**131,735**	**8,864,579**	**-**	**31,395,208**

Loans for an insignificant portion are specifically and generically hedged.

Mortgages include 1,238 million euro of residential mortgages, which were the subject of covered bond transactions by the Parent Company.

The securities issued under the covered bond programme were placed with institutional customers.

Given that the Parent Company maintained all of the risks and benefits of these loans, they have not been derecognised and have therefore been retained on the balance sheet. The fair value of loans with a contractual duration that extends beyond the short term is determined using measurement models that discount the flow of future repayments, net of any expected losses. The discounting rate is determined with reference to expected market interest rates, as well as to other specific components that take account of direct operating costs and the actual financing costs incurred by the group.

The difference between fair value and book value is mainly attributable to the difference between market rates and the rates used to value fixed-rate loans.

As a result of the derisking operations that took place during the year, bad loans (third stage) are down on the previous year. Reference should be made to Part E «Information on risks and related hedging policy, Section 1, Credit risk» for further information on impaired financial assets (third stage).

Item 2. Fixed-yield securities, include for 311.815 million euro senior securities issued by the vehicle Diana S.p.V., POP NPLs 2020 S.p.V., Luzzatti POP NPLs 2021 S.p.V. and Luzzatti POP NPLs 2022 S.p.V.; the latter was issued as part of the sale transaction defined in the last quarter of 2022. See Part E, Section 1, «C. Securitisation transactions» for further information.

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

Type of transaction/Amounts	31/12/2022 First and second stage	31/12/2022 Third stage	31/12/2022 Assets impaired purchased or originated	31/12/2021 First and second stage	31/12/2021 Third stage	31/12/2021 Assets impaired purchased or originated
1. **Fixed-yield securities**	**10,136,418**	**-**	**-**	**9,535,301**	**-**	**-**
a) Public administrations	8,748,176	-	-	8,214,146	-	-
b) Other financial companies	1,099,167	-	-	1,059,591	-	-
of which: insurance companies	2,026	-	-	6,112	-	-
c) Non-financial companies	289,075	-	-	261,564	-	-
2. **Loans to**:	**31,211,349**	**550,253**	**107,368**	**29,042,567**	**731,721**	**131,735**
a) Public administrations	477,608	27	-	391,172	19	-
b) Other financial companies	2,546,577	12,889	2	2,594,452	11,679	21
of which: insurance companies	6,037	-	-	4,427	-	-
c) Non-financial companies	16,658,736	376,922	64,949	15,595,502	516,353	91,846
d) Households	11,528,428	160,415	42,417	10,461,441	203,670	39,868
Total	**41,347,767**	**550,253**	**107,368**	**38,577,868**	**731,721**	**131,735**

4.4 Financial assets measured at amortised cost: gross value and total value adjustments

	Gross value					Total write-downs				
	First stage	of which: Instruments with low credit risk	Second stage	Third stage	Impaired purchased or originated	First stage	Second stage	Third stage	Impaired purchased or originated	Total partial write-offs
Fixed-yield securities	10,870,185	2,558,502	148,637	–	–	6,207	3,793	–	–	–
Loans	29,434,867	–	2,912,830	1,322,041	172,821	44,513	98,989	771,789	65,453	114,265
Total 31/12/2022	**40,305,052**	**2,558,502**	**3,061,467**	**1,322,041**	**172,821**	**50,720**	**102,782**	**771,789**	**65,453**	**114,265**
Total 31/12/2021	**39,827,324**	**–**	**2,150,403**	**1,652,241**	**240,421**	**59,548**	**63,960**	**920,519**	**108,686**	**136,527**

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

	Gross value					Total write-downs				
	First stage	of which: Instruments with low credit risk	Second stage	Third stage	Impaired purchased or originated	First stage	Second stage	Third stage	Impaired purchased or originated	Total partial write-offs*
1. Loans subject to forbearance complying with the GL	–	–	–	–	–	–	–	–	–	–
2. Loans subject to outstanding moratoria measures no longer in compliance with GL and not evaluated as subject to forbearance measures	875	–	825	189	–	2	74	81	–	–
3. Loans subject to other forbearance measures	–	–	51	5,559	111	–	3	2,042	48	–
4. New loans	2,059,888	–	213,821	38,038	5,191	268	5,279	14,456	1,870	–
Total 31/12/2022	**2,060,763**	**–**	**214,697**	**43,786**	**5,302**	**270**	**5,356**	**16,579**	**1,918**	**–**
Total 31/12/2021	**2,394,896**	**–**	**198,173**	**40,227**	**6,561**	**561**	**4,261**	**11,363**	**1,637**	**–**

Section 5 Hedge derivatives - Item 50

5.1 Hedge derivatives: breakdown by hedge type and levels

	Fair Value 31/12/2022			NV	**Fair Value 31/12/2021**			NV
	Level 1	Level 2	Level 3	31/12/2022	Level 1	Level 2	Level 3	31/12/2021
A. **Financial derivatives**								
1) Fair value	–	248	–	11,359	–	–	–	–
2) Financial flows	–	–	–	–	–	–	–	–
3) Foreign investments	–	–	–	–	–	–	–	–
B. **Credit derivatives**								
1) Fair value	–	–	–	–	–	–	–	–
2) Financial flows	–	–	–	–	–	–	–	–
Total	**–**	**248**	**–**	**11,359**	**–**	**–**	**–**	**–**

5.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge (book value)

Transactions/Type of hedge	Fair Value							Financial flows		
	Specific									
	fixed-yield securities and interest rates	equity securities and stock indices	currency and gold	receivable	commodities	other	Generic	Specific	Generic	Foreign Investments
1. Financial assets measured at fair value through other comprehensive income	–	–	–	–	–	–	–	–	–	–
2. Financial assets measured at amortised cost	–	–	–	–	–	–	–	–	–	–
3. Portfolio	–	–	–	–	–	–	248	–	–	–
4. Other transactions	–	–	–	–	–	–	–	–	–	–
Total assets	**–**	**–**	**–**	**–**	**–**	**–**	**248**	**–**	**–**	**–**
1. Financial liabilities	–	–	–	–	–	–	–	–	–	–
2. Portfolio	–	–	–	–	–	–	–	–	–	–
Total liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1. Expected transactions	–	–	–	–	–	–	–	–	–	–
2. Portfolio of financial assets and liabilities	–	–	–	–	–	–	–	–	–	–

The table shows the positive fair value of hedging derivatives, broken down in relation to the asset or liability hedged and the type of hedge realised. As at 31 December 2022, the Group had four macro-hedging transactions in place against interest rate risk on an amount of loans classified in the amortised cost portfolio.

Section 6 *Change in value of macro-hedged financial assets - item 60*

6.1 Value adjustment of hedged assets: breakdown by hedged portfolio

Value adjustment of hedged assets/Group components	**31/12/2022**	**31/12/2021**
1. **Positive adjustment**	**47**	**–**
1.1 of specific portfolios:	47	–
a) financial assets measured at amortised cost	47	–
b) financial assets measured at fair value through other comprehensive income	–	–
1.2 total	–	–
2. **Negative adjustment**	**(245)**	**–**
2.1 of specific portfolios:	(245)	–
a) financial assets measured at amortised cost	(245)	–
b) financial assets measured at fair value through other comprehensive income	–	–
2.2 total	–	–
Total	**(198)**	**–**

The balance of changes in the value of assets subject to macro-hedging against interest rate risk is recognised in this item, for which the Bank avails itself of the option, provided for by IFRS 9, to continue to apply the provisions permitted by IAS 39 in the Carve-out version.

Section 7 *Equity investments - Item 70*

7.1 Investments: disclosures on holdings

Company Name	Registered office	Operative office	Type of relationship	Parent company	% holding	% of votes
A. **Investments in companies under joint control**						
RAJNA IMMOBILIARE S.R.L.	Sondrio	Sondrio	7	Banca Popolare di Sondrio S.p.A.	50.000	50.000
B. **Associated companies (subject to significant influence)**						
ALBA LEASING S.P.A.	Milan	Milan	8	Banca Popolare di Sondrio S.p.A.	19.264	19.264
ARCA VITA S.p.A.	Verona	Verona	8	Banca Popolare di Sondrio S.p.A.	14.837	14.837
ARCA HOLDING S.p.A.	Milan	Milan	8	Banca Popolare di Sondrio S.p.A.	34.715	34.715
UNIONE FIDUCIARIA S.p.A.	Milan	Milan	8	Banca Popolare di Sondrio S.p.A.	24.000	24.000
POLIS FONDI S.G.R.P.A.	Milan	Milan	8	Banca Popolare di Sondrio S.p.A.	19.600	19.600
SOFIPO SA	Lugano	Lugano	8	Banca Popolare di Sondrio (SUISSE) SA	30.000	30.000
BORMIO GOLF S.p.A.	Bormio	Bormio	8	Banca Popolare di Sondrio S.p.A.	25.237	25.237
LAGO DI COMO GAL S.C.R.L.	Canzo	Canzo	8	Banca Popolare di Sondrio S.p.A.	28.953	28.953
ACQUEDOTTO DELLO STELVIO SRL	Bormio	Bormio	8	Pirovano Stelvio S.p.A.	27.000	27.000
SIFAS SPA	Bormio	Bormio	8	Pirovano Stelvio S.p.A.	21.610	21.610

Key
7 = joint control.
8 = associated company.

7.2 Significant equity investments: book value, fair value and dividends received

Company Name	Fair value	Book value	Dividends received
A. **Investments in companies under joint control**			
1. RAJNA IMMOBILIARE S.R.L.	288	–	50
B. **Associated companies (subject to significant influence)**			
1. ALBA LEASING S.p.A.	81,687	–	–
2. ARCA VITA S.p.A.	51,765	–	7,468
3. ARCA HOLDING S.p.A.	174,347	–	5,207
4. UNIONE FIDUCIARIA S.p.A.	12,319	–	–
5. POLIS FONDI S.G.R.P.A.	1,407	–	–
Total	**321,813**	**–**	**–**

The fair value is not indicated for companies not listed on active markets.

7.3 Significant equity investments: key financial information

Company Name	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities
A. **Investments in companies under joint control**					
1. RAJNA IMMOBILIARE S.r.l.	87	–	505	–	17
B. **Associated companies (subject to significant influence)**					
1. ALBA LEASING S.p.A.	240,278	4,953,154	106,707	4,663,585	212,506
2. ARCA VITA S.p.A.	70,686	11,307,817	939,404	2,174,918	9,890,509
3. ARCA HOLDING S.p.A.	103,815	302,277	183,279	57,883	29,271
4. UNIONE FIDUCIARIA S.p.A.	8,506	1,725	69,286	10,000	20,207
5. POLIS FONDI SGR PA	5,383	2,614	2,684	1,027	2,474

Company Name	Total revenue	Net interest income	Adjustments/ write-backs for property, equipment and investment property and intangible assets	Pre-tax profit (loss) from continuing operations	Post-tax profit (loss) from continuing operations	Profit (loss) after tax of non-current assets pending disposal	Profit (loss) for the year (1)	Total other income components net of taxes (2)	Comprehensive income (3) = (1) + (2)
A. **Investments in companies under joint control**									
1. RAJNA IMMOBILIARE S.r.l.	133	–	(37)	65	49	–	49	–	49
B. **Associated companies (subject to significant influence)**									
1. ALBA LEASING S.p.A.	86,386	69,237	(1,910)	12,608	8,550	27	8,577	219	8,796
2. ARCA VITA S.p.A.	1,116,447	204,322	–	81,326	52,720	–	52,720	(172,940)	(120,220)
3. ARCA HOLDING S.p.A.	374,047	(687)	(2,277)	78,973	55,092	(46)	55,092	888	55,980
4. UNIONE FIDUCIARIA S.p.A.	21,935	17	(3,070)	443	224	–	224	–	224
5. POLIS FONDI SGR PA	4,858	(15)	339	552	348	–	348	(22)	326

The figures shown above are taken from the draft financial statements as at 31 December 2022 provided by the associated companies or, if not available, from the most recent balance sheets (referring to 100% of the shareholding and not the percentage held by the Group, as required by IFRS 12). It should be noted that the equity valuation was carried out on the basis of the aforementioned data: for Arca Vita S.p.A., Alba Leasing S.p.A. and Polis Fondi SGR PA, since they have not yet approved their draft financial statements, the most recent balance sheet and income statement of the company and its subsidiaries referring to 30 September 2022 was used as a reference.

Company Name	Equity value	Pro-rata net asset value	Book value	Dividends
A. **Investments in companies under joint control**				
1. RAJNA IMMOBILIARE S.r.l.	575	288	288	50
B. **Associated companies (subject to significant influence)**				
1. ALBA LEASING S.p.A.	424,048	81,687	81,687	-
2. ARCA VITA S.p.A.	348,888	51,765	51,765	7,468
3. ARCA HOLDING S.p.A.	502,216	174,347	174,347	5,207
4. UNIONE FIDUCIARIA S.p.A.	51,328	12,319	12,319	–
5. POLIS FONDI SGR PA	7,180	1,407	1,407	–

7.4 Non-significant equity investments: accounting information

Company Name	Carrying amount of equity investments	Total assets	Total liabilities	Total revenue	Post-tax profit (loss) from continuing operations	Profit (loss) after tax of non-current assets pending disposal	Profit (Loss) of the year	Other income components net of taxes	Comprehensive income
Associated companies (subject to significant influence)	819	8,097	4,092	3,290	656	–	656	–	656

The above figures are taken from the most recent financial investments available.

7.5 Investments: changes in the year

	31/12/2022	31/12/2021
A. **Opening balance**	**339,333**	**305,444**
B. **Increases**	**16,563**	**35,307**
B.1 Purchases	–	–
B.2 Write-backs	–	–
B.3 Revaluations	87	60
B.4 Other changes	16,476	35,247
C. **Decreases**	**33,264**	**1,418**
C.1 Disposals	3,581	–
C.2 Value adjustments	–	–
C.3 Write-downs	–	–
C.4 Other changes	29,683	1,418
D. **Closing balance**	**322,632**	**339,333**
E. **Total revaluations**	**–**	**–**
F. **Total write-downs**	**(447)**	**(447)**

This item passes from 339.333 million euro to 322.632 million euro.

Other increases derive from the measurement of affiliates under the equity method. The sales relate to the investment held in Cossi Costruzioni S.p.a.; the other decreases derive from the equity valuation of the investments as well as the change in the scope of consolidation.

7.6 Considerations and significant assumptions to determine the existence of joint control or significant influence

The existence of joint control or significant influence is determined as described in Part A – Accounting policies

7.7-7.8 Commitments relating to investments in companies under joint control and associated companies

There are no joint and several commitments that might give rise to contingencies.

Guarantees and commitments given comprise a commitment in favour of Alba Leasing S.p.a. granted when this company started up as part of the reorganisation of Banca Italease S.p.a., against which the Parent Company has made a specific risk provision.

7.9 Significant restrictions

In accordance with the provisions of IFRS 12 paragraph 13, there are no significant restrictions on the banks and companies included in the scope of consolidation.

Section 9 *Property, equipment and investment property - Item 90*

9.1 Property, equipment and investment property used for business purposes: breakdown of assets measured at cost

Assets/Amounts	31/12/2022	31/12/2021
1. **Owned assets**	**317,406**	**268,176**
a) land	75,453	75,271
b) buildings	173,198	174,773
c) furniture	5,852	5,162
d) IT equipment	3,220	2,676
e) other	59,683	10,294
2. **Rights of use acquired through leases**	**167,522**	**180,970**
a) land	–	–
b) buildings	167,258	180,551
c) furniture	–	–
d) IT equipment	144	158
e) other	120	261
Total	**484,928**	**449,146**
of which: obtained through enforcement of guarantees received	–	–

9.4 Tangible assets held for investment purposes: breakdown of assets measured at fair value

	31/12/2022			31/12/2021		
Assets/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Owned assets**	**–**	**–**	**84,476**	**–**	**–**	**81,297**
a) land	–	–	–	–	–	–
b) buildings	–	–	84,476	–	–	81,297
2. **Rights of use acquired through leases**	**–**	**–**	**–**	**–**	**–**	**–**
a) land	–	–	–	–	–	–
b) buildings	–	–	–	–	–	–
Total	**–**	**–**	**84,476**	**–**	**–**	**81,297**
of which: obtained through enforcement of guarantees received	–	–	–	–	–	–

9.5 Inventories of property, plant and equipment governed by IAS 2: breakdown

Assets/Amounts	31/12/2022	31/12/2021
1. **Inventories of property, equipment and investment property obtained through enforcement of guarantees received**	**69,569**	**49,003**
a) land	2,388	2,445
b) buildings	67,181	46,558
c) furniture	–	–
d) IT equipment	–	–
e) other	–	–
2. **Other inventories of property, equipment and investment property**	**11,935**	**–**
Total	**81,504**	**49,003**
of which: measured at fair value less costs to sell	–	–

9.6 Property, equipment and investment property used for business purposes: changes in the year

	Land	Buildings	Furniture	Electronic equipment	Other	Total
A. **Opening gross amount**	**75,353**	**559,704**	**41,533**	**35,645**	**105,663**	**817,898**
A.1 Total net reductions in value	(82)	(204,380)	(36,371)	(32,811)	(95,108)	(368,752)
A.2 Opening net amount	75,271	355,324	5,162	2,834	10,555	449,146
B. **Increases**	**182**	**19,952**	**1,972**	**1,545**	**62,750**	**86,401**
B.1 Purchases	45	6,016	1,902	1,378	62,660	72,001
– of which business combinations	45	590	260	37	57,697	58,629
B.2 Capitalised improvement expenditure	–	6,991	–	–	–	6,991
B.3 Write-backs	–	–	–	–	–	–
B.4 Fair value increases booked to	–	–	–	–	–	–
a) equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
B.5 Positive exchange rate differences	137	1,796	37	99	62	2,131
B.6 Transfers from investment property	–	–	–	–	–	–
B.7 Other changes	–	5,149	33	68	28	5,278
C. **Decreases**	**–**	**34,820**	**1,282**	**1,015**	**13,502**	**50,619**
C.1 Disposals	–	–	–	–	–	–
– of which business combinations	–	–	–	–	–	–
C.2 Depreciation	–	29,469	1,282	1,015	13,502	45,268
C.3 Impairment adjustments booked to	–	–	–	–	–	–
a) equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
C.4 Negative changes in fair value booked to	–	–	–	–	–	–
a) equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
C.5 Negative exchange rate differences	–	–	–	–	–	–
C.6 Transfers to:	–	3,395	–	–	–	3,395
a) investment property	–	3,395	–	–	–	3,395
b) non-current assets and disposal groups held for sale	–	–	–	–	–	–
C.7 Other changes	–	1,956	–	–	–	1,956
D. **Closing net amount**	**75,453**	**340,456**	**5,852**	**3,364**	**59,803**	**484,928**
D.1 Total net reductions in value	(82)	(234,823)	(38,828)	(34,237)	(122,172)	(430,142)
D.2 Closing gross amount	75,535	575,279	44,680	37,601	181,975	915,070
E. **Valuation at cost**	**75,453**	**340,456**	**5,852**	**3,364**	**59,803**	**484,928**

9.7 Investment property: changes in the year

	Total	
	Land	Buildings
A. **Opening balance**	**–**	**81,297**
B. **Increases**	**–**	**6,489**
B.1 Purchases	–	–
– of which business combinations	–	–
B.2 Capitalised improvement expenditure	–	–
B.3 Positive changes in fair value	–	3,094
B.4 Write-backs	–	–
B.5 Exchange gains	–	–
B.6 Transfer of buildings for business purposes	–	3,395
B.7 Other changes	–	–
C. **Decreases**	**–**	**3,310**
C.1 Disposals	–	–
– of which business combinations	–	–
C.2 Depreciation	–	–
C.3 Negative changes in fair value	–	2,970
C.4 Impairment write-downs	–	–
C.5 Exchange losses	–	–
C.6 Transfers to:	–	–
a) assets used in business	–	–
b) non-current assets and disposal groups held for sale	–	–
C.7 Other changes	–	340
D. **Closing balance**	**–**	**84,476**
E. **Valuation at fair value**	**–**	**–**

Tangible assets held for investment purposes are mainly leased for part of the surface of the surface area of the property owned (see Part M, Section 2 for more details) and are measured at fair value. Information on the methods of determining fair value is provided in Part A.4 of the Notes to the Financial Statements in the chapter entitled «Methods of determining fair value».

In this regard, it is noted that the Group does not hold investment assets represented by rights of use acquired through leasing.

Investment property also includes property owned by Fondo Immobiliare Centro delle Alpi Real Estate, which has been consolidated on a line-by-line basis.

9.8 Inventories of property, equipment and investment property governed by IAS 2: changes in the year

	Inventories of property, equipment and investment property obtained through enforcement of guarantees received					Other inventories of property, equipment and investment property	
	Land	Buildings	Furniture	Electronic equipment	Other		Total
A. **Opening balance**	**2,445**	**46,558**	**–**	**–**	**–**	**–**	**49,003**
B. **Increases**	**34**	**20,939**	**–**	**–**	**–**	**11,935**	**32,908**
B.1 Purchases	34	17,744	–	–	–	–	17,778
B.2 Write-backs	–	–	–	–	–	–	–
B.3 Exchange gains	–	–	–	–	–	–	–
B.4 Other changes	–	3,195	–	–	–	11,935	15,130
C. **Decreases**	**91**	**316**	**–**	**–**	**–**	**–**	**407**
C.1 Disposals	–	–	–	–	–	–	–
C.2 Impairment adjustments	–	–	–	–	–	–	–
C.3 Exchange losses	–	–	–	–	–	–	–
C.4 Other changes	91	316	–	–	–	–	407
D. **Closing balance**	**2,388**	**67,181**	**–**	**–**	**–**	**11,935**	**81,504**

9.9 Commitments for the purchase of property, equipment and investment property

Contractual commitments for the purchase of property, equipment and investment property amount to 4.003 million euro.

Section 10 *Intangible assets - Item 100*

10.1 Intangible assets: breakdown by type of asset

	31/12/2022		31/12/2021	
Assets/Amounts	Finite life	Indefinite life	Finite life	Indefinite life
A.1 **Goodwill**	**–**	**16,997**	**–**	**12,632**
A.1.1 attributable to the Group	–	16,997	–	12,632
A.1.2 attributable to minorities	–	–	–	–
A.2 **Other intangible assets**	**19,672**	**–**	**18,381**	**–**
of which: software	18,511	–	18,381	–
A.2.1 Assets measured at cost:	19,672	–	18,381	–
a) intangible assets generated internally	34	–	222	–
b) other assets	19,638	–	18,159	–
A.2.2 Assets measured at fair value:	–	–	–	–
a) intangible assets generated internally	–	–	–	–
b) other assets	–	–	–	–
Total	**19,672**	**16,997**	**18,381**	**12,632**

Intangible assets with indefinite useful life recognised in the consolidated financial statements are represented by goodwill recognised in the context of business combinations following the completion of the acquisition cost allocation process carried out in accordance with IFRS 3. In particular, goodwill concerns:

- *Factorit S.p.a* for an amount of 7.847 million; the company operates in the sector of advances, guarantees and management of trade receivables of companies. The acquisition of control took place in 2010, on 1 March 2022, the purchase of the minority shares was finalised and the interest held by the Parent Company thus increased from 60.5% to 100%;

- *Prestinuova S.p.a.* for an amount of 4.785 million euro; the company was acquired on 23 July 2018. It operated in the granting of loans repayable by assigning a fifth of one's salary or pension. On 24 June 2019, the merger by incorporation of PrestiNuova S.p.A. into Banca della Nuova Terra S.p.A. was finalised. («BNT»), which now carries out this activity, the latter company also being wholly owned by Banca Popolare di Sondrio;
- *Rent2Go S.r.l.* of which the Parent Company acquired the entire share capital on 1 April 2022. As detailed in Part G of the consolidated financial statements, the acquisition cost allocation process concluded with the recognition of goodwill in the amount of 4.365 million euro. The company operates in the long-term car rental sector for professionals, VAT holders and small businesses.

According to IAS 36, intangible assets with indefinite useful life must be tested for impairment at least annually in order to verify their recoverability. The test is performed on 31 December of each year and, in any case, whenever indicators of impairment are detected.

For this purpose, goodwill must be allocated to individual or groups of Cash Generating Units (CGUs). At the consolidated level, the CGUs were identified in the individual legal entities of reference (CGU Factorit, CGU Rent2Go and CGU Banca della Nuova Terra S.p.A. in consideration of the merger by incorporation carried out). These CGUs represent the lowest level at which management verifies the profitability of the investment and this level is no larger than the operating segments identified for the purpose of group segment reporting prepared in accordance with IFRS 8 Operating Segments.

The relevant accounting standards require that the impairment test be performed by comparing the book value of the CGU with its recoverable value. If this value is lower than the book value, an adjustment must be made.

The recoverable amount of the CGU is the higher of its fair value less costs to sell and its value in use. For the purposes of the impairment procedure, the value in use was used to verify the recoverability of the goodwill recorded, determined through the estimate of the present value of the future cash flows expected to be generated by the CGU. In particular, to perform the test on the goodwill allocated to the Factorit and Banca della Nuova Terra S.p.A. CGUs, the Dividend Discount Model («DDM») is used, according to which the value of a company is a function of the dividend flow it is able to generate in perspective. In this case, the DDM method was used in the Excess Capital variant, which assumes that the economic value is equal to the sum of the present value of the future cash flows generated in the chosen time horizon of the plan and distributable to shareholders while maintaining an adequate level of capitalisation to ensure future growth and perpetual capitalisation of a dividend considered after the explicit planning period.

Due to the different nature of the reference business, the test on the goodwill allocated to the Rent2Go CGU was conducted by applying the Discounted Cash Flow («DCF») valuation method, according to which the economic value of a company (equal to the financial value of its invested capital) is defined as the sum of: (i) the present value of future cash flows available to shareholders over a specified explicit planning horizon and (ii) the present value of a perpetual annuity defined on the basis of a cash flow available to the shareholder that is sustainable over the terminal period following the explicit planning period, estimated on the basis of normalised long-term net income.

Future cash flows were defined through specific projections formulated internally by management. A growth rate of 2% per annum was assumed after the explicit planning period.

The present value was calculated using a discount rate (Ke) that corresponds to the cost of risk capital, which is equal to the rate of return on equity required by investors/shareholders for investments with similar risk characteristics. The cost of capital (Ke) is estimated using the Capital Asset Pricing Model methodology with a rate of return on risk-free assets increased by an equity-specific risk premium. This premium is calculated according to the following formula:

$$Ke = Rf + \beta(Rm-Rf)$$

Where:

Rf = Rate of Return on Risk-Free Assets: gross annual return on medium- and long-term government bonds.

ß = Beta coefficient, which indicates the riskiness of the specific company in terms of the correlation between the actual return of the specific share and the overall return of the reference market.

(Rm-Rf) = market risk premium: average market return determined on the basis of the long-term yield spread between equities and bonds.

An additional specific risk premium (ARP) was also charged for Rent2Go.

The risk-free component (Rf), which incorporates the so-called «Country Risk», was determined using the average for December 2022 of the yields on 10-year Italian BTP government bonds, equal to 4.14%.

With reference to the beta coefficient (ß):

a) for the Factorit CGU, it was estimated on the basis of the average weekly value over the last three years on a sample of comparable companies, which was 0.99;
b) for the Banca della Nuova Terra S.p.A. CGU, it was estimated on the basis of the average weekly value over the last three years on a sample of comparable companies, which was 1.15;
c) for the Rent2Go CGU, it was estimated as the average weekly value over the last 2 years by a sample of comparable listed operators. This value was 1.05.

The risk premium required by the stock market (Rm-Rf) was assumed to be 6% in line with currently observed valuation practice. The additional risk premium applied to the Rent2g CGU is 3.02%.

The use of these parameters resulted in a Ke of 10.05% for the Factorit CGU, 11.03% for the Banca delle Nuova Terra CGU and 13.46% for the Rent2Go CGU.

The impairment test conducted on the goodwill recorded in the consolidated financial statements did not reveal any impairment losses.

In this regard, it should be noted that the parameters and assumptions underlying the determination of value in use are significantly influenced by the macroeconomic framework taken as a reference. As highlighted in Part A of the Notes to the Consolidated Financial Statements, given the particular situation of uncertainty in the macroeconomic scenario, it cannot be excluded that the assumptions made, however reasonable and prudent, may not be confirmed in the future scenarios in which the Group will operate. In particular, any worsening of the macroeconomic scenario could adversely affect the projections of estimated cash flows, the cost of capital and the growth factor, leading to different results from those estimated in these Financial Statements.

Specific sensitivity analyses were performed in order to assess the effects produced on the estimates of value in use and, consequently, on the results of the impairment tests of changes in the main parameters underlying the valuation model. These analyses highlighted differences between the values in use during the year and the extreme values, that did not reveal any particular «prospective» critical issues regarding the successful outcome of the assessments.

In particular, for Factorit and Banca della Nuova Terra CGUs the impacts on the values in use, namely +/- 25 and 50 basis points in the cost of capital and +/- 25 and 50 basis points in the medium/long term growth rate, were verified and for all the assumed combinations the values in use were higher than the book values related to the consolidated financial statements. In order not to jeopardise the positive outcome of these valuation exercises, the maximum sustainable level in terms of cost of capital (discount rate) was quantified. The tolerance margin on the cost of capital was about 5 percentage points for the Factorit CGU and about 3.1 percentage points for the Banca della Nuova Terra CGU.

For the Rent2go CGU, the impact on value in use of a change of +/- 50 basis points in the cost of capital was verified with a change of +/- 20 basis points in the medium/long-term growth rate, a change of +/- 10 basis points in the Ebit margin and a change of +/- 25 basis points in the target financial structure taken as a reference in the development of cash flows. For all combinations assumed, the values in use were higher than the book value recognised in the consolidated financial statements.

In consideration of the current economic context, in which the book value of many companies is not fully recognised by the financial market, the Parent Company also performed a second-level impairment test, applied to the entire company rather than to individual assets, comparing the Group's overall recoverable value with the book value of consolidated shareholders' equity at 31 December 2022. The method used to estimate the recoverable value is the Dividend Discount Model (DDM), which assumes that the economic value of the Group is equal to: the sum of the dividends distributable to shareholders over the chosen planning period (2023-2025), maintaining an adequate level of capitalisation to guarantee the expected future development, and assuming a dividend growth rate after the explicit planning period of 2% per annum and a cost of capital used to discount future dividends of 11.71%. The test carried out showed that the Group was worth more than its consolidated equity.

Specific sensitivity analyses were performed in order to assess the effects produced on the estimates of value in use and, consequently, on the results of the impairment tests of changes in the main parameters underlying the valuation model (cost of capital and medium/long-term growth rate).

In particular, the impacts on the values in use from changes of +/-25 and 50 basis points in the cost of capital and +/-25 and 50 basis points in the medium/long term growth rate, were verified and for all the assumed combinations the values in use were higher than the comparative values.

These analyses highlighted differences between the values in use during the year and the extreme values, that did not reveal any particular «prospective» critical issues regarding the successful outcome of the assessments.

The maximum sustainable level in terms of cost of capital was also quantified, the margin of tolerance on the cost of capital was approximately 1.3 percentage points.

10.2 Intangible assets: changes in the year

		Other intangible assets: generated internally		Other intangible assets: others		
	Goodwill	DEF	INDEF	DEF	INDEF	Total
A. **Opening balance**	**12,632**	**325**	**–**	**246,638**	**–**	**259,595**
A.1 Total net reductions in value	–	(103)	–	(228,479)	–	(228,582)
A.2 Opening net amount	12,632	222	–	18,159	–	31,013
B. **Increases**	**4,365**	**38**	**–**	**18,383**	**–**	**22,786**
B.1 Purchases	4,365	38	–	18,262	–	22,665
– of which business combinations	4,365	38	–	1,896	–	6,299
B.2 Increases in internally generated intangible assets	–	–	–	–	–	–
B.3 Write-backs	–	–	–	–	–	–
B.4 Positive changes in fair value	–	–	–	–	–	–
– booked to equity	–	–	–	–	–	–
– booked to income statement	–	–	–	–	–	–
B.5 Exchange gains	–	–	–	121	–	121
B.6 Other changes	–	–	–	–	–	–
C. **Decreases**	**–**	**226**	**–**	**16,904**	**–**	**17,130**
C.1 Disposals	–	–	–	–	–	–
– of which business combinations	–	–	–	–	–	–
C.2 Adjustments	–	226	–	16,904	–	17,130
– Amortisation	–	69	–	16,904	–	16,973
– Write-downs	–	157	–	–	–	157
+ equity	–	–	–	–	–	–
+ income statement	–	157	–	–	–	157
C.3 Negative changes in fair value:	–	–	–	–	–	–
– booked to equity	–	–	–	–	–	–
– booked to income statement	–	–	–	–	–	–
C.4 Transfers to non-current assets held for sale and discontinued operations	–	–	–	–	–	–
C.5 Exchange losses	–	–	–	–	–	–
C.6 Other changes	–	–	–	–	–	–
D. **Closing net amount**	**16,997**	**34**	**–**	**19,638**	**–**	**36,669**
D.1 Total net reductions in value	–	(174)	–	(245,381)	–	(245,555)
E. **Closing gross amount**	**16,997**	**208**	**–**	**265,019**	**–**	**282,224**
F. **Valuation at cost**	**16,997**	**34**	**–**	**19,638**	**–**	**36,669**

Key
DEF: definite life
INDEF: indefinite life

10.3 Other information

Contractual commitments to purchase software user rights amount to 6.306 million euro.

Section 11 *Tax assets and liabilities - Item 110 and item 60*

11.1 Deferred tax assets: breakdown

	31/12/2022	31/12/2021
- Value adjustments on loans	224,759	258,650
- Allocations to provisions for risks and charges	38,390	32,310
- Deferred charges	193	105
- Securities and equity investments	36,100	2,175
- Administrative expenses, amortisation and depreciation	18,692	22,109
- Tax losses	4,596	6,336
- Losses loans at FV	2,263	–
Total	**324,993**	**321,685**

The Group recognised Deferred Tax Assets (DTA) of 324.993 million euro. Of these, 51.999 million euro relate to equity accounts, 212.924 million euro comply with the requirements of Law 214 dated 22 December 2011 and may be transformed into tax credits in the event of a «reported loss», a «tax loss» for IRES purposes or a «negative net value of production» for IRAP purposes; their recovery is therefore certain, as unrelated to the ability to generate future taxable income. The other tax assets not transformable into tax credits, 60.070 million euro, have been recognised after checking their recoverability, which is supported by a probability opinion expressed after performing the so-called probability test. This opinion was expressed after analysing the likelihood that sufficient taxable income will be generated in future. In particular, the estimate of future profitability underling the recoverability opinion was based on reasonable and realistic hypotheses and assumptions, after weighting the degrees of uncertainty. The verification of future taxable income was conducted over a reference period of six years. The economic projections included in the latest 2023-2025 business plan called «Next Step» were used and the expected profitability was estimated for the years 2026 and 2028. The calculation of the impact of permanent IRES and IRAP variations on pre-tax profit and net interest and other banking income was carried out by considering a historical data base referring to the years 2015-2022 and applying rules for the normalisation of tax recoveries from previous years with the aim of achieving a re-expression of taxable income consistent with current tax legislation, eliminating from the taxable income of previous years the variations relating to non-recurring or extraordinary components no longer considered repeatable. The probability test relating to the deferred tax assets was carried out separately, due to the different conditions of use of the underlying temporary differences, for the Group entities participating in the tax consolidation: Parent Company, BNT Banca SpA and Factorit SpA.

11.2 Deferred tax liabilities: breakdown

	31/12/2022	31/12/2021
- Properties owned	8,621	8,659
- Revaluation of property at fair value	5,693	4,851
- Revaluation of securities and gains	5,975	14,189
– Administrative expenses	944	297
- Loans	7,966	7,618
Total	**29,199**	**35,614**

11.3 Changes in deferred tax assets (balancing item in income statement)

	31/12/2022	31/12/2021
1. **Opening balance**	**296,786**	**352,918**
2. **Increases**	**21,038**	**16,707**
2.1 Deferred tax assets arisen in the year	19,212	14,849
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) write-backs	–	–
d) other	19,212	14,849
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	1,826	1,858
3. **Decreases**	**44,830**	**72,839**
3.1 Deferred tax assets eliminated in the year	43,216	65,003
a) reversals	42,943	64,688
b) written down as no longer recoverable	–	–
c) change in accounting policies	–	–
d) other	273	315
3.2 Reduction in tax rates	–	–
3.3 Other decreases:	1,614	7,836
a) transformation into tax credits of which as per Law 214/2011	–	7,831
b) other	1,614	5
4. **Closing balance**	**272,994**	**296,786**

11.4 Changes in deferred tax assets as per Law 214/2011

	31/12/2022	31/12/2021
1. **Opening balance**	**244,901**	**299,481**
2. **Increases**	**26**	**37**
3. **Decreases**	**32,003**	**54,617**
3.1 Reversals	32,003	46,786
3.2 Transformation into tax credits	–	7,831
a) resulting from operating losses	–	–
b) resulting from tax losses	–	7,831
3.3 Other decreases	–	–
4. **Closing balance**	**212,924**	**244,901**

11.5 Changes in deferred tax liabilities (balancing item in income statement)

	31/12/2022	31/12/2021
1. **Opening balance**	**14,773**	**14,200**
2. **Increases**	**7,584**	**2,626**
2.1 Deferred tax liabilities arisen in the year	7,306	2,389
a) relating to prior years	-	-
b) due to changes in accounting policies	-	-
c) other	7,306	2,389
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	278	237
3. **Decreases**	**1,545**	**2,053**
3.1 Deferred tax liabilities eliminated in the year	1,545	2,053
a) reversals	1,545	2,053
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4. **Closing balance**	**20,812**	**14,773**

11.6 Changes in deferred tax assets (balancing item in shareholders' equity)

	31/12/2022	31/12/2021
1. **Opening balance**	**24,899**	**24,273**
2 **Increases**	**34,261**	**2,468**
2.1 Deferred tax assets arisen in the year	33,969	1,978
a) relating to prior years	-	-
b) due to changes in accounting policies	-	-
c) other	33,969	1,978
2.2 New taxes or increases in tax rates	-	178
2.3 Other increases	292	312
3. **Decreases**	**7,161**	**1,842**
3.1 Deferred tax assets eliminated in the year	7,161	1,842
a) reversals	3,782	1,751
b) written down as no longer recoverable	-	-
c) due to changes in accounting policies	-	-
d) other	3,379	91
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4. **Closing balance**	**51,999**	**24,899**

This amount relates to losses on securities measured at fair value through other comprehensive income and to actuarial losses recognised in the measurement of long-term employee benefits, i.e. pension fund and termination indemnities booked to equity as provided by IAS 19 Revised.

11.7 Changes in deferred tax liabilities (balancing item in shareholders' equity)

	31/12/2022	31/12/2021
1. **Opening balance**	**20,841**	**19,633**
2. **Increases**	**1,303**	**6,037**
2.1 Deferred tax liabilities arisen in the year	1,303	6,037
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	1,303	6,037
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
3. **Decreases**	**13,757**	**4,829**
3.1 Deferred tax liabilities eliminated in the year	13,757	4,829
a) reversals	13,757	4,829
b) due to changes in accounting policies	–	–
c) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	–	–
4. **Closing balance**	**8,387**	**20,841**

This amount relates to the tax on the unrealised gains recognised in equity on financial assets measured at fair value through other comprehensive income and to the revaluation of the properties measured at fair value.

Section 13 Other assets - Item 130

13.1 Other assets: breakdown

	31/12/2022	31/12/2021
Advances paid to tax authorities	58,772	57,878
Tax credits "*Cura Italia*" and "Relaunch" Law Decrees	1,451,634	447,570
Tax credits and related interest	9,255	3,070
Current account cheques drawn on third parties	15,237	19,282
Current account cheques drawn on Group banks	685	411
Transactions in customers' securities	23,463	30,479
Advances to suppliers	1,248	1,080
Advances to customers awaiting collections	27,222	21,924
Miscellaneous debits in transit	29,512	31,104
Liquid assets serving pension and similar obligations	19,310	253
Accrued income not allocated	52,271	47,446
Prepayments not allocated	27,893	23,269
Differences on elimination	5,025	717
Residual items	108,827	146,790
Total	**1,830,354**	**831,273**

The significant increase in item 130 «Other assets» is due to the tax credits connected with the «*Cura Italia*» and «Relaunch» Law Decrees, amounting to 1,451.634 million euro. On the basis of «Bank of Italy/Consob/IVASS Document No. 9 of 5 January 2021» in the presence of tax credits introduced by Decrees No. 18/2020 (so-called «*Cura Italia*») and No. 34/2020 (so-called «Relaunch»), these receivables have been classified under the residual item «other assets» in the balance sheet, in line with paragraphs 54 and 55 of IAS 1 «Presentation of Financial Statements». For further details, reference should be made to Section 16 of these Notes. Other information.

Liabilities

Section 1 *Financial liabilities measured at amortised cost - Item 10*

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

	31/12/2022				31/12/2021			
		Fair Value				Fair Value		
Type of transaction/Amounts	Book value	Level 1	Level 2	Level 3	Book value	Level 1	Level 2	Level 3
1. **Due to central banks**	**9,053,525**	**–**	**–**	**–**	**8,891,078**	**–**	**–**	**–**
2. **Due to banks**	**2,328,178**	**–**	**–**	**–**	**1,983,778**	**–**	**–**	**–**
2.1 Current accounts and sight deposits	464,716	–	–	–	478,219	–	–	–
2.2 Fixed-term deposits	858,682	–	–	–	973,555	–	–	–
2.3 Loans	983,304	–	–	–	528,796	–	–	–
2.3.1 Repurchase agreements	627,940	–	–	–	–	–	–	–
2.3.2 Others	355,364	–	–	–	528,796	–	–	–
2.4 Payables for commitments to repurchase own equity instruments	–	–	–	–	–	–	–	–
2.5 Payables for leases	34	–	–	–	116	–	–	–
2.6 Other payables	21,442	–	–	–	3,092	–	–	–
Total	**11,381,703**	**–**	**–**	**11,381,703**	**10,874,856**	**–**	**–**	**10,874,856**

These payables are not specifically hedged.

Amounts due to central banks comprise three loans from the ECB totalling 8,874 million euro as part of its «Targeted Longer-Term refinancing operations» (TLTRO III).

The first was granted in June 2020 for 4,368 million euro with maturity on 28 June 2023, the second during the first quarter of 2021 for 806 million euro with maturity on 27 March 2024, and the third on 29 September 2021 for 3,700 million euro with maturity on 25 September 2024. These loans payable are secured by bonds, consisting mainly of Government bonds and loans receivable.

«Other loans» are made up principally of funding set up by EIB in connection with loans granted by this institution on the basis of the convention stipulated with it.

Since these payables are predominantly on demand or short-term, the book value is considered a good approximation of fair value.

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

	31/12/2022				31/12/2021			
		Fair Value				Fair Value		
Type of transaction/Amounts	Book value	Level 1	Level 2	Level 3	Book value	Level 1	Level 2	Level 3
1. **Current accounts and sight deposits**	**33,616,828**	**–**	**–**	**–**	**34,829,813**	**–**	**–**	**–**
2. **Fixed-term deposits**	**2,661,831**	**–**	**–**	**–**	**503,572**	**–**	**–**	**–**
3. **Loans**	**1,576,069**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
3.1 Repurchase agreements	1,576,069	–	–	–	–	–	–	–
3.2 Other	–	–	–	–	–	–	–	–
4. **Payables for commitments to repurchase own equity instruments**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
5. **Payables for leases**	**171,145**	**–**	**–**	**–**	**183,169**	**–**	**–**	**–**
6. **Other payables**	**96,373**	**–**	**–**	**–**	**86,928**	**–**	**–**	**–**
Total	**38,122,246**	**–**	**–**	**38,122,246**	**35,603,482**	**–**	**–**	**35,603,482**

These payables are not specifically hedged.

The fair value is assumed to be the same as the book value as the amounts are short-term or due on demand.

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

	31/12/2022				31/12/2021			
		Fair Value				Fair Value		
Type of securities/Amounts	Book value	Level 1	Level 2	Level 3	Book value	Level 1	Level 2	Level 3
A. **Securities**								
1. bonds	3,531,946	3,262,887	105,816	–	3,573,401	3,504,257	113,752	–
1.1 structured	1,588,521	1,387,208	65,101	–	1,591,067	1,540,107	77,107	–
1.2 others	1,943,425	1,875,679	40,715	–	1,982,334	1,964,150	36,645	–
2. other securities	116,815	–	116,815	–	126,902	–	126,902	–
2.1 structured	–	–	–	–	–	–	–	–
2.2 other	116,815	–	116,815	–	126,902	–	126,902	–
Total	**3,648,761**	**3,262,887**	**222,631**	**–**	**3,700,303**	**3,504,257**	**240,654**	**–**

The fair value of the sub-item other securities is equal to the book value as this item includes short-term bankers' drafts and similar documents.

The level 1 securities relate to covered bonds and subordinated bonds listed on the HI-MTF market (Multilateral Trading Facility).

1.4 Detail of subordinated payables/securities

Subordinated securities amount to 513.904 million euro and are made up of the loans indicated below:

- a bond of 309.084 million euro from 25/11/2021 and maturity on 25/02/2032 with repayment in full on maturity. It bears a fixed interest rate of 3.875%.
- a bond of 204.820 million euro from 30/07/2019 and maturity on 30/07/2029 with repayment in full on maturity. It bears a fixed interest rate of 6.25%.

1.6 Payables for leases

Financial outflows for leasing

	2022				2021
	Properties	Cars	Other	Total	Total
Initial Lease Liability	182,891	241	153	183,285	200,621
Financial flows	(21,462)	(79)	(82)	(21,623)	(23,490)
Interest	3,033	1	1	3,035	3,225
Other changes	6,498	(83)	67	6,482	2,929
Closing carrying amount	**170,960**	**80**	**139**	**171,179**	**183,285**

As regards the Other changes during the year, the impact is mainly due to recalculation of the Lease Liability following the ISTAT index changes and the opening and closing of contracts.

At 31.12.2022, the lessee's weighted average marginal borrowing rate of the rates used to discount the lease liabilities is 1.76%.

Analysis of lease liability maturities

	within 1 year	1 to 5 years	5 to 10 years	over 10 years
Properties	24,636	89,869	73,799	27,519
Cars	75	67	–	–
Other types	127	358	197	50
Total	**24,838**	**90,294**	**73,996**	**27,569**

The amounts shown refer to non-discounted cash flows.

Section 2 *Financial liabilities held for trading - Item 20*

2.1 Financial liabilities held for trading: breakdown

Type of transaction/Amounts	31/12/2022					31/12/2021				
		Fair Value					Fair Value			
	NV	Level 1	Level 2	Level 3	Fair Value*	NV	Level 1	Level 2	Level 3	Fair Value*
A. **Cash liabilities**										
1. Due to banks	–	–	–	–	–	–	–	–	–	–
2. Due to customers	–	–	–	–	–	–	–	–	–	–
3. Fixed-yield securities	–	–	–	–	–	–	–	–	–	–
3.1 Bonds	–	–	–	–	–	–	–	–	–	–
3.1.1 Structured	–	–	–	–	–	–	–	–	–	–
3.1.2 Other bonds	–	–	–	–	–	–	–	–	–	–
3.2 Other securities	–	–	–	–	–	–	–	–	–	–
3.2.1 Structured	–	–	–	–	–	–	–	–	–	–
3.2.2 Others	–	–	–	–	–	–	–	–	–	–
Total (A)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
B. **Derivative instruments**										
1. Financial derivatives	–	9	115,862	–	–	–	–	104,339	–	–
1.1 For trading	–	9	115,862	–	–	–	–	104,339	–	–
1.2 Associated with the fair value option	–	–	–	–	–	–	–	–	–	–
1.3 Other	–	–	–	–	–	–	–	–	–	–
2. Credit derivatives	–	–	–	–	–	–	–	–	–	–
2.1 For trading	–	–	–	–	–	–	–	–	–	–
2.2 Associated with the fair value option	–	–	–	–	–	–	–	–	–	–
2.3 Other	–	–	–	–	–	–	–	–	–	–
Total (B)	**–**	**9**	**115,862**	**–**	**–**	**–**	**–**	**104,339**	**–**	**–**
Total (A+B)	**–**	**9**	**115,862**	**–**	**–**	**–**	**–**	**104,339**	**–**	**–**

FV* = Fair Value calculated excluding the differences in value due to changes in the issuer's credit rating since the issue date
VN = Nominal or notional value

Section 4 *Hedge derivatives - Item 40*

4.1 Hedge derivatives: breakdown by hedge type and levels

	Nominal Value 31/12/2022	Fair value 31/12/2022			**Nominal Value 31/12/2021**	Fair value 31/12/2021		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. **Financial derivatives**	**91,358**	**–**	**227**	**–**	**143,839**	**–**	**2,446**	**–**
1) Fair value	91,358	–	227	–	143,839	–	2,446	–
2) Financial flows	–	–	–	–	–	–	–	–
3) Foreign investments	–	–	–	–	–	–	–	–
B. **Credit derivatives**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1) Fair value	–	–	–	–	–	–	–	–
2) Financial flows	–	–	–	–	–	–	–	–
Total	**91,358**	**–**	**227**	**–**	**143,839**	**–**	**2,446**	**–**

4.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge

Transactions/Type of hedge	Fair Value							Financial flows		
	Specific									
	fixed-yield securities and interest rates	equity securities and stock indices	currencies and gold	receivable	commodities	other	Generic	Specific	Generic	Foreign Investments
1. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-	-
2. Financial assets measured at amortised cost	111	-	-	-	-	-	-	-	-	-
3. Portfolio	-	-	-	-	-	-	116	-	-	-
4. Other transactions	-	-	-	-	-	-	-	-	-	-
Total assets	**111**	**-**	**-**	**-**	**-**	**-**	**116**	**-**	**-**	**-**
1. Financial liabilities	-	-	-	-	-	-	-	-	-	-
2. Portfolio	-	-	-	-	-	-	-	-	-	-
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Expected transactions	-	-	-	-	-	-	-	-	-	-
2. Portfolio of financial assets and liabilities	-	-	-	-	-	-	-	-	-	-

Section 6 ***Tax liabilities***

The item amounts to 32.359 million euro and relates for 3.160 million euro to current taxes and for 29.199 million euro to deferred tax liabilities. As regards the breakdown and amount of deferred taxes, please read «Assets - Section 11» of these notes. The bank's tax years up to 2016 have been closed. Decree Law 59/2016, converted by Law No. 119 of 30/06/2016, introduced the possibility by paying a fee, subject to certain conditions, of transforming D.T.A. (Deferred Tax Assets) into tax credits. The Bank has made the tax group election in relation to the Bank, Factorit S.p.a., BNT Banca S.p.a. and Pirovano S.p.a. The Group will not have to pay any fees as the conditions for payment have not been met. The dispute involving the Borgo Palazzo real estate company concerning VAT refunds ended unfavourably for the company, which had made specific provisions in the financial statements in this regard. Evaluations are underway to adhere to the facilitated definition provided by Law No. 197 of 26/12/2022 (Budget Law 2023), which introduced the «tax truce».

Section 8 *Other liabilities*

8.1 Other liabilities: breakdown

	31/12/2022	31/12/2021
Amounts at the disposal of third parties	441,597	419,433
Taxes to be paid on behalf of third parties	84,762	86,247
Taxes to be paid	2,565	4,678
Employee salaries and contributions	17,900	17,169
Suppliers	30,840	21,099
Transit accounts for sundry entities	3,299	6,724
Invoices to be received	18,589	19,934
Credits in transit for financial transactions	5	2,490
Value date differentials on portfolio transactions	31,132	223,620
Directors' and statutory auditors' emoluments	1,286	1,357
Loans granted to customers to be finalised	12,351	6,863
Miscellaneous credit items being settled	49,110	58,124
Accrued expenses not allocated	26,882	21,525
Deferred income not allocated	14,867	13,021
Differences on elimination	21,410	24,471
Residual items	78,034	59,767
Total	**834,629**	**986,522**

This line item shows a decrease of 15.40%.

The «value date differentials on portfolio transactions» relate to the notes received and sent for collection with recourse or for crediting after collection, which are only recognised in the balance sheet on settlement.

Section 9 *Termination indemnities - Item 90*

9.1 Termination indemnities: changes in the year

	Total 31/12/2022	Total 31/12/2021
A. **Opening balance**	**40,190**	**42,341**
B. **Increases**	**8,714**	**8,033**
B.1 Provisions for the year	8,596	8,021
B.2 Other changes	118	12
– of which business combinations	–	–
C. **Decreases**	**13,307**	**10,184**
C.1 Payments made	1,963	1,961
C.2 Other changes	11,344	8,223
– of which business combinations	–	–
D. **Closing balance**	**35,597**	**40,190**
Total	**35,597**	**40,190**

Section 10 *Provisions for risk and charges - Item 100*

10.1 Provisions for risks and charges: breakdown

Items/Components	31/12/2022	31/12/2021
1. **Provisions for credit risk related to commitments and financial guarantees given**	**32,583**	**27,186**
2. **Provisions on other commitments and other guarantees given**	**30,621**	**16,039**
3. **Corporate retirement funds**	**167,827**	**191,565**
4. **Other provisions for risks and charges**	**64,497**	**54,272**
4.1 legal and tax disputes	42,818	35,435
4.2 personnel expenses	18,742	18,016
4.3 other	2,937	821
Total	**295,528**	**289,062**

At year-end, the Group is not exposed to any other risks that might result in future charges, other than those covered by the provisions referred to above. It is reasonably believed that there are no contingent liabilities. The figures for the company's pension funds include, in addition to the Parent Company's fund, the accounting of the «Swiss BVG pension» according to IAS 19, which entailed recognition of a liability.

10.2 Provisions for risks and charges: changes in the year

	Provisions on other commitments and other guarantees given	Pension and similar obligations	Other provisions for risks and charges	**Total**
A. **Opening balance**	**16,039**	**191,565**	**54,272**	**261,876**
B. **Increases**	**20,009**	**5,673**	**34,563**	**60,245**
B.1 Provision for the year	20,009	1,977	33,427	55,413
B.2 Changes due to the passage of time	–	–	–	–
B.3 Changes due to variations in the discount rate	–	–	–	–
B.4 Other changes	–	3,696	1,136	4,832
– of which business combinations	–	–	1,085	1,085
C. **Decreases**	**5,427**	**29,411**	**24,338**	**59,176**
C.1 Utilisations during the year	–	22,576	19,766	42,342
C.2 Changes due to variations in the discount rate	–	6,830	1,088	7,918
C.3 Other changes	5,427	5	3,484	8,916
– of which business combinations	–	–	–	–
D. **Closing balance**	**30,621**	**167,827**	**64,497**	**262,945**

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

	Provisions for credit risk related to commitments and financial guarantees given				
	First stage	Second stage	Third stage	Impaired purchased or originated	**Total**
Commitments to grant loans	9,014	8,558	106	21	17,699
Financial guarantees issued	1,514	1,112	12,258	–	14,884
Total	**10,528**	**9,670**	**12,364**	**21**	**32,583**

10.5 Defined-benefit company pension funds

10.5.1. Characteristics of the plans and related risks

The pension fund of 167.827 million euro consists of the pension fund for the Parent Company's personnel of 158.508 million euro and the actuarial liabilities linked to the supplementary pension plan for employees of BPS Suisse SA of 9.319 million euro.

The Parent Company's pension plan for employees is an internal defined-benefit plan intended to supplement the pension paid to retired employees by the State. The plan is funded by contributions from the Bank and from employees which are determined on a percentage of income basis and credited each month. This plan is also a separate fund pursuant to art. 2117 of the Italian Civil Code.

The amount of the pension fund for the Parent Company's personnel is adjusted to take into account the closed group of members formed on 28/04/1993. This closed group consists of 304 employees and 330 pensioners. Since 28/04/1993, employees have been given the chance to join another supplementary pension scheme as laid down by law and by contract.

BPS Suisse SA is a member of the BVG collective foundation of Rentenanstalt, which guarantees a professional pension to its employees through Swiss Life.

The adequacy of the fund with respect to the present value of the obligation at the reference date was verified using calculations prepared by an independent actuary, making demographic assumptions that distinguish between age and gender, as well as technical-economic assumptions that reflect the theoretical changes in earnings and payments. The technical assessments made reference to dynamic economic and financial assumptions. The discounting rate reflects the yield on prime bonds.

10.5.2 Changes in net (assets) liabilities and redemption rights

	31/12/2022	31/12/2021
Opening balance	**191,565**	**189,873**
service cost	6,015	5,402
Interest cost	1,339	576
actuarial gains/losses	(23,013)	(2,365)
payments	(10,993)	(10,307)
other provisions	2,914	8,386
Closing balance	**167,827**	**191,565**

10.5.3 Information on the fair value of plan assets

Details of the assets of the Parent Company's pension plan are summarised in the following table:

	31/12/2022	31/12/2021
fixed-yield securities	100,551	120,666
equity securities	1,122	3,647
Mutual funds invested in bonds	8,811	9,735
Mutual funds invested in shares	11,748	13,614
Mutual funds invested in property	16,966	16,972
Other assets	19,310	253
Total	**158,508**	**164,887**

The amount of the fund decreases by 6.379 million euro, -3.87%.

Payments of benefits amount to 4.276 million euro compared with 4.050 million euro in 2021. The contributions paid by the employees totalled 0.199 million euro (0.209 million euro in the prior year).

10.5.4 Description of the principal actuarial assumptions

The assumptions adopted in the actuarial calculation are provided separately for the Parent Company and BPS Suisse SA:

Banca Popolare di Sondrio Spa

	2022	2021
discount rate	3.03%	0.82%
expected increase in salaries	0.25%	0.25%
rate of inflation		1.50%
- for 2023	5.90%	
- for 2024	2.30%	
- for the following years	2.00%	

The average annual rate of increase of pensions paid by the Fund takes into account the equalisation provided for mandatory pension benefits. See the Bank's financial statements for an explanation of how the discount rate was chosen.

Banca Popolare di Sondrio (Suisse) SA

	31/12/2022	31/12/2021
discount rate	2.30%	0.30%
expected increase in salaries	1.50%	0.80%
rate of inflation	1.50%	0.80%
underlying rate of pension increases	0.00%	0.00%

The discount rate has been chosen according to Swiss high standing corporate bonds with a duration between 15 and 20 years.

10.5.5 Information on the amount, timing and uncertainties of cash flows

As required by the relevant IAS/IFRS, a sensitivity analysis has been carried out to determine the effect of changes in the principal actuarial assumptions used for the calculations. For this purpose, the scenario used for the valuation was used as the base scenario, and the two parameters deemed most significant were modified from that, namely the average annual discount rate and the inflation rate for Banca Popolare di Sondrio Spa and the average annual discount rate and the rate of salary increases for Banca Popolare di Sondrio (Suisse) SA. Below are the results obtained.

Sensitivity analysis

Banca Popolare di Sondrio Spa

- +0.25% change in the discount rate, the liability amounted to 129.231 million euro;
- -0.25% change in the discount rate, the liability amounted to 138.888 million euro;
- +0.25% change in the inflation rate, the liability amounted to 136.678 million euro;
- -0.25% change in the inflation rate, the liability amounted to 131.249 million euro.

Banca Popolare di Sondrio (Suisse) SA

- +0.50% change in the discount rate, the liability amounted to 3.717 million euro;
- -0.50% change in the discount rate, the liability amounted to 15.544 million euro;
- +0.50% change in the salary discount rate, the liability amounted to 9.693 million euro;
- -0.50% change in the salary discount rate, the liability amounted to 8.821 million euro.

10.6 Provisions for risks and charges – other provisions

Items/Values	31/12/2022	31/12/2021
Legal disputes	42,818	35,435
Personnel expenses	18,742	18,016
Other provisions	2,937	821
Total	**64,497**	**54,272**

The provision for legal disputes covers outstanding disputes regarding, in particular, claims for repayment from the liquidators of bankrupt customers, concerning positions classified as bad loans or which have already been written off, and other disputes that have arisen in the ordinary course of business.

The duration of such disputes is difficult to assess, given the extended time required in order to obtain justice.

This increase of 10.225 million euro arises from the difference between the provision of the year and the release of provisions set aside in prior years.

At 31 December 2022, a number of non-tax-related disputes were pending, with a total petitum of about 510 million. This amount related to all existing disputes, is regardless of the estimate of the risk of disbursement of economic resources deriving from the potential loss. It therefore also includes the petitum of disputes that have remote risk.

The following paragraphs provide brief information on the disputes considered significant - mainly those with claims exceeding 5 million euro and with the risk of disbursement deemed «possible» - as well as on cases considered significant.

Claims for «indemnification» relating to loans sold as part of the securitisation transactions called «Diana», «Pop NPLs 2020» and «Pop NPLs 2021»

The assignee companies have the contractual right to make claims for indemnity regarding alleged breaches of the guarantees given by the Bank on the portfolio of assigned receivables. As regards the «Diana» transaction, 143 requests for a potential amount of 44.50 million euro are pending, for which a provision of 9.81 million euro has been made. On the other hand, with regard to the «Pop NPLs 2020» transaction, 41 requests are pending for a potential amount of 5.45 million euro, for which a provision of 2.96 million euro has been set aside, while for the «Pop NPLs 2021» transaction, 11 requests are pending for a potential amount of 0.5 million euro, for which a provision of 0.39 million euro has been set aside.

Disputes relating to compound interest and usury

The disputes falling within this line of litigation for years represented a significant part of the litigation brought against the Italian banking system. For disputes relating to compound interest, the *petitum* is equal to approximately 5.06 million, with provisions for 0.48 million, while for those relating to usury, the *petitum* is equal to 5.71 million, with provisions for 0.48 million.

Clawback actions in insolvency proceedings

12 disputes were pending for a *petitum* of 8.66 million, with a provision of 3.01 million. None with a request for a refund of a particularly significant amount.

AMA – Azienda Municipale Ambiente s.p.a.

In December 2020, the Bank was notified of the summons before the Court of Rome, concerning the requests for assessment and declaration of the nullity or cancellation of the transaction in financial instruments called «Interest Rate Swap» stipulated on 30 September 2010 and the repayment of amounts unduly received by the Bank for 20.67 million euro. The bank entered an appearance and the case is called to a hearing on 29 November 2024 for closing arguments. The risk of losing appears «possible».

Bankruptcy of Interservice s.r.l. in liquidation

In February 2015, the bankruptcy procedure sued the Bank before the Court of Milan with a request for compensation for the damage caused to the company by the illegal conduct of its director, quantified at 14.65 million euro. With a sentence published on 26 May 2020, the Court rejected the plaintiff's request, but the plaintiff has filed an appeal. We have filed final pleadings and are awaiting judgment. The risk of losing appears «possible».

Ginevra s.r.l.

In January 2019, the company and the shareholders Giuliana Piovan and Gianpiero De Luca sued the Bank before the Court of Genoa with a request for compensation, quantified at 11.40 million euro, for contractual liability for failure to grant credit, compound interest and usury. The case shall be called to a hearing on 13 June 2023 for closing arguments. The risk of losing appears «possible».

Società Italiana per le Condotte d'Acqua s.p.a.

In December 2022, a writ of summons was served concerning the damage caused to the Company by the Bank for having granted credit despite the alleged state of crisis and the lack of concrete prospects of overcoming the crisis. The amount of the application, carried out jointly with other credit institutions, is 389 million euro. The bank appeared in court rejecting the charge as unfounded and lacking evidentiary support. The risk of losing appears «possible».

The provision for personnel expenses essentially relates to the cost of untaken holidays and the potential cost of employee long-service bonuses. It increases by 0.726 million euro, +4.03 %.

Other provisions include the Parent Company's provision for charitable donations consisting of net profits authorised by the shareholders of 0.786 million euro used to make approved payments. It increased by 0.300 million euro in the 2021 profit distribution and decreases by 0.190 million euro due to donations made during the year.

Section 13 Group equity - Items 120, 130, 140, 150, 160, 170 and 180

Share capital comprises 453,385,777 issued and fully-paid ordinary shares, without par value, totalling 1,360.157 million euro, unchanged on last year. Shares in circulation have dividend and voting rights from 1 January 2022.

At the period-end, the Bank held treasury shares with a carrying value of 25.402 million euro.

13.2 Capital - Number of Parent Company shares: changes in the year

Items/Types	Ordinary	Other
A. **Shares at the beginning of the year**	**453,385,777**	**–**
– fully paid	453,385,777	–
– not fully paid	–	–
A.1 Treasury shares (–)	(3,686,372)	–
A.2 Shares in circulation opening balance	449,699,405	–
B. **Increases**	**8,556**	**–**
B.1 New issues	–	–
– for payment:	–	–
– conversion of bonds	–	–
– exercise of warrants	–	–
– other	–	–
– free of charge:	–	–
– to employees	–	–
– to directors	–	–
– other	–	–
B.2 Sale of treasury shares	–	–
B.3 Other changes	8,556	–
C. **Decreases**	**–**	**–**
C.1 Derecognition	–	–
C.2 Purchase of treasury shares	–	–
C.3 Disposal of businesses	–	–
C.4 Other changes	–	–
D. **Shares outstanding: closing balance**	**449,707,961**	**–**
D.1 Treasury shares (+)	3,677,816	–
D.2 Shares at the end of the year	453,385,777	–
– fully paid	453,385,777	–
– not fully paid	–	–

13.3 Share capital: other information

Share premium accounts

Amounts to 78.978 million euro, slightly down due to negative differences between the discharge price and the corresponding book value of the shares sold.

13.4 Profit reserves: other information

Item 150 «Reserves» amounts to 1,790.468 million euro with an increase of 15.09%, and also includes the reserve for the purchase of treasury shares, also provided for by art. 60 of the Articles of Association prior to transformation into a joint stock company available, pursuant to art. 8 of the Articles of Association in force, to the directors for the purchase or sale of treasury shares on market terms, as part of normal trading to support the circulation of shares. This reserve amounts to 30 million euro (used for 25.264 million euro).

Section 14 Non-controlling interests - Item 190

14.1 Detail of item 210 «Non-controlling interests»

Equity attributable to non-controlling interests amounted to 0.004 million euro, down from the previous year due to the acquisition of minority interests (39.5%) in the subsidiary Factorit S.p.a.

14.2 Capital instruments: breakdown and changes in the year

There were no issues of financial instruments that contribute to the formation of capital issued by group companies not subject to total control.

Other information

1. Commitments and financial guarantees given

	Nominal value on commitments and financial guarantees given					
	First stage	Second stage	Third stage	Impaired purchased or originated	**Total 31/12/2022**	**Total 31/12/2021**
1. **Commitments to grant loans**	**13,120,001**	**1,216,000**	**66,756**	**7,541**	**14,410,298**	**13,004,489**
a) Central banks	–	–	–	–	–	–
b) Public administrations	591,911	16,951	–	–	608,862	622,002
c) Banks	218,253	5,508	–	–	223,761	67,092
d) Other financial companies	1,600,293	9,208	21	1	1,609,523	1,121,875
e) Non-financial companies	9,408,439	1,022,799	60,461	7,275	10,498,974	9,690,274
f) Households	1,301,105	161,534	6,274	265	1,469,178	1,503,246
2. **Financial guarantees issued**	**841,994**	**49,340**	**16,033**	**–**	**907,367**	**886,951**
a) Central banks	–	–	–	–	–	–
b) Public administrations	6,389	52	–	–	6,441	6,766
c) Banks	9,845	3,186	–	–	13,031	14,138
d) Other financial companies	128,633	6	210	–	128,849	113,176
e) Non-financial companies	632,874	39,624	15,110	–	687,608	679,926
f) Households	64,253	6,472	713	–	71,438	72,945

2. Other commitments and other guarantees given

	Nominal value Total 31/12/2022	**Nominal value Total 31/12/2021**
Other guarantees given	**3,968,248**	**3,523,870**
of which: non-performing exposures	57,083	33,315
a) Central banks	–	–
b) Public administrations	68,753	36,915
c) Banks	158,050	143,818
d) Other financial companies	108,696	30,948
e) Non-financial companies	3,451,290	3,129,135
f) Households	181,459	183,054
Other commitments	**4,108,955**	**3,355,345**
of which: non-performing exposures	33,890	48,142
a) Central banks	50,000	–
b) Public administrations	64,496	61,664
c) Banks	517,098	247,935
d) Other financial companies	69,681	67,867
e) Non-financial companies	3,320,684	2,907,610
f) Households	86,996	70,269

3. Assets lodged to guarantee the bank's liabilities and commitments

Portfolios	Amount 31/12/2022	Amount 31/12/2021
1. Financial assets measured at fair value through profit or loss	108,722	80,023
2. Financial assets measured at fair value through other comprehensive income	1,311,977	615,294
3. Financial assets measured at amortised cost	13,739,806	11,532,794
4. Property, equipment and investment property	–	–
of which: property, plant and equipment held as inventories	–	–

The assets measured at fair value through other comprehensive income and those measured at amortised include securities assigned to customers under repurchase agreements, assigned to guarantee loans from central banks (TLTRO) and to guarantee the operations of the Swiss subsidiary.

The assets measured at amortised cost also include loans that guarantee the funding provided by the Central Bank (ABACO loans) and residential mortgages guaranteeing the covered bonds issued by the Bank.

5. Management and intermediation for third parties

Type of services	31/12/2022
1. **Execution of orders on behalf of customers**	**1,177,150**
a) purchases	680,672
1. settled	679,939
2. not settled	733
b) sales	496,478
1. settled	495,841
2. not settled	637
2. **Portfolio management**	**1,738,815**
a) individual	1,738,815
b) collective	–
3. **Custody and administration of securities**	**63,293,032**
a) third-party securities on deposit: associated with activities as a custodian bank (excluding portfolio management)	5,132,914
1. securities issued by companies included in the consolidation	–
2. other securities	5,132,914
b) third-party securities on deposit (excluding portfolio management): other	19,565,400
1. securities issued by companies included in the consolidation	2,016,063
2. other securities	17,549,337
c) third-party securities on deposit with third parties	24,055,101
d) own securities held by other custodians	14,539,617
4. **Other transactions**	**–**

6. Financial assets subject to offsetting in the financial statements, or subject to compensation framework agreements or similar agreements

Technical forms	Gross amount of financial assets (a)	Amount of financial liabilities netted in the balance sheet (b)	Net financial assets reported in the balance sheet (c=a-b)	Correlated amounts not netted in the balance sheet		**Net amount (f=c–d–e) 31/12/2022**	**Net amount (f=c–d–e) 31/12/2021**
				Financial instruments (d)	Cash deposits received in guarantee (e)		
1. Derivatives	42,802	–	42,802	23,429	17,706	1,667	386
2. Repo transactions	–	–	–	–	–	–	–
3. Securities lending	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–
Total 31/12/2022	**42,802**	**–**	**42,802**	**23,429**	**17,706**	**1,667**	**–**
Total 31/12/2021	**12,752**	**–**	**12,752**	**11,203**	**1,163**	**–**	**386**

IFRS 7 requires specific disclosures about the financial instruments that are netted or nettable in the balance sheet pursuant to IAS 32, given the application of framework netting agreements or similar arrangements.

There are no netting agreements whereby balances must be netted in the balance sheet pursuant to IAS 32.

With regard to potentially nettable instruments, the following tables indicate those derivative financial instruments governed by «ISDA Master Agreements». In particular, Credit Support Annex (CSA) agreements have been signed with certain counterparties, under which the parties agree to give and accept assets in guarantee (in the Bank's case, amounts of cash denominated in euro), which are redetermined periodically depending on changes in the fair value of the underlying derivatives.

The derivatives subject to agreements of this type and reported herein are measured at fair value.

7. Financial liabilities subject to netting in the balance sheet or subject to framework netting agreements or similar arrangements

Technical forms	Gross amount of financial liabilities (a)	Amount of financial assets offset in the financial statements (b)	Net financial assets reported in the balance sheet (c=a-b)	Correlated amounts not netted in the balance sheet		**Net amount (f=c–d–e) 31/12/2022**	**Net amount (f=c–d–e) 31/12/2021**
				Financial instruments (d)	Cash deposits received in guarantee (e)		
1. Derivatives	87,482	–	87,482	23,429	62,895	1,158	4,670
2. Repo transactions	627,940	–	627,940	627,940	–	–	–
3. Securities lending	–	–	–	–	–	–	–
4. Other transactions	–	–	–	–	–	–	–
Total 31/12/2022	**715,422**	**–**	**715,422**	**651,369**	**62,895**	**1,158**	**–**
Total 31/12/2021	**98,516**	**–**	**98,516**	**11,203**	**82,643**	**–**	**4,670**

Repurchase agreements indicated are subject to netting agreements governed by Global Master Repurchase Agreements (GMRA). The gross amounts (a) shown in the table relating to repo transactions are recorded in item 10 a) «Amounts owed to Banks»; the related financial instruments (d) are represented by the value of the securities involved in the transactions.

PART C *Information on the consolidated Income statement*

Section 1 *Interest - Items 10 and 20*

1.1 Interest and similar income: breakdown

Items/Technical forms	Fixed-yield securities	Loans	Other transactions	**Total 31/12/2022**	**Total 31/12/2021**
1. **Financial assets measured at fair value through profit or loss**:	**1,683**	**8,272**	**–**	**9,955**	**8,504**
1.1 Financial assets held for trading	231	–	–	231	115
1.2 Financial assets designated at fair value	–	–	–	–	–
1.3 Other financial assets mandatorily measured at fair value	1,452	8,272	–	9,724	8,389
2. **Financial assets measured at fair value through other comprehensive income**	**18,234**	**–**	**–**	**18,234**	**10,311**
3. **Financial assets measured at amortised cost**:	**130,569**	**590,507**	**–**	**721,076**	**528,114**
3.1 Loans and receivables with banks	12,213	29,319	–	41,532	12,045
3.2 Loans and receivables with customers	118,356	561,188	–	679,544	516,069
4. **Hedging derivatives**	**–**	**–**	**2**	**2**	**–**
5. **Other assets**	**–**	**–**	**39,982**	**39,982**	**5,586**
6. **Financial liabilities**	**–**	**–**	**–**	**45,309**	**89,553**
Total	**150,486**	**598,779**	**39,984**	**834,558**	**642,068**
of which: interest income on impaired financial assets	–	26,960	–	26,960	28,207
of which: interest income on financial lease	–	–	–	–	–

The interest earned on financial liabilities mainly relates to longer-term refinancing operations (T-LTRO). For more information please read the Parent Company's explanatory notes.

1.2 Interest and similar income: other information

1.2.1 Interest income on financial assets in foreign currency

Items	**31/12/2022**	**31/12/2021**
Interest and similar income on foreign currency assets	92,800	70,289

1.3 Interest and similar expense: breakdown

Items/Technical forms	Payables	Securities	Other transactions	**Total 31/12/2022**	**Total 31/12/2021**
1. **Financial liabilities measured at amortised cost**	**(63,941)**	**(78,051)**	**–**	**(141,992)**	**(81,875)**
1.1 Due to central banks	(354)	–	–	(354)	(4)
1.2 Due to banks	(12,795)	–	–	(12,795)	(3,171)
1.3 Due to customers	(50,792)	–	–	(50,792)	(11,500)
1.4 Securities issued	–	(78,051)	–	(78,051)	(67,200)
2. **Financial liabilities held for trading**	**–**	**–**	**–**	**–**	**–**
3. **Financial liabilities designated at fair value**	**–**	**–**	**–**	**–**	**–**
4. **Other liabilities and provisions**	**–**	**–**	**–**	**–**	**(1)**
5. **Hedging derivatives**	**–**	**–**	**(1,756)**	**(1,756)**	**(3,322)**
6. **Financial assets**	**–**	**–**	**–**	**(9,743)**	**(27,946)**
Total	**(63,941)**	**(78,051)**	**(1,756)**	**(153,491)**	**(113,144)**
of which: interest expense on lease payables	(3,038)	–	–	(3,038)	(3,213)

1.4 Interest and similar expense: other information

1.4.1 Interest and similar expense on foreign currency liabilities

Items	**31/12/2022**	**31/12/2021**
Interest expense on financial liabilities in foreign currency	(20,554)	(12,092)

1.5 Differentials relating to hedging transactions

Items	**Total 31/12/2022**	**Total 31/12/2021**
A. Positive differentials relating to hedging transactions	2	-
B. Negative differentials relating to hedging transactions	(1,756)	(3,322)
C. Balance (A-B)	**(1,754)**	**(3,322)**

Section 2 *Commissions - Items 40 and 50*

2.1 Fee and commission income: breakdown

Type of services/Values	31/12/2022	31/12/2021
a) **Financial instruments**	**64,941**	**64,785**
1. Placement of securities	38,661	38,340
1.1 On a firm and/or irrevocable commitment basis	–	–
1.2 Without irrevocable commitment	38,661	38,340
2. Receiving and sending orders and execution of orders on behalf of customers	11,814	11,690
2.1 Receiving and sending orders for one or more financial instruments	11,814	11,690
2.2 Execution of orders on behalf of customers	–	–
3. Other commissions related to activities linked to financial instruments	14,466	14,755
of which: trading on own account	–	–
of which: individual portfolio management	11,403	11,318
b) **Corporate Finance**	**–**	**–**
1. Mergers and acquisitions advisory services	–	–
2. Treasury services	–	–
3. Other commissions related to corporate finance services	–	–
c) **Investment advisory activities**	**–**	**–**
d) **Compensation and settlement**	**–**	**–**
e) **Collective portfolio management**	**–**	**–**
f) **Custody and administration**	**16,737**	**16,935**
1. Custodian bank	5,938	6,091
2. Other commissions related to custody and administration activities	10,799	10,844
g) **Central administrative services for collective portfolio management**	**–**	**–**
h) **Fiduciary business**	**–**	**–**
i) **Payment services**	**145,879**	**135,792**
1. Current accounts	44,448	41,159
2. Credit cards	20,279	16,492
3. Debit cards and other payment cards	19,576	17,513
4. Bank transfers and other payment orders	49,806	49,509
5. Other fees related to payment services	11,770	11,119
j) **Distribution of third-party services**	**28,477**	**27,557**
1. Collective portfolio management	–	–
2. Insurance products	25,611	24,619
3. Other products	2,866	2,938
of which: individual portfolio management	–	–
k) **Structured finance**	**–**	**–**
l) **Servicing for securitisation transactions**	**–**	**–**
m) **Commitments to make loans**	**–**	**–**
n) **Financial guarantees given**	**31,361**	**27,604**
of which: credit derivatives	–	–
o) **Financing transactions**	**86,093**	**76,676**
of which: for factoring transactions	26,687	22,893
p) **Trading in foreign currencies**	**–**	**–**
q) **Commodities**	**–**	**–**
r) **Other commission income**	**27,686**	**25,453**
of which: for management of multilateral trading systems	–	–
of which: for management of organised trading systems	–	–
Total	**401,174**	**374,802**

2.2 Fee and commission expense: breakdown

Type of service/amounts	31/12/2022	31/12/2021
a) **Financial instruments**	**(3,506)**	**(3,669)**
of which: trading of financial instruments	(3,506)	(3,669)
of which: placement of financial instruments	–	–
of which: individual portfolio management	–	–
– Own	–	–
– Delegated to third parties	–	–
b) **Compensation and settlement**	**–**	**–**
c) **Collective portfolio management**	**–**	**–**
1. Own	–	–
2. Delegated to third parties	–	–
d) **Custody and administration**	**(3,329)**	**(3,196)**
e) **Collection and payment services**	**(5,833)**	**(6,745)**
of which: credit cards, debit cards and other payment cards	(3,099)	(3,159)
f) **Servicing for securitisation transactions**	**–**	**–**
g) **Commitments to receive funds**	**–**	**–**
h) **Financial guarantees received**	**(3,677)**	**(159)**
of which: credit derivatives	–	–
i) **Door-to-door distribution of financial instruments, products and services**	**–**	**–**
j) **Trading in foreign currencies**	**–**	**–**
k) **Other commission expenses**	**(4,239)**	**(3,379)**
Total	**(20,584)**	**(17,148)**

Section 3 Dividends and similar income - Item 70

3.1 Dividends and similar income: breakdown

	31/12/2022		31/12/2021	
Items/Income	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	2,691	308	1,693	172
B. Other financial assets mandatorily measured at fair value	29	994	–	783
C. Financial assets measured at fair value through other comprehensive income	2,354	39	2,489	35
D. Equity investments	49	–	36	–
Total	**5,123**	**1,341**	**4,218**	**990**

Section 4 *Net trading income - Item 80*

4.1 Net trading income: breakdown

Transactions/Income items	Gains (A)	Trading profits (B)	Losses (C)	Trading losses (D)	Profit (loss) [(A+B)-(C+D)]
1. **Financial assets held for trading**	**10,901**	**36,577**	**(18,379)**	**(4,089)**	**25,010**
1.1 Fixed-yield securities	–	444	–	(2,845)	(2,401)
1.2 Equity securities	444	4,462	(8,826)	(748)	(4,668)
1.3 Mutual funds	–	1,836	(9,248)	(496)	(7,908)
1.4 Loans	–	–	–	–	–
1.5 Others	10,457	29,835	(305)	–	39,987
2. **Financial liabilities held for trading**	**–**	**–**	**–**	**–**	**–**
2.1 Fixed-yield securities	–	–	–	–	–
2.2 Payables	–	–	–	–	–
2.3 Others	–	–	–	–	–
3. **Financial assets and liabilities: exchange differences**	**–**	**–**	**–**	**–**	**4,313**
4. **Derivatives**	**7,740**	**34,736**	**(6,953)**	**(36,601)**	**(919)**
4.1 Financial derivatives:	7,740	34,736	(6,953)	(36,601)	(919)
– On fixed-yield securities and interest rates	5,292	6,365	(4,805)	(5,613)	1,239
– On equity securities and equity indices	881	15,764	(572)	(18,566)	(2,493)
– On currency and gold	–	–	–	–	159
– Other	1,567	12,607	(1,576)	(12,422)	176
4.2 Credit derivatives	–	–	–	–	–
of which: natural hedges related to the fair value option	–	–	–	–	–
Total	**18,641**	**71,313**	**(25,332)**	**(40,690)**	**28,404**

The net trading gain (loss) passes from 63.650 million euro to 28.404 million euro.

The net result from trading on «other» financial assets is mainly made up of exchange gains.

Section 5 *Net hedging gain (loss) - Item 90*

5.1 Net hedging gain (loss): breakdown

Income Components/Values	31/12/2022	31/12/2021
A. **Income related to:**		
A.1 Fair value hedging derivatives	2,622	3,397
A.2 Hedged financial assets (fair value)	47	–
A.3 Hedged financial liabilities (fair value)	–	–
A.4 Financial derivatives - Cash-flow hedges	–	–
A.5 Assets and liabilities denominated in foreign currencies	–	–
Total income from hedging activities (A)	**2,669**	**3,397**
B. **Charges relating to:**		
B.1 Fair value hedging derivatives	(89)	–
B.2 Hedged financial assets (fair value)	(2,761)	(3,154)
B.3 Hedged financial liabilities (fair value)	–	–
B.4 Financial derivatives - Cash-flow hedges	–	–
B.5 Assets and liabilities denominated in foreign currencies	–	–
Total hedging charges (B)	**(2,850)**	**(3,154)**
C. **Net hedging gain (loss) (A – B)**	**(181)**	**243**
of which: result of hedging on net positions	–	–

The income consists of 2.622 million euro from the fair value valuation of hedging derivatives and 0.047 million euro for fair value measurements of hedged financial assets against a negative valuation of 2.850 million euro of the fair value of the loans hedged and hedging derivatives. The net result of the measurement at fair value of the hedging structure is therefore negative for 0.181 million euro.

Section 6 *Gains (losses) from sales/repurchases - Item 100*

6.1 Gains (losses) from sales/repurchases: breakdown

	31/12/2022			31/12/2021		
Items/Income items	Gains	Losses	Profit (loss)	Gains	Losses	Profit (loss)
A. **Financial assets**						
1. Financial assets measured at amortised cost	33,877	(4,906)	28,971	35,580	(2,702)	32,878
1.1 Loans and receivables with banks	72	(1)	71	–	–	–
1.2 Loans and receivables with customers	33,805	(4,905)	28,900	35,580	(2,702)	32,878
2. Financial assets measured at fair value through other comprehensive income	12,155	(306)	11,849	16,179	(2,423)	13,756
2.1 Fixed-yield securities	12,155	(94)	12,061	16,179	(2,423)	13,756
2.2 Loans	–	(212)	(212)	–	–	–
Total assets (A)	**46,032**	**(5,212)**	**40,820**	**51,759**	**(5,125)**	**46,634**
B. **Financial liabilities measured at amortised cost**	–	–	–	–	–	–
1. Due to banks	–	–	–	–	–	–
2. Due to customers	–	–	–	–	–	–
3. Securities issued	5	–	5	9	(27)	(18)
Total liabilities (B)	**5**	**–**	**5**	**9**	**(27)**	**(18)**

The losses of item «1.2 Loans and receivables with customers» totalling 4.905 million euro, mainly refer to the effects of the derisking carried out in December 2022 with the mass sale of NPLs.

For further details, reference should be made to Part E of these consolidated notes, section «C. Securitisation transactions».

Section 7 *Profits (Losses) on financial assets and liabilities measured at fair value through profit or loss - Item 110*

7.2 Net change in value of other financial assets and liabilities measured at fair value through profit or loss: breakdown of other financial assets mandatorily measured at fair value

Transactions/Income items	Gains (A)	Realised gains (B)	Losses (C)	Realised losses (D)	Profit (loss) [(A+B) – (C+D)]
1. **Financial assets**	**17,335**	**1,840**	**(78,579)**	**(11,289)**	**(70,693)**
1.1 Fixed-yield securities	–	1,838	(5,395)	(1,480)	(5,037)
1.2 Equity securities	–	2	(9)	(5)	(12)
1.3 Mutual funds	3,384	–	(48,764)	(9,804)	(55,184)
1.4 Loans	13,951	–	(24,411)	–	(10,460)
2. **Financial assets: exchange differences**	**–**	**–**	**–**	**–**	**3,105**
Total	**17,335**	**1,840**	**(78,579)**	**(11,289)**	**(67,588)**

Section 8 *Net adjustments/write-backs for credit risk - Item 130*

8.1 Net value adjustments for credit risk related to financial assets measured at amortised cost: breakdown

Transactions/Income items	Adjustments (1)					
			Third stage		Impaired purchased or originated	
	First stage	Second stage	Write-off	Other	Write-off	Other
A. **Loans and receivables with banks**	**(943)**	**(449)**	**–**	**–**	**–**	**–**
– Loans	(697)	(257)	–	–	–	–
– Fixed-yield securities	(246)	(192)	–	–	–	–
B. **Loans and receivables with customers**	**(25,030)**	**(73,601)**	**(34,114)**	**(233,347)**	**(7,315)**	**(16,565)**
– Loans	(20,767)	(70,628)	(34,114)	(233,347)	(7,315)	(16,565)
– Fixed-yield securities	(4,263)	(2,973)	–	–	–	–
Total	**(25,973)**	**(74,050)**	**(34,114)**	**(233,347)**	**(7,315)**	**(16,565)**

Transactions/Income items	Write-backs (2)					
	First stage	Second stage	Third stage	Impaired purchased or originated	**Total 31/12/2022**	**Total 31/12/2021**
A. **Loans and receivables with banks**	**5,465**	**–**	**–**	**–**	**4,073**	**2,860**
– Loans	583	–	–	–	(371)	1,406
– Fixed-yield securities	4,882	–	–	–	4,444	1,454
B. **Loans and receivables with customers**	**61,640**	**19,827**	**129,939**	**21,988**	**(156,578)**	**(143,055)**
– Loans	59,944	19,827	129,939	21,988	(151,038)	(144,045)
– Fixed-yield securities	1,696	–	–	–	(5,540)	990
Total	**67,105**	**19,827**	**129,939**	**21,988**	**(152,505)**	**(140,195)**

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

	Net value adjustments							
			Third stage		Impaired purchased or originated			
Transactions/Income items	First stage	Second stage	Write-off	Other	Write-off	Other	**Total 31/12/2022**	**Total 31/12/2021**
1. Loans subject to forbearance complying with the GL	–	12	–	–	–	–	12	(11)
2. Loans subject to outstanding moratoria measures no longer in compliance with GL and not evaluated as subject to forbearance measures	1	168	–	(52)	–	–	117	(274)
3. Loans subject to other forbearance measures	–	2,761	–	2,502	–	235	5,498	(3,745)
4. New loans	290	(4,036)	–	(7,665)	–	(515)	(11,926)	(7,406)
Total 31/12/2022	**291**	**(1,095)**	**–**	**(5,215)**	**–**	**(280)**	**(6,299)**	**(11,436)**
Total 31/12/2021	**287**	**(2,813)**	**–**	**(8,479)**	**–**	**(431)**	**(11,436)**	**–**

8.2 Net adjustments for credit risk relating to financial assets measured at fair value through other comprehensive income: breakdown

	Adjustments (1)						Write-backs (2)					
			Third stage		Impaired purchased or originated							
Transactions/Income items	First stage	Second stage	Write-off	Other	Write-off	Other	First stage	Second stage	Third stage	Impaired purchased or originated	**Total 31/12/2022**	**Total 31/12/2021**
A. **Fixed-yield securities**	**(743)**	**(9)**	**–**	**–**	**–**	**–**	**392**	**–**	**–**	**–**	**(360)**	**1,009**
B. **Loans**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– Customers	–	–	–	–	–	–	–	–	–	–	–	–
– Banks	–	–	–	–	–	–	–	–	–	–	–	–
Total	**(743)**	**(9)**	**–**	**–**	**–**	**–**	**392**	**–**	**–**	**–**	**(360)**	**1,009**

8.2a Net adjustments for credit risk relating to loans measured at fair value through other comprehensive income subject to Covid-19 support measures: breakdown

There are no loans measured at fair value through comprehensive income subject to Covid-19 support measures.

Section 9 *Gains/losses on contractual amendments without derecognition - Item 140*

9.1 Gains/losses on contractual amendments: breakdown

Gains on contractual amendments without derecognition amount to 3.565 million euro.

Section 12 *Administrative expenses - Item 190*

12.1 Personnel expenses: breakdown

Type of expense/Values	31/12/2022	31/12/2021
1) **Employees**	**(268,771)**	**(266,499)**
a) wages and salaries	(175,275)	(168,701)
b) social security contributions	(43,089)	(42,456)
c) termination indemnities	(13)	(12)
d) pension expenses	(6,966)	(6,141)
e) provision for employee termination indemnities	(8,603)	(7,983)
f) provision for pension and similar obligations:	(6,101)	(14,103)
– defined contribution	–	–
– defined benefits	(6,101)	(14,103)
g) payments to external supplementary pension funds:	(4,190)	(4,103)
– defined contribution	(4,166)	(4,083)
– defined benefits	(24)	(20)
h) costs deriving from payment agreements based on own capital instruments	–	–
i) other personnel benefits	(24,534)	(23,000)
2) **Other working personnel**	**(525)**	**(365)**
3) **Directors and Statutory Auditors**	**(3,035)**	**(3,036)**
4) **Retired personnel**	**–**	**–**
Total	**(272,331)**	**(269,900)**

12.2 Average number of employees by category

	31/12/2022	31/12/2021
1) **Employees**	**3,427**	**3,355**
a) managers	34	35
b) officials	842	815
c) other employees	2,551	2,505
2) **Other personnel**	**10**	**5**

	31/12/2022	31/12/2021
– Number of employees at year-end	3,474	3,395
– Other personnel	9	6

12.3 Defined-benefit pension plans: costs and revenues

Income Components/Values	31/12/2022	31/12/2021
Service cost	2,142	2,404
Interest cost	1,160	528
Contributions from employees	(199)	(209)
Reductions and payments	2,998	11,380
Total charge to income statement (A)	**6,101**	**14,103**
Yield from assets servicing the fund (B)	3,185	11,199
Total charge (A-B)	**2,916**	**2,904**

The costs have been recorded as personnel expenses.

Information regarding the outstanding obligations and related changes during the year, the assets servicing the fund and principal actuarial assumptions made is provided in the tables reported in Part B Section 10.5 of the notes to the financial statements. The cost for the Parent Company consists of the contributions that it has to pay into the fund in accordance with the Fund Regulations.

An additional provision of 3.185 million euro has been recorded, representing the return on the assets servicing the fund, which is recognised as «other operating income». A positive change of 6.830 million euro corresponding to the actuarial profit was recognised in compliance with the provisions of the IAS 19 accounting standard, as balancing entry in equity as shown in the statement of comprehensive income.

12.4 Other employee benefits

The item essentially comprises the cost of expenses and salaries of personnel allocated to a specific fund, and related to meal vouchers, scholarships, insurance costs, the reimbursement of expenses, training costs and other benefits.

12.5 Other administrative expenses: breakdown

Type of services/Values	31/12/2022	31/12/2021
Telephone, post and data transmission	(14,057)	(13,911)
Maintenance of property, equipment and investment property	(9,854)	(8,824)
Rent of buildings	(703)	(301)
Security	(4,840)	(4,376)
Transportation	(3,400)	(3,040)
Professional fees	(44,216)	(44,274)
Office materials	(2,315)	(1,967)
Electricity, heating and water	(4,299)	(5,080)
Advertising and entertainment	(4,138)	(3,459)
Legal	(10,979)	(12,604)
Insurance	(3,757)	(1,920)
Company searches and information	(8,214)	(7,922)
Indirect taxes and dues	(62,692)	(60,584)
Software and hardware rental and maintenance	(28,134)	(25,586)
Data entry by third parties	(3,294)	(2,606)
Cleaning	(6,603)	(6,550)
Membership fees	(2,096)	(1,941)
Services received from third parties	(10,130)	(8,925)
Outsourced activities	(25,399)	(24,617)
Deferred charges	(1,350)	(1,263)
Goods and services for employees	(1,305)	(769)
Contributions to resolution and guarantee funds	(45,909)	(43,066)
Other	(10,228)	(7,527)
Total	**(307,912)**	**(291,112)**

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

13.1 Net provisions for the credit risk on commitments to grant loans on financial guarantees given: breakdown

This item is negative for 5.355 million euro, made up of the difference between provisions for the year and reallocations.

13.2 Net provisions for other commitments to grant funds and guarantees given: breakdown

This item is negative for 14.582 million euro, made up of the difference between provisions for the year and reallocations.

13.3 Net provisions for other risks and charges: breakdown

This item is negative for 14.288 million euro, made up of the difference between provisions for the year and reallocations.

For further details on the provisions made, reference should be made to the information contained in «Section 10 - Provisions for risks and charges» - Item 100 of Part B - Liabilities of these Notes.

Section 14 Net adjustments/write-backs of property, equipment and investment property - Item 210

14.1. Depreciation and net impairment losses on property, equipment and investment property: breakdown

Assets/Income component	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	**Net result (a + b - c)**
A. **Property, equipment and investment property**				
1. For business purposes	(45,268)	–	–	(45,268)
– Owned	(23,622)	–	–	(23,622)
– Rights of use acquired through leases	(21,646)	–	–	(21,646)
2. Held for investment purposes	–	–	–	–
– Owned	–	–	–	–
– Rights of use acquired through leases	–	–	–	–
3. Inventories	–	–	–	–
B. **Assets held for sale**	–	–	–	–
Total	**(45,268)**	**–**	**–**	**(45,268)**

Section 15 Amortisation and net impairment losses on intangible assets - Item 220

15.1 Amortisation and net impairment of intangible assets: breakdown

Assets/Income component	Amortisation (a)	Impairment adjustments (b)	Write-backs (c)	**Net result (a + b – c)**
A. **Intangible assets**				
of which: software	(16,649)	(157)	–	(16,806)
A.1 Owned	(17,055)	(157)	–	(17,212)
– Internally generated	(65)	(157)	–	(222)
– Other	(16,990)	–	–	(16,990)
A.2 Acquired under finance leases	–	–	–	–
Total	**(17,055)**	**(157)**	**–**	**(17,212)**

The adjustments relate to intangible assets with a finite life consisting of rights to use computer EDP. There were no significant impairment losses relating to intangible assets during the year, so the disclosures required by IAS 36 paragraphs 130 letters a) c) d) f) g) and 131 are not provided.

Section 16 *Other operating income and expense - Item 230*

16.1 Other operating expenses: breakdown

	31/12/2022	31/12/2021
Contingent liabilities	(5,965)	(4,508)
Other	(1,143)	(4,080)
Consolidation differences	(2,194)	(2,240)
Total	**(9,302)**	**(10,828)**

16.2 Other operating income: breakdown

	31/12/2022	31/12/2021
Recovery of charges on deposits and overdrafts	855	945
Recovery of expenses	862	223
Rental income from buildings	6,089	5,959
Recovery of taxes	50,851	50,250
Financial income of pension and similar obligations plan	2,702	10,399
Contingent assets - other	3,650	1,629
Other	27,564	9,462
Consolidation differences	2,108	3,261
Total	**94,681**	**82,128**

The item «Other» includes revenues from vehicle rental of the subsidiary Rent2Go Srl and the badwill arising from the acquisition of Prima Srl. For further details, please refer to Part G of these consolidated notes.

Section 17 *Net gains (losses) on equity investments - Item 250*

17.1 Net gains (losses) on equity investments: breakdown

Income components/Sectors	31/12/2022	31/12/2021
1) **Joint control companies**		
A. Income	24	21
1. Revaluations	24	21
2. Gains on disposal	–	–
3. Write-backs	–	–
4. Other income	–	–
B. Charges	(1,600)	(332)
1. Write-downs	(1,600)	(332)
2. Impairment write-downs	–	–
3. Losses on disposal	–	–
4. Other charges	–	–
Profit (loss)	**(1,576)**	**(311)**
2) **Associated companies (subject to significant influence)**		
A. Income	30,042	36,449
1. Revaluations	30,006	36,449
2. Gains on disposal	36	–
3. Write-backs	–	–
4. Other income	–	–
B. Charges	(698)	(237)
1. Write-downs	(698)	(237)
2. Impairment write-downs	–	–
3. Losses on disposal	–	–
4. Other charges	–	–
Profit (loss)	**29,344**	**36,212**
Total	**27,768**	**35,901**

Section 18 *Net result of fair value measurement of property, equipment and investment property and intangible assets - Item 260*

18.1 Net result of the valuation at fair value (or revalued amount) or at the estimated realisable value of property, equipment and investment property and intangible assets: breakdown

Assets/Income components	Revaluations (a)	Write-downs (b)	Exchange gains (c)	Exchange losses (d)	**Net result (a-b+c-d)**
A. **Property, equipment and investment property**	**208**	**(2,970)**	**-**	**-**	**(2,762)**
A.1 For business purposes:	-	-	-	-	-
- Owned	-	-	-	-	-
- Rights of use acquired through leases	-	-	-	-	-
A.2 Investment property:	208	(2,970)	-	-	(2,762)
- Owned	208	(2,970)	-	-	(2,762)
- Rights of use acquired through leases	-	-	-	-	-
A.3 Inventories	-	-	-	-	-
B. **Intangible assets**	**-**	**-**	**-**	**-**	**-**
B.1 Owned:	-	-	-	-	-
- Internally generated	-	-	-	-	-
- Other	-	-	-	-	-
B.2 Rights of use acquired through leases	-	-	-	-	-
Total	**208**	**(2,970)**	**-**	**-**	**(2,762)**

Section 20 *Gains (losses) on sale of investments - Item 280*

20.1 Gains (losses) on sale of investments: breakdown

Income component/Sectors	**31/12/2022**	**31/12/2021**
A. **Property**	**152**	**356**
- Gains on disposal	152	356
- Losses on disposal	-	-
B. **Other assets**	**20**	**28**
- Gains on disposal	20	28
- Losses on disposal	-	-
Profit (loss)	**172**	**384**

Section 21 *Taxes on income from ordinary operations - Item 300*

21.1 Income taxes: breakdown

Income components/Sectors	**31/12/2022**	**31/12/2021**
1. Current taxes (-)	(80,290)	(55,396)
2. Changes in current taxes of previous years (+/-)	-	(93)
3. Reduction in current taxes (+)	159	1,740
3.bis Reduction in current taxes for tax credits under Law 214/2011 (+)	-	-
4. Change in deferred tax assets (+/-)	(21,963)	(45,438)
5. Change in deferred tax liabilities (+/-)	(475)	(338)
6. Income taxes for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(102,569)	(99,525)

This item came in at 102.569 million euro, showing an increase of 3.06%. The tax rate, intended as a simple comparison between income taxes and the result of current operations, stood at 28.98% compared with 26.57%.

21.2 Reconciliation of theoretical tax expense and actual tax expense in the financial statements

Taxes are calculated for each company based on the specific legislation of the country of residence.

The total tax charge for the year is reconciled as follows:

Profit before tax	353,890
Direct taxes	
Theoretical taxation	95,729
Dividends (–)	(7,851)
Gains/losses on sale of equity investments (PEX) (+/-)	(366)
Maxi depreciation	(229)
ACE	(4,153)
Administrative expenses (partially deductible)	377
Other changes (+/–)	490
Total direct taxes	**83,997**

IRAP (Regional business tax)	
Theoretical taxation	18,471
Dividends	(911)
Personnel expenses	974
Administrative expenses	1,662
Depreciation and amortisation	273
Other operating income/expense	1,189
Other items	(3,086)
Total IRAP	**18,572**
Total taxes	**102,569**

Section 23 Profit (Loss) for the year attributable to non-controlling interests – Item 340

23.1 Details of item 340 «Profit (Loss) for the year attributable to non-controlling interests»

Company names	31/12/2022	31/12/2021
Equity investments in consolidated companies with significant non-controlling interests		
- FACTORIT SPA	–	(6,386)
Total	**–**	**(6,386)**

As of 1 April 2022, the Parent Company holds a 100% interest in Factorit S.p.a.

Section 24 Other information

There is no relevant information other than that already indicated in the previous sections.

Section 25 *Earnings per share*

25.1 Average number of diluted capital ordinary shares

There were no transactions involving share capital during the year and no financial instruments were issued that might involve the future issue of shares. Accordingly, the number of shares interested in profit is 453,385,777.

The number of shares shown in the table below is the weighted average for the year.

	31/12/2022	31/12/2021
Number of shares	453,385,777	453,385,777

This is the weighted average used as the denominator in the calculation of basic earnings per share.

25.2 Other information

IAS 33 requires that earnings per share (EPS) be reported in accordance with the following definitions:

«Basic EPS», determined by dividing the profit attributable to the holders of ordinary shares by the weighted average number of ordinary shares in issue.

«Diluted EPS», determined by taking account of the dilutive effect of all potential ordinary shares.

	31/12/2022	31/12/2021
Basic EPS – €	0.554	0.593
Diluted EPS – €	0.554	0.593

PART D Consolidated statement of other comprehensive income

Analysis of consolidated statement of other comprehensive income

Items	31/12/2022	31/12/2021
10. **Profit (loss) for the year**	**251,321**	**275,020**
Other income items without reversal to the income statement	**15,317**	**13,989**
20. **Equity securities measured at fair value through other comprehensive income:**	**(6,333)**	**617**
a) change in fair value	(4,752)	3,791
b) transfer to other components of equity	(1,581)	(3,174)
30. **Financial liabilities measured at fair value through profit or loss (changes in own cre-ditworthiness):**	**–**	**–**
a) change in fair value	–	–
b) transfer to other components of equity	–	–
40. **Hedges of equity securities measured at fair value through other comprehensive inco-me:**	**–**	**–**
a) change in fair value (hedged instrument)	–	–
b) change in fair value (hedging instrument)	–	–
50. **Property, equipment and investment property**	**2,886**	**14,669**
60. **Intangible assets**	**–**	**–**
70. **Defined-benefit plans**	**25,667**	**3,657**
80. **Non-current assets and groups of assets held for sale**	**–**	**–**
90. **Share of valuation reserves of equity investments measured at equity**	**482**	**1,614**
100. **Income tax relating to other income components without reversal to the income sta-tement**	**(7,385)**	**(6,568)**
Other income components with reversal to the income statement	**(115,679)**	**(9,297)**
110. **Hedges of foreign investments:**	**–**	**–**
a) changes in fair value	–	–
b) transfer to income statement	–	–
c) other changes	–	–
120. **Exchange differences:**	**(752)**	**1,276**
a) changes in value	–	–
b) transfer to income statement	–	–
c) other changes	**(752)**	**1,276**
130. **Cash-flow hedging:**	–	–
a) changes in fair value	–	–
b) transfer to income statement	–	–
c) other changes	–	–
of which: result of net positions	–	–
140. **Hedging instruments (non-designated elements):**	**–**	**–**
a) changes in value	–	–
b) transfer to income statement	–	–
c) other changes	–	–
150. **Financial assets (other than equity securities) measured at fair value through other comprehensive income:**	**(126,416)**	**(17,778)**
a) changes in fair value	(116,454)	(1,901)
b) transfer to income statement	(9,962)	(15,877)
– adjustments for credit risk	360	(1,009)
– gains/losses on disposals	(10,322)	(14,868)
c) other changes	–	–
160. **Non-current assets and disposal groups held for sale:**	**–**	**–**
a) changes in fair value	–	–
b) transfer to income statement	–	–
c) other changes	–	–
170. **Share of valuation reserves on investments accounted for by the equity method:**	**(41,981)**	**2,289**
a) changes in fair value	(41,981)	2,289
b) transfer to income statement	–	–
– adjustments for impairment	–	–
– gains/losses on disposals	–	–
c) other changes	–	–
180. **Income tax relating to other income components with reversal to the income statement**	**53,470**	**4,916**
190. **Total other income components**	**(100,362)**	**4,692**
200. **Other comprehensive income (Item 10+190)**	**150,959**	**279,712**
210. **Consolidated comprehensive income attributable to minorities**	**161**	**6,481**
220. **Consolidated other comprehensive income attributable to the parent company**	**150,798**	**273,231**

PART E *Information on risks and related hedging policy*

The information contained in this section is based on internal data prepared for management purposes, which means that it may differ from as reported in sections B and C of these notes, except where the book value specifically has to be shown.

The information to be disclosed to the public under Sections Eight and Ten, Title I, Chapter 3 of the Regulation (EU) no. 575/2013 is provided by the required deadlines in the «Investor relations» section of the Parent Company's website.

Introduction

The Parent Company has the task of ensuring effective risk management through proper articulation of the roles and responsibilities of key decision-making departments, as well as the integrity and completeness of the Group's system of controls. This principle involves the centralisation of essential choices in terms of risk management, in order to ensure the harmonisation of all systems of risk assessment and control developed within the Group and to implement a risk management policy that is as integrated and consistent as possible.

The strategic guidelines for risk exposure are established by the governing bodies of the Parent Company, evaluating the overall operations of the Group and the actual risks it runs, based on the specific type of operations and risk profiles of each company. The decisions are supported by mechanisms for monitoring and control inherent in the evolution of the various risks assumed within the perimeter of the Group and their compatibility with respect to the pursuit of sound and prudent management.

The governing bodies of subsidiaries, according to each one's powers, are responsible for implementing the risk management policies defined by the Parent Company in a manner that is consistent with their company's situation, ensuring the functioning of suitable internal control procedures and a constant flow of information to the Parent Company on individual cases of significant risk.

Section 1 *Risks of accounting consolidation*

QUANTITATIVE INFORMATION

A. Loan quality

A.1 Non-performing and performing loans: balance, impairment, developments, dynamics and business distribution

A.1.1 Distribution of financial assets by portfolio and credit quality (book values)

Portfolio/quality	Bad loans	Unlikely-to-pay loans	Non-performing past due exposures	Performing past due exposures	Other per-forming exposures	**Total**
1. Financial assets measured at amortised cost	121,838	409,934	55,452	488,975	42,794,439	43,870,638
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	2,460,046	2,460,046
3. Financial assets designated at fair value	–	–	–	–	–	–
4. Other financial assets mandatorily measured at fair value	–	21,333	1,303	7,150	408,199	437,985
5. Financial assets held for sale	–	–	–	–	–	–
Total 31/12/2022	**121,838**	**431,267**	**56,755**	**496,125**	**45,662,684**	**46,768,669**
Total 31/12/2021	**192,290**	**589,166**	**55,355**	**440,856**	**44,916,172**	**46,193,839**

A.1.2 Distribution of financial assets by portfolio and credit quality (gross and net values)

	Non-performing				Performing			
Portfolio/quality	Gross exposure	Total write-downs	Net exposure	Total partial write-offs*	Gross exposure	Total write-downs	Net exposure	**Total net exposure**
1. Financial assets measured at amortised cost	1,422,128	834,904	587,224	114,265	43,439,251	155,837	43,283,414	43,870,638
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	2,461,364	1,318	2,460,046	2,460,046
3. Financial assets designated at fair value	–	–	–	–	–	–	–	–
4. Other financial assets mandatorily measured at fair value	39,314	16,678	22,636	–	–	–	415,349	437,985
5. Financial assets held for sale	–	–	–	–	–	–	–	–
Total 31/12/2022	**1,461,442**	**851,582**	**609,860**	**114,265**	**45,900,615**	**157,155**	**46,158,809**	**46,768,669**
Total 31/12/2021	**1,875,973**	**1,039,162**	**836,811**	**136,527**	**45,028,343**	**126,918**	**45,357,028**	**46,193,839**

* amount to be shown for information purposes

The word exposures is understood as excluding equity securities and mutual funds.

The gross carrying amount of financial assets measured at fair value is exposed at the value resulting from the evaluation at year end.

Partial write-offs recorded in relation to the above portfolios total 12 million euro, reflecting the bad loans still held on the books.

The following analysis for «Financial assets held for trading and hedging derivatives» shows the accumulated unrealised losses and the net exposures that are obviously of poor quality, as well as the net exposures of the remaining financial assets.

Portfolio/Quality	Assets obviously of poor quality		Other assets
	Accumulated losses	Net exposure	Net exposure
1. Financial assets held for trading	–	–	63,361
2. Hedging derivatives	–	–	248
Total 31/12/2022	**–**	**–**	**63,609**
Total 31/12/2021	**36**	**122**	**51,531**

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

The Group has no structured entities for which this information is applicable.

B.1 Consolidated structured entities

At 31 December 2022, there are no structured entities consolidated in the accounts, as defined by IFRS 12, other than the securitised companies, falling within the scope of the Banca Popolare di Sondrio Group.

B.2 Structured entities not consolidated in the accounts

B.2.1 Prudentially consolidated structured entities

At 31 December 2022, there are no prudentially consolidated structured entities falling within the scope of the Banca Popolare di Sondrio Group.

B.2.2 Other structured entities

The Banca Popolare di Sondrio Group holds interests in UCIs (mutual funds and SICAVs) for long-term investment purposes or for trading purposes, which include the units of funds held following multi-originator sales of non-performing credit exposures of the Group.

For further information, please refer to what is indicated below in the section D.3 «Prudential consolidation - Disposals with recourse limited solely to the assets sold and not derecognised: fair value» and the information provided for the tables in Section 2: «Financial assets measured at fair value through profit or loss - item 20», in part B of these explanatory notes.

Section 2 *Risks of prudential consolidation*

1.1 Credit risk

QUALITATIVE INFORMATION

1. General aspects

As part of its functions of strategic guidance and coordination of the subsidiaries, the Parent Company ensures that uniform credit policies are adopted at Group level and a standard approach taken to risk assessment and monitoring.

As outlined in the equivalent section of the notes to the Parent Company's separate financial statement, the lines of strategy that are followed are geared to sustaining local economies, in particular small and medium-sized businesses and households, maintaining low levels of risk and concentration. These policies are applied by the subsidiaries in ways that respect the peculiarities of their counterparties and the particular types of products being offered, as well as the characteristics of the market in question.

2. Credit risk management policies

2.1 Organisational aspects

The process of credit risk management adopted by the Parent Company and the organisational structure set up to implement it are explained in detail in the corresponding section of the notes relating to the Bank.

The organisational structure of the subsidiaries complies with that of the Parent Company, allowing for differences in size and the area in which they operate.

2.2 Management, measurement and control systems

As part of its coordination activities, the Parent Company requires the subsidiaries to apply the control methodology already discussed in detail in the corresponding section of the notes relating to the Bank.

In this regard, it is worth pointing out that the Swiss subsidiary has its own rating system which it applies to customer loans. The latter is based on the experiential and statistical assessment expressed by sector operators: the methodological approach adopted envisages, during the credit investigation, depending on the type of counterparty and the credit (real estate, Lombard or corporate), the collection of defined indicators and financial, performance and qualitative information. The combined examination of these elements allows the final evaluator to assign the rating. Factorit, on the other hand, while not having its own rating system, assesses the credit risk profile with respect to the individual subject (Assignor and Assigned Debtor) and those connected to them, making use of the assessments attributed by the Parent Company in relation to common customers, for which it can continuously verify the state of risk and its evolution. Furthermore, with regard to the portfolio credit risk component, particular attention has been paid over time to concentration risk, both in relation to the main relationships in place and in relation to geo-sectoral assessments, which affects exposures to major economic and/or legal groups. This analysis is also carried out with regard to positions shared with the Parent Company, for which it assesses the total amount of outstanding exposures.

2.3 Methods for measuring expected losses

The methodological framework implemented by Banca Popolare di Sondrio to calculate the Expected Credit Loss (ECL) on its loan portfolio, in accordance with the requirements of IFRS 9 that came into force on 1 January 2018, is explained in the notes to the financial statements.

As part of its coordination activities, the Parent Company requires the subsidiaries to apply consistent methodology, also by using the same IT tools. At subsidiaries, the models developed to calculate write-downs applied logic that, while consistent with the methodological framework developed by the Parent Company to comply with the key aspects of the new standard (e.g. estimation of risk parameters over long-term time horizons considering different scenarios, with write-down time horizon dependent on the staging of the position), takes account of their specific characteristics, such as the geographical and economic context in which they operate, the nature and level of diversification of their core businesses, and the complexity and scale of their control structures.

In order to quantify the variability to which the final write-downs are subject, given all the scenario -dependent factors considered explicitly in the methodological framework, the Group has carried out specific sensitivity analyses in accordance with sector best practices and the most recent recommendations issued by the Supervisory Authorities (Report On the application of the IFRS 7 and IFRS 9 requirements regarding banks' expected credit losses - ECL «of 15 December 2021»).

Given the importance that the Parent Company has to the Group numbers (the Parent Company's loss forecasts represent more than 90% of the Group's overall figures), please refer to the information already presented with reference to the separate financial statements.

As regards the other relevant subsidiaries, also in consideration of the characteristics of their credit portfolios and the reference geographical contexts, the analyses carried out do not show different results from those shown for the Parent Company.

See «Part A – Accounting policies» for information about the determination of expected losses on stage 3 exposures i.e. non-performing loans. More specifically, the expected losses on non-performing loans at 31 December 2022 are determined analytically with reference to expected recoveries, which are discounted using the original effective interest rates over the collection period. Given that the expected recoveries are determined with reference to the specific circumstances of each debtor, it is not considered meaningful to analyse the sensitivity of the ECL identified.

2.4 Credit risk mitigation techniques

As part of its functions of coordination and control, the Parent Company requires the subsidiaries to adopt credit risk mitigation techniques able to ensure efficient management and prudent valuation of the guarantees obtained.

The subsidiary Banca Popolare di Sondrio (SUISSE) adopts credit risk mitigation techniques substantially in line with those of the Parent Company, that are explained in detail in the corresponding Section of these notes. In particular, it is standard practice to provide loans secured by real estate or financial guarantees: this is confirmed by the fact that more than 80% of loans to customers granted by the subsidiary have a mortgage component, almost exclusively relating to residential building.

As regards Factorit's operations, on the other hand, particular tools for mitigating the risk assumed by the factor can be found in the techniques used to consolidate the transfer of risk versus the assigned debtor and in fragmenting it over the series of other persons or entities, a typical approach in operations of this kind. The shorter average maturity and, therefore, faster turnover of factoring loans with respect to normal banking transactions ensures a certain flexibility in the recovery of the resources invested.

With regard to the credit risk mitigation of the subsidiary Banca della Nuova Terra, whose loan portfolio is almost entirely made up of salary/pension assignments and payment mandates, and only a residual part of CAP (Common Agricultural Policy) advances due and relating to the 2018 and 2019 financial years, we highlight the typical characteristics of the product that envisage the non-derogable acquisition of special insurance policies on the risk of premature death and loss of employment taken out directly by the Bank as policyholder/beneficiary where the customer is the insured party. In addi-tion, the Bank, having assessed the economic and legal requirements, carries out Crif database que-ries for all loan requests (with a more prudential approach compared to the provisions of the Assofin protocol (25%

of requests)) in order to verify the financial commitments and the real economic capacity of the customer, ensuring compliance with the minimum «intangible» income, also in accordance with the provisions of the aforementioned Assofin protocol.

3. Non-performing loans

3.1 Strategies and operational policies

As part of its functions of coordination and control, the Parent Company requires the subsidiaries to bring their non-performing loans classification criteria and management methods in line with those of the Parent Company, as explained in the corresponding Section of the notes on the Bank.

3.2 Write-off

As part of its functions of coordination and control, the Parent Company requires the subsidiaries to bring their write-off classification and management criteria into line with those of the Parent Company, as explained in the corresponding Section of the notes on the Bank.

3.3 Financial assets impaired purchased or originated

Also in this area, the Parent Company requires that the subsidiaries comply with the principles adopted by the Parent Company, which are adequately described in the corresponding Section of the notes on the Bank.

4. Financial assets subject to trade renegotiations and exposures subject to concessions

Please refer to the corresponding Section of the notes on the Bank, which explain the specific management and monitoring policies for these exposures that the Parent Company has extended to the subsidiaries.

5. Impacts resulting from the COVID-19 pandemic

Please refer to the corresponding Section of these explanatory notes relating to the company.

6. Impacts of the Russian-Ukrainian conflict

Please refer to the corresponding Section of these explanatory notes relating to the company.

QUANTITATIVE INFORMATION

A. Loan quality

A.1 Non-performing and performing loans: balance, impairment, developments, dynamics, business distribution

A.1.1 Prudential consolidation - Distribution of financial assets by maturity bands (book values)

Portfolios/risk stages	First stage			Second stage		
	From 1 day to 30 days	From over 30 days to 90 days	Over 90 days	From 1 day to 30 days	From over 30 days to 90 days	Over 90 days
1. Financial assets measured at amortised cost	326,573	–	–	110,206	42,343	4,667
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	–	–
3. Financial assets held for sale	–	–	–	–	–	–
Total 31/12/2022	**326,573**	**–**	**–**	**110,206**	**42,343**	**4,667**
Total 31/12/2021	**351,909**	**65**	**–**	**53,250**	**18,394**	**4,649**

Portfolios/risk stages	Third stage			Impaired purchased or originated		
	From 1 day to 30 days	From over 30 days to 90 days	Over 90 days	From 1 day to 30 days	Over 30 days to 90 days	Over 90 days
1. Financial assets measured at amortised cost	29,171	31,008	220,442	5,484	917	16,113
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	–	–
3. Financial assets held for sale	–	–	–	–	–	–
Total 31/12/2022	**29,171**	**31,008**	**220,442**	**5,484**	**917**	**16,113**
Total 31/12/2021	**66,669**	**30,455**	**357,660**	**3,177**	**197**	**37,985**

A.1.2 Prudential consolidation - Financial assets, commitments to disburse funds and financial guarantees issued: analysis of total impairment and total provisions

Reasons/risk stages	Total write-downs											
	First stage activities						Second stage activities					
	Loans with banks and central banks on demand	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs	Loans with banks and central banks on demand	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs
Total opening adjustments	**163**	**59,546**	**958**	**-**	**-**	**60,667**	**9**	**63,960**	**-**	**-**	**-**	**63,969**
Increases in financial assets purchased or originated	40	15,752	-	-	-	15,792	-	33,026	-	-	-	33,026
Derecognition other than write-offs	(937)	(10,934)	-	-	-	(11,871)	-	(9,170)	-	-	-	(9,170)
Net adjustments/write-backs for credit risk	936	(13,939)	458	-	-	(12,545)	237	15,027	10	-	-	15,274
Contractual amendments without derecognition	-	(90)	-	-	-	(90)	-	74	-	-	-	74
Changes in estimation meth-odology	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs not recognised directly in the income statement	-	-	-	-	-	-	-	-	-	-	-	-
Other changes	9	385	(108)	-	-	286	-	(135)	-	-	-	(135)
Total closing adjustments	**211**	**50,720**	**1,308**	**-**	**-**	**52,239**	**246**	**102,782**	**10**	**-**	**-**	**103,038**
Recoveries on financial assets subject to write-offs	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs recognised directly in the income statement	-	-	-	-	-	-	-	-	-	-	-	-

Reasons/risk stages	Total write-downs											Total provisions for commitments to grant loans and financial guarantees given				
	Third stage activities						Financial assets impaired acquired or originated									
	Loans with banks and central banks on demand	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs	First stage	Second stage	Third stage	Commitments to grant funds and fin. guarantees given impaired acquired or originated	**Total 31/12/2022**
Total opening adjustments	**-**	**920,521**	**-**	**-**	**920,521**	**-**	**108,686**	**-**	**-**	**108,404**	**282**	**12,499**	**4,616**	**10,043**	**28**	**1,181,029**
Increases in financial assets purchased or originated	-	38,680	-	-	38,680	-	-	-	-	-	-	-	-	-	-	87,498
Derecognition other than write-offs	-	(223,781)	-	-	(223,781)	-	(9,666)	-	-	(9,637)	(29)	(1)	-	-	-	(254,489)
Net adjustments/write-backs for credit risk	-	128,779	-	-	128,779	-	(5,272)	-	-	(7,363)	2,091	(1,985)	5,054	2,321	(7)	131,619
Contractual amendments without derecognition	-	(5,628)	-	-	(5,628)	-	(169)	-	-	(162)	(7)	-	-	-	-	(5,813)
Changes in estimation meth-odology	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs not recognised directly in the income statement	-	(58,414)	-	-	(58,414)	-	(9,720)	-	-	(9,720)	-	-	-	-	-	(68,134)
Other changes	-	(28,368)	-	-	(28,368)	-	(18,406)	-	-	(18,406)	-	15	-	-	-	(46,608)
Total closing adjustments	**-**	**771,789**	**-**	**-**	**771,789**	**-**	**65,453**	**-**	**-**	**63,116**	**2,337**	**10,528**	**9,670**	**12,364**	**21**	**1,025,102**
Recoveries on financial assets subject to write-offs	-	17,785	-	-	17,785	-	-	-	-	-	-	-	-	-	-	17,785
Write-offs recognised directly in the income statement	-	(33,317)	-	-	(33,317)	-	(7,315)	-	-	(7,315)	-	-	-	-	-	(40,632)

A.1.3 Prudential consolidation - Financial assets, commitments to grant funds and financial guarantees given: transfers between the various stages of credit risk (gross and nominal values)

Portfolios/risk stages	Gross exposure/nominal value					
	Transfers between first stage and second stage		Transfers between second stage and third stage		Transfers between first stage and third stage	
	First stage to second stage	Second stage to first stage	Second stage to third stage	Third stage to second stage	First stage to third stage	Third stage to first stage
1. Financial assets measured at amortised cost	1,851,238	948,664	120,595	53,707	112,795	18,477
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	–	–
3. Financial assets held for sale	–	–	–	–	–	–
4. Commitments to grant loans and financial guarantees given	354,920	76,367	4,123	1,347	4,535	1,101
Total 31/12/2022	**2,206,158**	**1,025,031**	**124,718**	**55,054**	**117,330**	**19,578**
Total 31/12/2021	**931,247**	**1,973,189**	**150,604**	**39,478**	**112,215**	**12,721**

A.1.3a Loans subject to Covid-19 support measures: transfers between the various stages of credit risk (gross values)

Portfolios/risk stages	Gross values/nominal value					
	Transfers between first stage and second stage		Transfers between second stage and third stage		Transfers between first stage and third stage	
	First stage to second stage	Second stage to first stage	Second stage to third stage	Third stage to second stage	First stage to third stage	Third stage to first stage
A. **Loans measured at amortised cost**	**203,598**	**70,277**	**25,454**	**1,504**	**18,845**	**1,859**
A.1 subject to forbearance compliant with GLs	–	–	–	–	–	–
A.2 subject to outstanding moratorium measures no longer in compliance with GL and not evaluated as subject to forbearance measures	–	–	–	–	–	–
A.3 subject to other forbearance measures	12,463	–	20,546	–	648	–
A.4 new loans	191,135	70,277	4,908	1,504	18,197	1,859
B. **Loans measured at fair value through other comprehensive income**	**–**	**–**	**–**	**–**	**–**	**–**
B.1 subject to forbearance compliant with GLs	–	–	–	–	–	–
B.2 subject to outstanding moratorium measures no longer in compliance with GL and not evaluated as subject to forbearance measures	–	–	–	–	–	–
B.3 subject to other forbearance measures	–	–	–	–	–	–
B.4 new loans	–	–	–	–	–	–
Total 31/12/2022	**203,598**	**70,277**	**25,454**	**1,504**	**18,845**	**1,859**
Total 31/12/2021	**119,396**	**93,093**	**10,393**	**189**	**15,077**	**1,218**

A.1.4 Prudential consolidation - cash and off-balance-sheet exposures to banks: gross and net values

Type of exposure/amounts	Gross exposure	First stage	Second stage	Third stage	Impaired purchased or originated
A. **Cash credit exposures**					
A.1 Sight	**6,812,497**	**6,803,686**	**8,811**	**–**	**–**
a) Non-performing	–	–	–	–	–
b) Performing	6,812,497	6,803,686	8,811	–	–
A.2 Other	**2,178,777**	**2,107,221**	**71,556**	**–**	**–**
a) Bad loans	–	–	–	–	–
– of which: exposures subject to forbearance	–	–	–	–	–
b) Unlikely-to-pay	–	–	–	–	–
– of which: exposures subject to forbearance	–	–	–	–	–
c) Non-performing past due exposures	–	–	–	–	–
– of which: exposures subject to forbearance	–	–	–	–	–
d) Performing past due exposures	955	151	804	–	–
– of which: exposures subject to forbearance	–	–	–	–	–
e) Other performing exposures	2,177,822	2,107,070	70,752	–	–
– of which: exposures subject to forbearance	–	–	–	–	–
Total (A)	**8,991,274**	**8,910,907**	**80,367**	**–**	**–**
B. **Off-balance sheet credit exposures**					
a) Non-performing	–	–	–	–	–
b) Performing	1,081,453	932,042	149,411	–	–
Total (B)	**1,081,453**	**932,042**	**149,411**	**–**	**–**
Total (A+B)	**10,072,727**	**9,842,949**	**229,778**	**–**	**–**

Type of exposure/amounts	Total adjustments and provisions	First stage	Second stage	Third stage	Impaired purchased or originated	Net exposure	Write-off total partial*
A. **Cash credit exposures**							
A.1 Sight	**457**	**212**	**245**	**–**	**–**	**6,812,040**	**–**
a) Non-performing	–	–	–	–	–	–	–
b) Performing	457	212	245	–	–	6,812,040	–
A.2 Other	**1,160**	**929**	**231**	**–**	**–**	**2,177,617**	**–**
a) Bad loans	–	–	–	–	–	–	–
– of which: exposures subject to forbearance	–	–	–	–	–	–	–
b) Unlikely-to-pay	–	–	–	–	–	–	–
– of which: exposures subject to forbearance	–	–	–	–	–	–	–
c) Non-performing past due exposures	–	–	–	–	–	–	–
– of which: exposures subject to forbearance	–	–	–	–	–	–	–
d) Performing past due exposures	25	2	23	–	–	930	–
– of which: exposures subject to forbearance	–	–	–	–	–	–	–
e) Other performing exposures	1,135	927	208	–	–	2,176,687	–
– of which: exposures subject to forbearance	–	–	–	–	–	–	–
Total (A)	**1,617**	**1,141**	**476**	**–**	**–**	**8,989,657**	**–**
B. **Off-balance sheet credit exposures**							
a) Non-performing	–	–	–	–	–	–	–
b) Performing	1,310	1,122	188	–	–	1,080,143	–
Total (B)	**1,310**	**1,122**	**188**	**–**	**–**	**1,080,143**	**–**
Total (A+B)	**2,927**	**2,263**	**664**	**–**	**–**	**10,069,800**	**–**

* amount to be shown for information purposes

Cash exposures include loans and receivables with banks shown in item 40a and item 10 as well as other financial assets represented by bank securities included in items 20 c), 30 and 40 of the assets side of the balance sheet, excluding equities. The off-balance sheet exposure is represented by guar-antees given, commitments and derivatives (except those relating to equity securities).

A.1.5 Prudential consolidation - cash- and off-balance-sheet exposures to customers: gross and net values

Type of exposure/amounts		Gross exposure			
		First stage	Second stage	Third stage	Impaired purchased or originated
A. **Cash credit exposures**					
a) Bad loans	517,931	–	–	493,269	24,661
– of which: exposures subject to forbearance	158,798	–	–	152,746	6,052
b) Unlikely-to-pay loans	881,953	–	–	806,380	75,573
– of which: exposures subject to forbearance	482,507	–	–	433,838	48,669
c) Non-performing past due exposures	61,552	–	–	61,543	8
– of which: exposures subject to forbearance	12,212	–	–	12,212	–
d) Performing past due exposures	504,013	332,065	167,958	–	3,991
– of which: exposures subject to forbearance	20,644	–	20,465	–	179
e) Other performing exposures	43,633,181	40,664,241	2,899,964	–	68,975
– of which: exposures subject to forbearance	413,815	–	385,076	–	28,739
Total (A)	**45,598,630**	**40,996,306**	**3,067,922**	**1,361,192**	**173,208**
B. **Off-balance sheet credit exposures**					
a) Non-performing	178,135	–	–	173,762	4,373
b) Performing	22,276,753	19,729,957	2,543,629	–	3,168
Total (B)	**22,454,888**	**19,729,957**	**2,543,629**	**173,762**	**7,541**
Total (A+B)	**68,053,518**	**60,726,263**	**5,611,551**	**1,534,954**	**180,749**

Type of exposure/amounts		Total adjustments and provisions				Net exposure	Total partial write-offs*
		First stage	Second stage	Third stage	Impaired purchased or originated		
A. **Cash credit exposures**							
a) Bad loans	396,095	–	–	379,803	16,292	121,836	94,157
– of which: exposures subject to forbearance	119,496	–	–	114,860	4,636	39,302	9,957
b) Unlikely-to-pay loans	450,688	–	–	403,800	46,888	431,265	20,108
– of which: exposures subject to forbearance	246,581	–	–	220,108	26,474	235,926	–
c) Non-performing past due exposures	4,799	–	–	4,798	1	56,753	–
– of which: exposures subject to forbearance	801	–	–	801	–	11,411	–
d) Performing past due exposures	8,818	1,293	7,376	–	148	495,195	–
– of which: exposures subject to forbearance	1,152	–	1,143	–	8	19,492	–
e) Other performing exposures	147,178	49,804	95,186	–	2,189	43,486,003	2
– of which: exposures subject to forbearance	18,910	–	17,603	–	1,307	394,905	–
Total (A)	**1,007,578**	**51,097**	**102,562**	**788,401**	**65,518**	**44,591,052**	**114,267**
B. **Off-balance sheet credit exposures**							
a) Non-performing	36,676	–	–	36,676	–	141,459	–
b) Performing	25,220	9,604	15,595	–	21	22,251,533	–
Total (B)	**61,896**	**9,604**	**15,595**	**36,676**	**21**	**22,392,992**	**–**
Total (A+B)	**1,069,474**	**60,701**	**118,157**	**825,077**	**65,539**	**66,984,044**	**114,267**

* amount to be shown for information purposes

Cash exposures include the customer loans shown in item 40b as well as other financial assets represented by non-bank securities included in items 20c, 30 and 40 of the assets side of the balance sheet, excluding equity securities and mutual funds. Off-balance sheet exposure is represented by guarantees given, commitments and derivatives (except those relating to equity securities and mutual funds).

A.1.5a Cash credit exposures to customers subject to Covid-19 support measures: gross and net values

Type of exposure/amounts	Gross exposure	First stage	Second stage	Third stage	Impaired purchased or originated
A. **Bad loans:**	**843**	**–**	**–**	**843**	**-**
a) Subject to forbearance compliant with GLs	–	–	–	–	-
b) Subject to outstanding moratorium measures no longer in compliance with GL and not evaluated as subject to forbearance measures	–	–	–	–	-
c) Subject to other forbearance measures	–	–	–	–	-
d) New loans	843	–	–	843	-
B. **Unlikely-to-pay loans**	**45,857**	**–**	**–**	**41,585**	**4,271**
a) Subject to forbearance compliant with GLs	–	–	–	–	-
b) Subject to outstanding moratorium measures no longer in compliance with GL and not evaluated as subject to forbearance measures	189	–	–	189	-
c) Subject to other forbearance measures	5,670	–	–	5,559	111
d) New loans	39,998	–	–	35,837	4,160
C. **Non-performing past due loans:**	**3,551**	**–**	**–**	**3,551**	**-**
a) Subject to forbearance compliant with GLs	–	–	–	–	-
b) Subject to outstanding moratorium measures no longer in compliance with GL and not evaluated as subject to forbearance measures	–	–	–	–	-
c) Subject to other forbearance measures	–	–	–	–	-
d) New loans	3,551	–	–	3,551	-
D. **Performing past due loans**	**9,727**	**3,539**	**6,188**	**–**	**-**
a) Subject to forbearance compliant with GLs	–	–	–	–	-
b) Subject to outstanding moratorium measures no longer in compliance with GL and not evaluated as subject to forbearance measures	–	–	–	–	-
c) Subject to other forbearance measures	–	–	–	–	-
d) New loans	9,727	3,539	6,188	–	-
E. **Other performing loans:**	**2,306,168**	**2,084,750**	**220,387**	**–**	**1,031**
a) Subject to forbearance compliant with GLs	–	–	–	–	-
b) Subject to outstanding moratorium measures no longer in compliance with GL and not evaluated as subject to forbearance measures	1,700	875	825	–	-
c) Subject to other forbearance measures	51	–	51	–	-
d) New loans	2,304,417	2,083,875	219,511	–	1,031
Total (A+B+C+D+E)	**2,366,146**	**2,088,289**	**226,575**	**45,979**	**5,302**

Type of exposure/amounts	Total write-downs	First stage	Second stage	Third stage	Impaired purchased or originated	Net exposure	Total partial write-offs*
A. **Bad loans:**	**20**	**–**	**–**	**20**	**–**	**823**	**-**
a) Subject to forbearance compliant with GLs	–	–	–	–	–	–	-
b) Subject to outstanding moratorium measures no longer in compliance with GL and not evaluated as subject to forbearance measures	–	–	–	–	–	–	-
c) Subject to other forbearance measures	–	–	–	–	–	–	-
d) New loans	20	–	–	20	–	823	-
B. **Unlikely-to-pay loans**	**19,339**	**–**	**–**	**17,443**	**1,896**	**26,518**	**-**
a) Subject to forbearance compliant with GLs	–	–	–	–	–	–	-
b) Subject to outstanding moratorium measures no longer in compliance with GL and not evaluated as subject to forbearance measures	81	–	–	81	–	108	-
c) Subject to other forbearance measures	2,089	–	–	2,042	48	3,581	-
d) New loans	17,169	–	–	15,320	1,848	22,829	-
C. **Non-performing past due loans:**	**63**	**–**	**–**	**63**	**–**	**3,488**	**-**
a) Subject to forbearance compliant with GLs	–	–	–	–	–	–	-
b) Subject to outstanding moratorium measures no longer in compliance with GL and not evaluated as subject to forbearance measures	–	–	–	–	–	–	-
c) Subject to other forbearance measures	–	–	–	–	–	–	-
d) New loans	63	–	–	63	–	3,488	-
D. **Performing past due loans**	**126**	**1**	**126**	**–**	**–**	**9,601**	**-**
a) Subject to forbearance compliant with GLs	–	–	–	–	–	–	-
b) Subject to outstanding moratorium measures no longer in compliance with GL and not evaluated as subject to forbearance measures	–	–	–	–	–	–	-
c) Subject to other forbearance measures	–	–	–	–	–	–	-
d) New loans	126	1	126	–	–	9,601	-
E. **Other performing loans:**	**5,521**	**269**	**5,231**	**–**	**22**	**2,300,647**	**-**
a) Subject to forbearance compliant with GLs	–	–	–	–	–	–	-
b) Subject to outstanding moratorium measures no longer in compliance with GL and not evaluated as subject to forbearance measures	75	2	74	–	–	1,625	-
c) Subject to other forbearance measures	3	–	3	–	–	48	-
d) New loans	5,443	267	5,154	–	22	2,298,974	-
Total (A+B+C+D+E)	**25,069**	**270**	**5,357**	**17,526**	**1,918**	**2,341,077**	**-**

A.1.7 Prudential consolidation - Cash credit exposures to customers: analysis of gross non-performing exposures

Reasons/Categories	Bad loans	Unlikely-to-pay loans	Non-performing past due exposures
A. **Opening gross exposure**	**736,657**	**1,074,759**	**64,555**
– of which: exposures sold not derecognised	–	11,476	3,063
B. **Increases**	**154,593**	**359,305**	**34,279**
B.1 transfers from performing loans	18,548	192,499	31,753
B.2 transfers from financial assets impaired purchased or originated	1,811	7,950	–
B.3 transfers from other categories of non-performing exposures	103,970	12,523	961
B.4 contractual amendments without derecognition	–	490	–
B.5 other increases	30,264	145,843	1,565
C. **Decreases**	**373,319**	**552,110**	**37,282**
C.1 transfers to performing loans	–	80,091	15,531
C.2 write-offs	62,002	46,764	–
C.3 collections	59,274	258,380	15,039
C.4 proceeds from disposals	48,345	26,320	–
C.5 losses on disposal	28,814	2,940	–
C.6 transfers to other categories of non-performing exposures	6,373	104,399	6,682
C.7 contractual amendments without derecognition	2	1,747	30
C.8 other decreases	168,509	31,469	–
D. **Closing gross exposure**	**517,931**	**881,954**	**61,552**
– of which: exposures sold not derecognised	–	10,026	707

A.1.7bis Prudential consolidation - Cash credit exposures to customers: dynamics of gross exposures subject to concessions broken down by credit quality

Reasons/Quality	Exposures subject to forbearance: non-performing	Exposures subject to forbearance: performing
A. **Opening gross exposure**	**853,717**	**697,281**
– of which: exposures sold not derecognised	6,712	34,862
B. **Increases**	**176,019**	**125,888**
B.1 transfers from performing loans not subject to forbearance	20,689	36,572
B.2 transfers from performing loans subject to forbearance	61,583	–
B.3 transfers from exposures subject to forbearance and non-performing	–	60,149
B.4 transfers from non-performing exposures not subject to forbearance	48,608	3,417
B.5 other increases	45,139	25,750
C. **Decreases**	**376,219**	**388,709**
C.1 transfers to performing loans not subject to forbearance	–	220,799
C.2 transfers to performing loans subject to forbearance	60,149	–
C.3 transfers to loans subject to forbearance and non-performing	–	61,583
C.4 write-offs	36,390	–
C.5 collections	180,639	103,344
C.6 proceeds from disposals	37,480	–
C.7 losses on disposal	10,924	–
C.8 other decreases	50,637	2,983
D. **Closing gross exposure**	**653,517**	**434,460**
– of which: exposures sold not derecognised	5,586	27,198

A.1.9 Prudential consolidation - non-performing Cash credit exposures to customers: dynamics of total value adjustments

Reasons/Categories	Bad loans		Unlikely-to-pay loans		Non-performing past due exposures	
	Total	of which: exposures subject to forbearance	**Total**	of which: exposures subject to forbearance	**Total**	of which: exposures subject to forbearance
A. **Total opening adjustments**	**544,367**	**140,560**	**485,595**	**280,446**	**9,200**	**3,557**
– of which: exposures sold not derecognised	–	–	3,906	2,312	305	23
B. **Increases**	**152,975**	**56,709**	**202,824**	**95,345**	**3,794**	**388**
B.1 adjustments to financial assets impaired purchased or originated	2,435	–	12,325	–	1	–
B.2 other adjustments	72,838	25,069	179,032	90,199	2,732	121
B.3 losses on disposal	28,814	8,708	2,940	1,998	–	–
B.4 transfers from other categories of non-performing exposures	48,002	22,896	2,570	195	219	–
B.5 contractual amendments without derecognition	–	–	159	–	–	–
B.6 other increases	886	36	5,798	2,953	842	267
C. **Decreases**	**301,247**	**77,773**	**237,731**	**129,210**	**8,196**	**3,144**
C.1 write-backs on valuation	5,692	1,196	19,959	21,475	438	54
C.2 write-backs due to collections	14,448	3,502	54,234	10,725	2,966	1,151
C.3 gains on disposal	15,581	3,450	4,242	2,615	–	–
C.4 write-offs	62,002	7,569	46,764	28,821	–	–
C.5 transfers to other categories of non-performing exposures	676	195	47,832	22,896	2,284	1,346
C.6 contractual amendments without derecognition	–	–	740	–	3	–
C.7 other decreases	202,848	61,861	63,960	42,678	2,505	593
D. **Total closing adjustments**	**396,095**	**119,496**	**450,688**	**246,581**	**4,798**	**801**
– of which: exposures sold not derecognised	–	–	4,367	2,398	70	–

A.2 Classification of exposures based on external and internal ratings

A.2.1 Prudential consolidation - Distribution of financial assets, commitments to grant funds and financial guarantees given by external rating classes (gross amounts)

	External rating classes							
Exposures	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	Unrated	**Total**
A. **Financial assets measured at amortised cost**	**7,480,422**	**2,115,173**	**2,099,664**	**721,398**	**115,676**	**197**	**32,328,849**	**44,861,379**
– First stage	7,440,066	2,108,631	2,049,021	714,359	36,640	–	27,956,332	40,305,049
– Second stage	40,356	6,542	50,643	6,999	79,036	197	2,877,695	3,061,468
– Third stage	–	–	–	40	–	–	1,322,001	1,322,041
– Impaired purchased or originated	–	–	–	–	–	–	172,821	172,821
B. **Financial assets measured at fair value through other comprehensive income**	**1,746,881**	**367,092**	**242,798**	**84,953**	**14,677**	**–**	**4,964**	**2,461,365**
– First stage	1,742,416	363,283	242,798	84,953	14,677	–	4,964	2,453,091
– Second stage	4,465	3,809	–	–	–	–	–	8,274
– Third stage	–	–	–	–	–	–	–	–
– Impaired acquisite o originate	–	–	–	–	–	–	–	–
C. **Financial assets held for sale**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– First stage	–	–	–	–	–	–	–	–
– Second stage	–	–	–	–	–	–	–	–
– Third stage	–	–	–	–	–	–	–	–
– Impaired purchased or originated	–	–	–	–	–	–	–	–
Total (A+B+C)	**9,227,303**	**2,482,265**	**2,342,462**	**806,351**	**130,353**	**197**	**32,333,813**	**47,322,744**
D. **Commitments to grant loans and financial guarantees given**	**23,901**	**128,782**	**174,765**	**83,700**	**109,602**	**2,195**	**14,794,717**	**15,317,662**
– First stage	23,901	101,355	171,372	70,314	106,709	–	13,488,342	13,961,993
– Second stage	–	27,427	3,393	13,386	2,893	2,195	1,216,045	1,265,339
– Third stage	–	–	–	–	–	–	82,789	82,789
– Impaired purchased or originated	–	–	–	–	–	–	7,541	7,541
Total (D)	**23,901**	**128,782**	**174,765**	**83,700**	**109,602**	**2,195**	**14,794,717**	**15,317,662**
Total (A+B+C+D)	**9,251,204**	**2,611,047**	**2,517,227**	**890,051**	**239,955**	**2,392**	**47,128,530**	**62,640,406**

The distribution of exposures other than those in equity securities is reported by classes that reflect the long-term rating awarded to them by leading international agencies, as held in the banking group's database.

The risk classes for external ratings indicated in this table refer to the classes of debtor credit-worthiness mentioned in the prudent supervisory regulations. The following is a reconciliation of these rating classes and the ratings issued by the agencies appointed by the Bank. Specifically, the ratings issued by DBRS are used for exposures to governments and central banks, while those of Standard & Poor's and FitchRatings are used for other exposures.

	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6
DBRS Limited	from AAA to AAL	from AH to AL	from BBBH to BBBL	from BBH to BBL	from BH to BL	CCC
Standard &Poor's Rating Services	from AAA to AA–	from A+ to A–	from BBB+ to BBB–	from BB+ to BB	from B+ to B–	from CCC+ down–
FitchRatings	from AAA to AA–	from A+ to A–	from BBB+ to BBB–	from BB+ to BB–	from B+ to B–	from CCC+ down–

A.2.2 Distribution of cash loans and off-balance sheet items by internal rating class

Tables analysing the distribution of the cash and «off-balance sheet» exposures of Banca Popolare di Sondrio by internal rating class are presented in the corresponding section of the notes to the financial statements of the Parent Company.

Banca Popolare di Sondrio (Suisse) SA has its own customer rating system, which it only applies to customer loans. This system splits the loan book into 11 different risk categories. The first category identifies customers with the lowest risk, while the categories from R6 to R8 indicate various levels of insolvency, depending on how serious it is.

Customers - Exposures	Rating 1	Rating 2	Rating 3	Rating 3G	Rating 4
A. **Financial assets measured at amortised cost**	**–**	**1,083**	**743,536**	**929,843**	**2,487,054**
– First stage	–	1,083	743,536	929,843	2,487,054
– Second stage	–	–	–	–	–
– Third stage	–	–	–	–	–
B. **Financial assets measured at fair value through consolidated income**	**–**	**–**	**–**	**–**	**–**
– First stage	–	–	–	–	–
– Second stage	–	–	–	–	–
– Third stage	–	–	–	–	–
Total (A+B)	**–**	**1,083**	**743,536**	**929,843**	**2,487,054**
Of which: financial assets impaired acquired or originated	–	–	–	–	–
C. **Commitments to grant loans and financial guarantees given**	–	–	242	1,154	188,091
– First stage	–	–	242	1,154	188,091
– Second stage	–	–	–	–	–
– Third stage	–	–	–	–	–
Total (C)	**–**	**–**	**242**	**1,154**	**188,091**
Total (A+B+C)	**–**	**1,083**	**743,778**	**930,997**	**2,675,145**

Customers - Exposures	Rating 4G	Rating 5	Rating 6	Rating 6G	Rating 7	Rating 8	Unrated	Total 31/12/2022
A. **Financial assets measured at amortised cost**	**1,117,754**	**135,929**	**23,735**	**7,497**	**22,152**	**17,222**	**507**	**5,486,312**
– First stage	1,117,754	–	–	–	–	–	507	5,279,777
– Second stage	–	135,929	–	–	–	–	–	135,929
– Third stage	–	–	23,735	7,497	22,152	17,222	–	70,606
B. **Financial assets measured at fair value through consolidated income**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– First stage	–	–	–	–	–	–	–	–
– Second stage	–	–	–	–	–	–	–	–
– Third stage	–	–	–	–	–	–	–	–
Total (A+B)	**1,117,754**	**135,929**	**23,735**	**7,497**	**22,152**	**17,222**	**507**	**5,486,312**
Of which: financial assets impaired acquired or originated	–	–	–	–	–	–	–	–
C. **Commitments to grant loans and financial guarantees given**	3,810	30	9	–	–	–	123,898	317,234
– First stage	3,810	–	–	–	–	–	123,898	317,195
– Second stage	–	30	–	–	–	–	–	30
– Third stage	–	–	9	–	–	–	–	9
Total (C)	**3,810**	**30**	**9**	**–**	**–**	**–**	**123,898**	**317,234**
Total (A+B+C)	**1,121,564**	**135,959**	**23,744**	**7,497**	**22,152**	**17,222**	**124,405**	**5,803,546**

The Parent Company uses internal ratings to calculate the capital requirements in relation to it corporate and retail portfolios, for which the related IRB models have been validated.

A.3 Distribution of secured exposures by type of guarantee

Cash loans shown in the «Net exposure» column are stated net of specific and portfolio adjustments. Exposures are classified between «fully guaranteed» and «partially guaranteed» by comparing the gross exposure with the value of the contractual guarantee. The amounts shown in the «guarantees» columns refer to the actual value of the guarantee («fair value»), with an upper limit represented by the book value of the guaranteed exposure: this means that the actual value of the guarantee may be higher than that shown in the table.

A.3.1 Prudential consolidation – Guaranteed cash and off-balance sheet exposures to banks

			Secured guarantees (1)			
	Gross exposure	Net exposure	Properties mortgages	Properties Lease financing	Securities	Other real guarantees
1. **Guaranteed cash exposures**:	**147,854**	**147,753**	**–**	**–**	**5,011**	**–**
1.1 fully guaranteed	131,179	131,094	–	–	5,011	–
– of which: non-performing	–	–	–	–	–	–
1.2 partially guaranteed	16,675	16,659	–	–	–	–
– of which: non-performing	–	–	–	–	–	–
2. **Guaranteed off-balance sheet exposures**:	**20,993**	**20,993**	**–**	**–**	**5,970**	**1,257**
2.1 fully guaranteed	12,039	12,039	–	–	4,522	621
– of which: non-performing	–	–	–	–	–	–
2.2 partially guaranteed	8,954	8,954	–	–	1,448	636
– of which: non-performing	–	–	–	–	–	–

	Personal guarantees (2)									
	Derivatives on loans									
		Other derivatives				Endorsement loans				
	CLN	Central counterparties	Banks	Other financial corporations	Other parties	General governments	Banks	Other financial corporations	Other parties	**Total (1)+(2)**
1. **Guaranteed cash exposures**:	**–**	**–**	**–**	**–**	**–**	**1,997**	**139,714**	**33**	**–**	**146,755**
1.1 fully guaranteed	–	–	–	–	–	1,872	124,177	33	–	131,093
– of which: non-performing	–	–	–	–	–	–	–	–	–	–
1.2 partially guaranteed	–	–	–	–	–	125	15,537	–	–	15,662
– of which: non-performing	–	–	–	–	–	–	–	–	–	–
2. **Guaranteed off-balance sheet exposures**:	**–**	**–**	**–**	**–**	**–**	**3,081**	**7,342**	**–**	**–**	**17,650**
2.1 fully guaranteed	–	–	–	–	–	2,541	4,356	–	–	12,040
– of which: non-performing	–	–	–	–	–	–	–	–	–	–
2.2 partially guaranteed	–	–	–	–	–	540	2,986	–	–	5,610
– of which: non-performing	–	–	–	–	–	–	–	–	–	–

A.3.2 Prudential consolidation - Guaranteed cash and off-balance sheet exposures to customers

	Gross exposure	Net exposure	Secured guarantees (1)			
			Properties Mortgages	Properties Lease financing	Securities	Other real guarantees
1. **Guaranteed cash exposures**:	**23,998,025**	**23,240,339**	**13,923,844**	**–**	**844,916**	**2,262,894**
1.1 fully guaranteed	20,901,290	20,222,657	13,923,196	–	759,824	2,162,359
– of which: non-performing	1,091,403	508,860	429,356	–	3,818	7,002
1.2 partially guaranteed	3,096,735	3,017,682	648	–	85,092	100,535
– of which: non-performing	108,120	40,444	370	–	4,620	531
2. **Guaranteed off-balance sheet exposures:**	**4,183,268**	**4,161,281**	**685,617**	**–**	**184,538**	**126,922**
2.1 fully guaranteed	3,349,809	3,332,371	676,762	–	104,936	97,486
– of which: non-performing	55,682	43,020	4,561	–	622	570
2.2 partially guaranteed	833,459	828,910	8,855	–	79,602	29,436
– of which: non-performing	11,930	8,235	–	–	66	605

	Personal guarantees (2)									
	Derivatives on loans					Endorsement loans				
		Other derivatives								
	CLN	Central counterparties	Banks	Other financial corporations	Other parties	General governments	Banks	Other financial corporations	Other parties	**Total (1)+(2)**
1. **Guaranteed cash exposures**:	**-**	**-**	**-**	**-**	**-**	**2,797,556**	**525,382**	**303,547**	**1,952,238**	**22,610,377**
1.1 fully guaranteed	-	-	-	-	-	915,877	493,462	241,911	1,715,999	20,212,628
– of which: non-performing	-	-	-	-	-	21,979	63	12,050	34,233	508,501
1.2 partially guaranteed	-	-	-	-	-	1,881,679	31,920	61,636	236,239	2,397,749
– of which: non-performing	-	-	-	-	-	20,651	-	3,387	8,764	38,323
2. **Guaranteed off-balance sheet exposures:**	**-**	**-**	**-**	**-**	**-**	**7,710**	**273,596**	**129,246**	**2,420,518**	**3,828,147**
2.1 fully guaranteed	-	-	-	-	-	2,553	268,240	104,591	1,999,529	3,254,097
– of which: non-performing	-	-	-	-	-	48	1	4,457	32,698	42,957
2.2 partially guaranteed	-	-	-	-	-	5,157	5,356	24,655	420,989	574,050
– of which: non-performing	-	-	-	-	-	320	-	-	6,817	7,808

A.4 Prudential consolidation - Financial and non-financial assets obtained by enforcing guarantees received

	Credit exposure cancelled	Gross value	Total write-downs	Book value	of which obtained during the year
A. **Property, equipment and investment property**	**–**	**–**	**–**	**–**	**–**
A.1 For business purposes:	–	–	–	–	–
A.2 Investment property	–	–	–	–	–
A.3 Inventories	–	–	–	–	–
B. **Equity securities and fixed-yield securities**	**–**	**–**	**–**	**–**	**–**
C. **Other assets**	**91,232**	**39,804**	**1,647**	**38,157**	**33,629**
D. **Non-current assets and disposal groups held for sale**	**–**	**–**	**–**	**–**	**–**
D.1 Property, equipment and investment property	–	–	–	–	–
D.2 Other assets	–	–	–	–	–
Total 31/12/2022	**91,232**	**39,804**	**1,647**	**38,157**	**33,629**
Total 31/12/2021	**81,552**	**41,621**	**3,396**	**38,225**	**35,396**

B. Distribution and concentration of loans

Preparation of this section has excluded in the exposures reported in tables A.1.4. and A.1.5., exposures to counterparty risk relating to loans of securities or goods, granted or received.

B.1 Prudential consolidation - Distribution by sector of cash and off-balance sheet exposures to customers

Exposures/Counterparties	General governments		Financial companies	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. **Cash credit exposures**				
A.1 Bad loans	–	397	371	3,596
– of which: exposures subject to forbearance	–	–	–	–
A.2 Unlikely-to-pay loans	19	24	5,904	14,180
– of which: exposures subject to forbearance	–	–	3,415	10,941
A.3 Non-performing past due exposure	8	–	6,614	385
– of which: exposures subject to forbearance	–	–	–	–
A.4 Performing exposures	11,266,287	8,649	3,745,378	15,514
– of which: exposures subject to forbearance	–	1	365	12
Total (A)	**11,266,314**	**9,070**	**3,758,267**	**33,675**
B. **Off-balance sheet credit exposures**				
B.1 Non-performing exposures	1,417	21	21	402
B.2 Performing exposures	761,721	303	1,913,174	3,026
Total (B)	**763,138**	**324**	**1,913,195**	**3,428**
Total (A+B) 31/12/2022	**12,029,452**	**9,394**	**5,671,462**	**37,103**
Total (A+B) 31/12/2021	**11,913,317**	**4,681**	**5,107,461**	**42,293**

Exposures/Counterparties	Financial companies (of which: insurance companies)		Non-financial corporations		Households	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. **Cash credit exposures**						
A.1 Bad loans	–	–	99,035	293,457	22,432	98,644
– of which: exposures subject to forbearance	–	–	31,446	78,052	7,855	41,444
A.2 Unlikely-to-pay loans	–	–	321,756	343,449	103,588	93,034
– of which: exposures subject to forbearance	–	–	174,808	179,447	57,704	56,193
A.3 Non-performing past due exposure	–	–	6,712	784	43,420	3,630
– of which: exposures subject to forbearance	–	–	907	131	10,504	670
A.4 Performing exposures	8,063	5	17,257,897	73,244	11,711,635	58,589
– of which: exposures subject to forbearance	–	–	224,430	9,956	189,604	10,093
Total (A)	**8,063**	**5**	**17,685,400**	**710,934**	**11,881,075**	**253,897**
B. **Off-balance sheet credit exposures**						
B.1 Non-performing exposures	–	–	132,719	35,020	7,302	1,233
B.2 Performing exposures	114,498	21	17,615,183	17,889	1,961,464	4,002
Total (B)	**114,498**	**21**	**17,747,902**	**52,909**	**1,968,766**	**5,235**
Total (A+B) 31/12/2022	**122,561**	**26**	**35,433,302**	**763,843**	**13,849,841**	**259,132**
Total (A+B) 31/12/2021	**26,146**	**7**	**33,199,067**	**880,010**	**12,691,044**	**276,617**

B.2 Prudential consolidation - Distribution by territory of cash and off-balance sheet exposures to customers

Exposures/Geographical areas	Italy		Other European countries	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. **Cash credit exposures**				
A.1 Bad loans	117,381	380,875	4,304	15,099
A.2 Unlikely-to-pay loans	410,571	442,062	20,565	8,541
A.3 Non-performing past due exposure	26,734	3,037	29,985	1,758
A.4 Performing exposures	35,097,130	138,315	8,716,780	15,855
Total (A)	**35,651,816**	**964,289**	**8,771,634**	**41,253**
B. **Off-balance sheet credit exposures**				
B.1 Non-performing exposures	141,423	36,676	36	-
B.2 Performing exposures	20,836,032	24,033	1,355,998	1,125
Total (B)	**20,977,455**	**60,709**	**1,356,034**	**1,125**
Total (A+B) 31/12/2022	**56,629,271**	**1,024,998**	**10,127,668**	**42,378**
Total (A+B) 31/12/2021	**53,658,745**	**1,155,121**	**8,919,244**	**47,176**

Exposures/Geographical areas	America		Asia		Rest of the world	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. **Cash credit exposures**						
A.1 Bad loans	–	14	153	106	–	–
A.2 Unlikely-to-pay loans	36	31	95	53	–	–
A.3 Non-performing past due exposure	35	4	–	–	–	–
A.4 Performing exposures	85,146	347	78,512	1,467	3,629	12
Total (A)	**85,217**	**396**	**78,760**	**1,626**	**3,629**	**12**
B. **Off-balance sheet credit exposures**						
B.1 Non-performing exposures	–	–	–	–	–	–
B.2 Performing exposures	40,651	57	2,594	1	16,267	4
Total (B)	**40,651**	**57**	**2,594**	**1**	**16,267**	**4**
Total (A+B) 31/12/2022	**125,868**	**453**	**81,354**	**1,627**	**19,896**	**16**
Total (A+B) 31/12/2021	**230,573**	**156**	**67,874**	**1,136**	**34,453**	**12**

B.3 Prudential consolidation - Distribution by territory of cash and off-balance sheet exposures to banks

	Italy		Other European countries	
Exposures/Geographical areas	Net exposures	Total value adjustments	Net exposures	Total value adjustments
A. **Cash credit exposures**				
A.1 Bad loans	–	–	–	–
A.2 Unlikely-to-pay loans	–	–	–	–
A.3 Non-performing past due exposure	–	–	–	–
A.4 Performing exposures	7,451,040	706	1,366,004	653
Total (A)	**7,451,040**	**706**	**1,366,004**	**653**
B. **Off-balance sheet credit exposures**				
B.1 Non-performing exposures	–	–	–	–
B.2 Performing exposures	223,886	89	538,914	1,206
Total (B)	**223,886**	**89**	**538,914**	**1,206**
Total (A+B) 31/12/2022	**7,674,926**	**795**	**1,904,918**	**1,859**
Total (A+B) 31/12/2021	**8,938,000**	**5,690**	**742,976**	**134**

	America		Asia		Rest of the world	
Exposures/Geographical areas	Net exposures	Total value adjustments	Net exposures	Total value adjustments	Net exposures	Total value adjustments
A. **Cash credit exposures**						
A.1 Bad loans	–	–	–	–	–	–
A.2 Unlikely-to-pay loans	–	–	–	–	–	–
A.3 Non-performing past due exposure	–	–	–	–	–	–
A.4 Performing exposures	17,214	147	127,327	69	28,077	36
Total (A)	**17,214**	**147**	**127,327**	**69**	**28,077**	**36**
B. **Off-balance sheet credit exposures**						
B.1 Non-performing exposures	–	–	–	–	–	–
B.2 Performing exposures	28,075	2	183,789	13	14,635	–
Total (B)	**28,075**	**2**	**183,789**	**13**	**14,635**	**–**
Total (A+B) 31/12/2022	**45,289**	**149**	**311,116**	**82**	**42,712**	**36**
Total (A+B) 31/12/2021	**23,214**	**9**	**73,611**	**43**	**38,794**	**7**

B.4 Large exposures

	31/12/2022	**31/12/2021**
Number of positions	25	20
Exposure	32,484,084	28,361,162
Risk position	8,283,330	6,890,064

The exposure limit of 10% of Tier 1 capital – the threshold for inclusion of a counterparty in the category of «Large exposure» – has to be measured in terms of the «nominal amount» of the exposure, i.e. the sum of cash risk assets and off-balance sheet transactions with a customer or a group of related customers. On the other hand, the «risk position», on which the maximum limits are measured for the assumption of each individual significant risk, is given by the same aggregate weighted according to a system that takes account of the nature of the debtor and any guarantees that have been obtained. It should be noted that the positions shown above include the Italian Republic (nominal exposure, 12,706 million; risk position, 6.2 million), purely on the basis of sovereign securities held in proprietary portfolios, and the Bank of Italy (nominal exposure, 6,135 million; risk position, 19.4 million), mainly for term deposits and the compulsory reserve.

The number of large risks and the related exposures differ from those reported for supervisory purposes, since art. 4 of Regulation 575/2013 CRR allows the existence of a group of related customers to be considered separately for each company or entity that is controlled directly.

C. Securitisations transaction

1. Traditional securitisations

QUALITATIVE INFORMATION

During FY2022, the Group continued to finalise securitisation transactions through the bulk sale of non-performing loans in line with the corporate goals of derisking and improving asset quality. As explained in the Directors' report, in the last quarter of 2022, the Group completed a securitisation transaction through the sale of bad loans called Luzzatti III.

Note that the book value of the securitisations originated by third party companies, shown in the following table C.2, at 31 December 2022 amounts to 476 million euro.

New transactions during the year

Luzzatti III securitisation

In December 2022, the Group carried out the third securitisation through a multi-originator sale, relating to exposures classified as bad loans originating from 15 banks, for a total value of 545.2 million in terms of gross book value, of which 242.5 million attributable to Banca Popolare di Sondrio (made up 57% of secured loans).

The payment of the purchase price by the Vehicle Company, specifically established pursuant to Law 130 of 30 April 1999, called «Luzzatti POP NPLs 2022 Srl» (SPV) was financed by issuing asset-backed securities for a total nominal value of 138.5 million, split as follows:

- a Senior tranche (Class A) for 118 million, with investment grade rating (Baa1 assigned by Moody's and BBB+ assigned by Arc Ratings). The tranche in question, retained by Banca Popolare di Sondrio S.p.A., presents structural characteristics of eligibility for the GACS and, should this state guarantee be reintroduced, the participating banks will assess whether to avail themselves of it. These securities carry a fixed yield of 4%;
- a Mezzanine tranche (Class B) for 17.5 million, unrated, with a yield equal to the sum of an annual spread of 10% and the 6-month Euribor;
- a Junior tranche (Class J) for 3 million, unrated, with a yield equal to the 6-month Euribor plus an annual spread of 15% and any variable yield based on the performance of the securitisation.

On 29 December 2022, at the issue date of the securities, the originating banks subscribed 100% of the Senior notes and in application of the retention rule provided for by Article 405 of the CRR, each of the originating banks maintained a stake of not less than 5% of the Mezzanine and Junior tranches. The rest of the Mezzanine and Junior securities were subscribed by third-party investors.

Consistently with the provisions of IFRS 9, due to the regulation of the sale of 95% of the said notes (Mezzanine and Junior), in compliance with the retention rule, pursuant to the provisions of Article 6, paragraph 4, of the Securitisation Regulation, the conditions for derecognition of the bad loans sold were met, as the related rights and benefits were substantially transferred.

The following table shows the securitisation positions held by Banca Popolare di Sondrio at the reporting date.

Seniority	Expiry	Nominal Amount	Moody's	Arc Ratings
Senior	January 2042	56,005,000	Baa1	BBB+
Mezzanine	January 2042	414,406	N/A	N/A
Junior	January 2042	71,042	N/A	N/A
TOTAL		**56,490,448**		

All of the senior securities are classified as «Financial assets measured at amortised cost» for an amount net of expected losses on the basis of the IFRS 9 impairment model of 56.005 million euro; conversely, the portions owned of the mezzanine (fair value 109,783 euro) and junior (fair value 249 euro) securities have been classified as «Financial assets mandatorily measured at fair value through profit or loss».

The loss on disposal, equal to 4.2 million euro, is included in «Gains (losses) from the sale or repurchase of financial assets measured at amortised cost».

The credit management and recovery activity was entrusted by the Vehicle Company to Prelios Credit Solutions S.p.A. and Fire S.p.A., servicer appointed in accordance with article 2, paragraphs 3 and 6-bis of Law 130/1999.

For the sake of completeness of information, it should be noted that as part of the transaction, the selling banks granted the vehicle Luzzatti POP NPLs 2022 S.r.l. a «Limited Recourse Loan» of 4.730 million euro, intended, on the date of issue of the securities, as a cash reserve available to the SPV to cover any misalignments between the recovery plan of the Portfolio Sold and the payments to be made to the security holders. The «Limited Recourse Loan» made by Banca Popolare di Sondrio is equal to 2.520 million and is recorded under «Financial assets measured at amortised cost»; it will be repaid based on the available liquidity of the SPV in the order of priority of payments and, in any case, prior to the repayment of the principal of the senior securities, so it does not represent any form of credit support for the securitisation.

The main elements of the transaction described above are summarised below with reference to Banca Popolare di Sondrio:

Portfolio sale date	15/12/2022
Vehicle Company	Luzzatti POP NPLs 2022 S.r.l.
Servicers	Prelios Credit Solutions S.p.A. and Fire S.p.A
Securities issue date	29/12/2022
Type of transaction	Traditional multi-originator sale
Assets sold	NPLs made up of secured and unsecured credit exposures
Sector of the economy	Non-performing loans to individual, corporate and retail customers
Geographical breakdown	The loans subject to securitisation refer to parties resident in Italy.
Subordinated loan (Cash reserve)	2.520 million
Quality of the assets transferred	Bad loans
Amount of securitised assets	The total of the loans receivable from the portfolio sold amounts to 242.5 million euro.
Sale price of the securitised assets	The sale price is 58.2 million euro
Organisational structure	Prelios Credit Solutions S.p.A. prepares a quarterly report containing all the information relating to the receivables of each debtor position.
Internal risk measurement and control sys-tems	The settlement or judicial recovery of non-performing loans assigned is entrusted solely to the Servicers appointed by the SPV. Banca Popolare di Sondrio has not maintained any role or involvement in the management of credit recovery.

Securitisation transactions already in place

Securitisation transactions completed in the two-year period 2020-2021 included:

- subscription of the Senior securities issued by the vehicle company and sale of the Mezzanine and Junior tranches to third parties, in compliance with the requirements of prudential regulations. As a result of this holding, the receivables sold have been derecognised, as the Group has substantially transferred the rights and benefits of the financial assets sold;
- obtaining the State guarantee on the Senior securities (so-called Guarantee for Securitisation of Non-performing loans - GACS pursuant to Decree 18 of 14 February 2016 converted into Law No. 49 of 8 April 2016 and subsequent MEF decree of 3 August 2016).

A summary of the transactions completed in the previous years is provided below; for further information, please refer to the financial statements as at 31 December 2021.

Diana securitisation

Portfolio sale date	01/06/2020
Vehicle Company	Diana S.P.V. S.r.l.
Servicers	Prelios Credit Servicing S.p.A.
Securities issue date	17/06/2020
Type of transaction	Traditional with GACS guarantee from the Economic and Finance Ministry.
Assets sold	NPLs made up of secured and unsecured credit exposures
Sector of the economy	Non-performing loans to individual, corporate and retail customers
Geographical breakdown	The loans subject to securitisation refer to parties resident in Italy.
Subordinated loan (Cash reserve)	10.925 million original, 6.399 million residual as at 31.12.2022
Guarantees and credit lines issued by third parties	IRC contract for hedging cash flows of notes issued
Quality of the assets transferred	Bad loans.
Amount of securitised assets	The total of the loans receivable from the portfolio sold amounts to 872 million euro.
Sale price of the securitised assets	The sale price is 274 million euro
Organisational structure	Prelios Credit Servicing S.p.A. prepares a quarterly report containing all the information relating to the receivables of each debtor position.
Internal risk measurement and control systems	The settlement or judicial recovery of non-performing loans assigned is entrusted solely to the Servicers appointed by the SPV. Banca Popolare di Sondrio has not maintained any role or involvement in the management of credit recovery.

The vehicle company has issued the following securities:

Seniority	Expiry	Issue amount	Rating DBRS Morningstar	Rating Moody's	Rating Scope Ratings
Senior	December 2038	235,000,000	BBB	Baa2	BBB
Mezzanine	December 2038	35,000,000	N/A	N/A	N/A
Junior	December 2038	3,651,000	N/A	N/A	N/A
TOTAL		**273,651,000**			

All senior securities are classified in the portfolio of «Financial assets measured at amortised cost».

Based on the reimbursements received from the execution date of the transaction to the closing date of this financial year and the expected losses recognised on the basis of the

IFRS 9 impairment model, the net book value at the end of the year, amounts to 103.600 million. The units of mezzanine (fair value 667,940 euro) and junior (fair value 528 euro) securities owned by the Company have instead been recorded as «Financial assets mandatorily measured at fair value through profit or loss».

Luzzatti securitisation

In December 2020, Banca Popolare di Sondrio carried out the second securitisation through a multi-originator sale, relating to exposures classified as bad loans originating from 15 banks, for a total value of 919.9 million in terms of gross book value, of which 371.8 million attributable to Banca Popolare di Sondrio.

The main elements of the transaction described above are summarised below with reference to Banca Popolare di Sondrio:

Portfolio sale date	03/12/2020
Vehicle Company	POP NPLs 2020 S.r.l.
Servicers	Credito Fondiario S.p.A. and Fire S.p.A.
Securities issue date	23/12/2020
Type of transaction	Traditional multi-originator sale with GACS guarantee from the Economic and Finance Ministry.
Assets sold	NPLs made up of secured and unsecured credit exposures
Sector of the economy	The portfolio being sold is made up principally of corporate debtors.
Geographical breakdown	The loans subject to securitisation refer to parties resident in Italy.
Subordinated loan (Cash reserve)	4.505 million original, 3.181 million residual as at 31.12.2022
Guarantees and credit lines issued by third parties	IRC contract for hedging cash flows of notes issued
Quality of the assets transferred	Bad loans.
Amount of securitised assets	The total of the loans receivable from the portfolio sold amounts to 345 million euro.
Sale price of the securitised assets	The sale price is 112 million euro
Organisational structure	Credito Fondiario S.p.a. prepares a quarterly report containing all the information relating to the receivables of each debtor position.
Internal risk measurement and control systems	The settlement or judicial recovery of non-performing loans assigned is entrusted solely to the Servicers appointed by the SPV. Banca Popolare di Sondrio has not maintained any role or involvement in the management of credit recovery.

The following table shows the securitisation positions held by Banca Popolare di Sondrio:

Seniority	Expiry	Nominal Amount	Rating DBRS Morningstar	Rating Scope Ratings
Senior	November 2045	109,783,000	BBB	BBB
Mezzanine	November 2045	568,250	CCC	CC
Junior	November 2045	227,400	N/A	N/A
Total		**110,578,650**		

All senior securities are classified in the portfolio of «Financial assets measured at amortised cost», based on the reimbursements received from the execution date of the transaction to the closing date of this financial year and the expected losses recognised on the basis of the IFRS 9 impairment model, the net book amount at the end of the year, amounts to 70.997 million. The units of mezzanine (fair value 102,818 euro) and junior (fair value 227 euro) securities owned by the Company have been recorded as «Financial assets mandatorily measured at fair value through profit or loss».

Luzzatti II securitisation

In December 2021, the Group carried out the third securitisation through a multi-originator sale, relating to exposures classified as bad loans originating from 11 banks, for a total value of 789.2 million in terms of gross book value, of which 420.9 million attributable to Banca Popolare di Sondrio (made up 57% of secured loans).

The main elements of the transaction described above are summarised below with reference to Banca Popolare di Sondrio:

Portfolio sale date	13/12/2021
Vehicle Company	POP NPLs 2021 S.r.l.
Servicers	Zenith Service S.p.A. and doValue S.p.A.
Securities issue date	23/12/2021
Type of transaction	Traditional multi-originator sale with GACS guarantee from the Economic and Finance Ministry.
Assets sold	NPLs made up of secured and unsecured credit exposures
Sector of the economy	Non-performing loans to individual, corporate and retail customers
Geographical breakdown	The loans subject to securitisation refer to parties resident in Italy.
Subordinated loan (Cash reserve)	4.113 million original, 3.442 million residual as at 31.12.2022
Guarantees and credit lines issued by third parties	IRC contract for hedging cash flows of notes issued
Quality of the assets transferred	Bad loans.
Amount of securitised assets	The total of the loans receivable from the portfolio sold amounts to 374 million euro.
Sale price of the securitised assets	The sale price is 99.250 million euro
Organisational structure	Zenith Service S.p.A. prepares a quarterly report containing all the information relating to the receivables of each debtor position.
Internal risk measurement and control systems	The settlement or judicial recovery of non-performing loans assigned is entrusted solely to the Servicers appointed by the SPV. Banca Popolare di Sondrio has not maintained any role or involvement in the management of credit recovery.

The following table shows the securitisation positions held by Banca Popolare di Sondrio at the reporting date.

Seniority	Expiry	Nominal Amount	Rating DBRS Morningstar	Arc Ratings
Senior	October 2045	97,715,000	BBB	BBB
Mezzanine	October 2045	665,614	N/A	N/A
Junior	October 2045	266,246	N/A	N/A
Total		**98,646,860**		

All senior securities are classified in the portfolio of «Financial assets measured at amortised cost», based on the reimbursements received in 2022, and the expected losses recognised on the basis of the IFRS 9 impairment model, the net book amount at the end of the year, amounts to 81.211 million. The units of mezzanine (fair value 93,142 euro) and junior (fair value 266 euro) securities owned by the Company have been recorded as «Financial assets mandatorily measured at fair value through profit or loss».

2. Synthetic securitisations

On 14 June, the Group signed a synthetic securitisation transaction with the EIB Group for a countervalue of 958 million euro against a portfolio of loans granted to corporate counterparties. A net economic interest (retention) of at least 5% was maintained on the financing of the portfolio subject to the transaction.

Synthetic securitisations provide for the purchase of credit risk protection underlying a portfolio of loans, of which the Originator retains full ownership, by entering into collateral agreements. Such transactions are therefore designed to transfer credit risk from the Originator to an external Counterparty, without derecognition of the assets, which are therefore retained on the Bank's financial statements.

By means of synthetic securitisation, the Bank acquires, in synthetic and thus aggregate form, a hedge against «first losses» that may occur in an identified portfolio of loans. The financial structure mitigates the credit risks present in the loans subject to the transaction and consequently frees up financial resources, which can also be allocated to the development of new loans.

The structure of the transaction envisages the portfolio being virtually divided into 2 tranches according to the degree of risk: Senior and Junior. The initial portfolio subjected to the transaction was broken down as follows:

- Senior: 910.43 million;
- Junior: 47.92 million.

In particular, the Senior tranche does not benefit from any guarantee, while the Junior tranche is covered by a guarantee from the European Investment Fund (EIF) and counter-guaranteed by the European Investment Bank (EIB), using funds from the European Guarantee Fund (EGF), the EU recovery aid instrument launched in 2020 in response to the Covid-19 crisis.

As at 31 December 2022, the Bank's net exposure to the securitisation was 827.4 million euro, of which 41.4 million euro was represented by the Junior component.

QUANTITATIVE INFORMATION

C.1 Prudential consolidation - Exposures deriving from the main «own» securitisation transactions broken down by type of securitised assets and by type of exposure

	cash exposures					
	Senior		Mezzanine		Junior	
Type of underlying assets/Exposures	Book value	Value adjustments/ write-backs	Book value	Value adjustments/ write-backs	Book value	Value adjustments/ write-backs
A. **Fully derecognised from the financial statements**	**–**	**–**	**–**	**–**	**–**	**–**
Non-performing loans	311,815	67	974	–	1	–
B. **Partially derecognised from the financial statements**	**–**	**–**	**–**	**–**	**–**	**–**
C. **Not derecognised from the financial statements**	**785,987**	**(1,237)**	**–**	**–**	**41,368**	**(693)**
C.1 Corporate loans (*)	785,987	(1,237)	–	–	41,368	(693)

* The sub-item «corporate loans» relates to the synthetic securitisation transaction.

The table shows the cash exposures assumed by the Banca Popolare di Sondrio Group in relation to its Diana, Luzzatti, Luzzatti II and Luzzatti III securitisations. The parts of the table relating to guarantees issued and credit lines are not shown as these situations do not apply in this case.

C.2 Prudential consolidation - Exposures deriving from the main securitisation transactions of «third parties» broken down by type of securitised assets and by type of exposure

	cash exposures					
	Senior		Mezzanine		Junior	
Type of underlying assets/Exposures	Book value	Value adjustments/ write-backs	Book value	Value adjustments/ write-backs	Book value	Value adjustments/ write-backs
Bnt Portfolio Spv Srl 15.05.2014/08.02.2042						
Mortgage loans	24,283	–	–	–	–	–
Alba 6 SPV 27.06.2014/25.10.2045						
Lease contracts	451,757	49	–	–	–	–

The note linked with the securitisation by BNt Portfolio Spv Srl is classified among the financial assets mandatorily measured at fair value through profit or loss. That fair value is indicated in the «Book value» column. The parts of the table relating to guarantees issued and credit lines are not shown as these situations do not apply in this case.

C.3 Prudential consolidation – Interests in special purpose securitisation vehicles

			Assets			Liabilities		
Company Name	Registered office	Consolidation	Loans	Fixed-yield securities	Others	Senior	Mezzanine	Junior
Alba 6 Spv Srl	Conegliano (TV)	NO	689,995	–	37,648	451,862	–	143,017
Bnt Portfolio Spv Srl	Conegliano (TV)	NO	131,859	–	14,342	141,016	–	-
Diana SPV	Conegliano (TV)	NO	122,761	–	14,491	103,636	35,009	3,654
Pop Npls 2020 Srl	Rome (RM)	NO	166,630	–	38,561	176,920	25,000	10,000
Pop Npls 2021 Srl	Milan (MI)	NO	157,711	–	19,336	158,789	25,517	10,258
Pop Npls 2022 Srl	Conegliano (TV)	NO	140,378	–	29,382	118,250	17,500	3,000

C.4 Prudential consolidation – Non-consolidated special purpose vehicle for securitisation

The vehicle companies Alba 6 Spv Srl, BNT Porfolio Spv Srl, Diana SPV Srl, Pop Npls 2020 Srl, Pop Npls 2021 Srl and Pop Npls 2022 Srl have not been consolidated as there is no control as defined by IFRS 10. Reference should be made to Part A of these notes.

As part of the Diana, Luzzatti I, Luzzatti II and Luzzatti III operations, the Group issued limited-recourse loans to the vehicle companies, at 31 December 2022, for 15.542 million, intended at the issue date of the securities to constitute a cash reserve available to the SPV to cover any misalignments between the recovery plan of the portfolio sold to it and the payments to be made in favour of the security holders, shown under «Financial assets measured at amortised cost». The Banca Popolare di Sondrio Group's maximum exposure to the risk of loss is equal to the sum of the book value of the notes (312.8 million euro) and the book value of the limited-recourse loans. Taking into account that the government guarantee only covers the senior tranches (except for the Luzzatti III sale), we believe that the exposure to the risk of loss is reduced to 72.525 million euro.

C.5 Prudential consolidation – Servicer activities – own securitisations: collection of securitised loans and redemption of securities issued by the SPV for securitisation

At 31 December 2022, the Group does not perform any servicer activity for its own securitisations in which the assets sold have been derecognised in accordance with IFRS 9.

C.6 Prudential consolidation – Consolidated special purpose vehicle for securitisation

At 31 December 2022, there were no transactions that use consolidated special vehicle companies for securitisation.

D. Disposal Transactions

A. Financial assets sold and not fully derecognised

QUALITATIVE INFORMATION

Pursuant to IFRS 7, paragraph 42D, letters a), b) and c), the following table shows the Book value of repurchase agreements on securities owned (mainly classified in the portfolio of «Financial assets measured at amortised cost») which did not lead to derecognition of the underlying financial assets from the financial statements.

The non-derecognition of the securities, with reference to repurchase agreements, is linked to the Group retaining all the risks and benefits associated with the security, since there is an obligation to repurchase it forward at a contractually established price. Depending on the type of counterparty, the consideration for the sale is recognised under payables to banks or to customers, while the securities involved in the transaction remain recorded in their portfolios.

QUANTITATIVE INFORMATION

D.1 Prudential consolidation - Financial assets sold recognised in full and associated financial liabilities: book values

	Financial assets sold and recognised in full				Associated financial liabilities		
	Book value	of which: subject to securitisation transactions	of which: subject to sales contracts with repurchase agreement	of which: non-performing	Book value	of which: subject to securitisation transactions	of which: subject to sales contracts with repurchase agreement
A. **Financial assets held for trading**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Fixed-yield securities	-	-	-	-	-	-	-
2. Equity securities	-	-	-	-	-	-	-
3. Loans	-	-	-	-	-	-	-
4. Derivatives	-	-	-	-	-	-	-
B. **Other financial assets mandatorily measured at fair value**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Fixed-yield securities	-	-	-	-	-	-	-
2. Equity securities	-	-	-	-	-	-	-
3. Loans	-	-	-	-	-	-	-
C. **Financial assets designated at fair value**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Fixed-yield securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. **Financial assets measured at fair value through other comprehensive income**	**139,142**	**-**	**139,142**	**-**	**139,314**	**-**	**139,314**
1. Fixed-yield securities	139,142	-	139,142	-	139,314	-	139,314
2. Equity securities	-	-	-	-	-	-	-
3. Loans	-	-	-	-	-	-	-
E. **Financial assets measured at amortised cost**	**2,127,679**	**-**	**2,127,679**	**-**	**1,907,270**	**-**	**1,907,270**
1. Fixed-yield securities	2,127,679	-	2,127,679	-	1,907,270	-	1,907,270
2. Loans	-	-	-	-	-	-	-
Total 31/12/2022	**2,266,821**	**-**	**2,266,821**	**-**	**2,046,584**	**-**	**2,046,584**
Total 31/12/2021	**-**	**-**	**-**	**-**	**-**	**-**	**-**

D.2 Prudential consolidation - Financial assets sold recognised partially and associated financial liabilities: book values

In both the current and the previous year, the Group has no financial assets sold but still partially recognised and associated financial liabilities.

D.3 Prudential consolidation - Sale transactions with liabilities having recourse only to the assets sold and not derecognised in full: fair value

	Recognised in full	Recognised in part	**Total 31/12/2022**	**Total 31/12/2021**
A. **Financial assets held for trading**	**–**	**–**	**–**	**–**
1. Fixed-yield securities	–	–	–	–
2. Equity securities	–	–	–	–
3. Loans	–	–	–	–
4. Derivatives	–	–	–	–
B. **Other financial assets mandatorily measured at fair value**	**–**	**–**	**–**	**–**
1. Fixed-yield securities	–	–	–	–
2. Equity securities	–	–	–	–
3. Loans	–	–	–	–
C. **Financial assets designated at fair value**	**–**	**–**	**–**	**–**
1. Fixed-yield securities	–	–	–	–
2. Loans	–	–	–	–
D. **Financial assets measured at fair value through other comprehensive income**	**139,142**	**–**	**139,142**	**–**
1. Fixed-yield securities	139,142	–	139,142	–
2. Equity securities	–	–	–	–
3. Loans	–	–	–	–
E. **Financial assets measured at amortised cost (fair value)**	**2,047,815**	**–**	**2,047,815**	**–**
1. Fixed-yield securities	2,047,815	–	2,047,815	–
2. Loans	–	–	–	–
Total financial assets	**2,186,957**	**–**	**2,186,957**	**–**
Total associated financial liabilities	**2,046,584**	**–**	**2,046,584**	**–**
Net carrying amount 31/12/2022	**140,373**	**–**	**140,373**	**–**
Net carrying amount 31/12/2021	**–**	**–**	**–**	**–**

B. Financial assets sold and fully derecognised with recognition of continued involvement

At 31 December 2022, there are no financial assets sold and fully derecognised with recognition of continued involvement.

C. Financial assets sold and not fully derecognised

Pursuant to the provisions of the Communication of the Bank of Italy of 23 December 2019, the following section provides the qualitative and quantitative information regarding the only sale of non-performing loans, classified as «Unlikely to pay», carried out as of 2020 of multi-originator type in favour of a mutual investment fund with simultaneous subscription of units issued by the fund.

During 2022, two sale transactions took place:

- Illimity Real Estate Credit Fund (hereinafter the «Fund» or «iREC Fund»)
- Keystone

Operation iREC Fund

On 3 August 2022, the first transaction was completed involving the sale of loans, qualified with the status of «unlikely to pay» by Banca Popolare di Sondrio. This deal was carried out through the contribution of non-performing loans at the price of 15.520 million, offsetting the sale price with the subscription price, for the same amount, of 15,520,000 class A units, of the «illimity Real Estate Credit Fund».

Taking into account the carrying amount of the loans at 1 January 2022, the sale transaction resulted in the recognition of a positive economic effect of 2.4 million.

The «illimity Real Estate Credit Fund» is an Italian closed-end alternative investment fund (AIF) falling within the category of AIF (Alternative Investment Funds), reserved and single-sub-fund, set up and managed by illimity SGR S.p.A.

The Fund's management policies will focus on maximising the recovery rate of loans, the value of real estate, the value of the assets held by the special purpose vehicles and, in general, the value of the assets falling within the perimeter of the fund, also through dynamic and proactive dialogue with the debtors on the evolution of the business, as well as the definition of a debtor governance consistent with the relevance of the investment and the Fund's role.

The structure and functioning of the transaction are governed, also in terms of governance, by the Fund Regulations.

The body responsible for managing the Fund is the Board of Directors which makes use of an Advisory Board that can express a binding opinion to the Board of Directors only in the event of any investment or divestment or contract or other act in conflict of interest, actual or potential, between related parties and with other funds managed by the AMC. There is also a third decision-making body, namely the Fund Meeting, in which all unit-holders of the Fund's Sub-Funds participate.

From an accounting point of view, in line with the provisions of IFRS 9, the aforementioned sale operation involved derecognition of the loans sold, as a counter-entry to the recognition of the shares attributed to the iREC fund, as Banca Popolare di Sondrio substantially transferred all the risks and benefits deriving from the possession of the assets being sold and, moreover, did not retain any power of management over the fund, which was taken on by the fund management company.

For further details on the determination of the fair value of the units, please refer to part A.4 of these notes.

The fund units have been booked to the portfolio of «Financial assets mandatorily measured at fair value through profit or loss», with a fair value of 14 million euro at 31 December 2022.

Operation Keystone

On 28 December 2022, the second transaction was completed involving the sale of loans, qualified with the status of «unlikely to pay» by Banca Popolare di Sondrio. This deal was carried out through the contribution of non-performing loans at the price of 19.522 million, offsetting the sale price with the sub-scription price, for the same amount, of 18,971,969 class A units, of the «Keystone Fund».

Taking into account the carrying amount of the loans at 30 June 2022, the sale transaction resulted in the recognition of a positive economic effect of 0.9 million.

The «Keystone» Fund is a closed-end mutual fund under Italian law, falling within the category of AIFs (Alternative Investment Funds), reserved for professional investors established and managed by Kryalos SGR S.p.A.

The Fund's management policies will focus on maximising the recovery rate of loans, the value of real estate, the value of the assets held by the special purpose vehicles and, in general, the value of the assets falling within the perimeter of the fund, also through dynamic and proactive dialogue with the debtors on the evolution of the business, as well as the definition of a debtor governance consistent with the relevance of the investment and the Fund's role.

The structure and functioning of the transaction are governed, also in terms of governance, by the Fund Regulations.

The body responsible for managing the Fund and for carrying out investment activities is the Board of Directors, which makes use of an Advisory Committee that can express a binding opinion to the Board of Directors only in the event of approval of any investment or divestment or contract or other act in conflict of interest, actual or potential, between related parties and with other funds managed by the AMC. There is also a third decision-making body, namely the Fund Meeting, in which all unit-holders of the Fund's Sub-Funds participate.

From an accounting point of view, in line with the provisions of IFRS 9, the aforementioned sale opera-tion involved derecognition of the loans sold, as a counter-entry to the recognition of the shares attribut-ed to the Keystone fund, as Banca Popolare di Sondrio substantially transferred all the risks and benefits deriving from the possession of the assets being sold and, moreover, did not retain any power of management over the fund, which was taken on by the fund management company.

For further details on the determination of the fair value of the units, please refer to part A.4 of these notes. The fund units have been booked to the portfolio of «Financial assets mandatorily measured at fair value through profit or loss», with a fair value of 16 million euro at 31 December 2022.

Multi-originator assignment of receivables to mutual funds completed in the two-year period 2020-2021

Illimity Credit & Corporate Turnaround Fund

On 31 March 2021 and 21 October 2021, two Illimity transactions were finalised, involving the sale of loans, qualified with the status of «unlikely to pay» by Banca Popolare di Sondrio to the Italian alternative investment fund (AIF), a closed-end single-sub-fund investment fund reserved for qualified investors, established and managed by illimity SGR S.p.A. named «illimity Credit & Corporate Turnaround Fund».

The Fund's management policies are focused on maximising the recovery rate of the receivables acquired and the return on the financial instruments invested in, and on providing new finance as part of the restructuring plans of the companies in the portfolio, through instruments that allow a higher degree of priority in repayment than the financial debt already in place (Debtor-in-Possession Financing).

The shares of the fund, with reference to both sales, were recognised in the accounting portfolio of «Financial assets mandatorily measured at fair value through profit or loss», the fair value as at 31 December 2022 was equal to 15 million euro. Refer to the financial statements as of 31.12.2021 for further details.

IDEA CCR Corporate Credit Recovery II Fund - Credit Section

On 7 October 2020, the DeA Capital deal was completed with the transfer of loans with the status of «unlikely to pay» by Banca Popolare di Sondrio to the Italian alternative mutual investment fund (FIA) of the closed-end multi-sector type reserved for qualified investors, called «IDEA CCR (Corporate Credit Recovery) II» (hereinafter IDEA CCR II), managed by DeA Capital Alternative Funds SGR, which aims to contribute to the relaunch of Italian companies under financial stress, but with solid industrial foundations.

The fund units have been booked to the portfolio of «Financial assets mandatorily measured at fair value through profit or loss», with a fair value of 7 million euro at 31 December 2022. Refer to the financial statements as of 31.12.2021 for further details.

D. Covered bond transactions

On 6 November 2013, the Board of Directors of the Parent Company authorised a covered bond programme for a maximum amount of 5 billion euro, based on the assignment to a vehicle company of residential mortgages and construction loans arranged by the Parent Company.

On 1 June 2014, pursuant and consequent to the combined provisions of arts. 4 and 7-bis of law 130 of 30 April 1999, a portfolio of performing loans totalling 802 million euro was sold without recourse to «POPSO Covered Bond s.r.l.», the vehicle company, in relation to the issue on 5 August 2014 of the first series of 5-year covered bonds for 500 million euro.

A second sale of performing loans totalling 202 million euro took place on 5 December 2015, under the same contract.

An additional 2 disposals were made during 2016. The first, on 1 February 2016, of a portfolio of a total of 576 million euro of performing loans in connection with the issuance of the second series of covered bonds totalling 500 million euro on 4 April 2016. The second, on 1 November 2016, of a portfolio of per-forming loans totalling 226 million euro.

During 2017, a fifth sale of performing loans for a total of 307 million euro took place on 1 October 2017 under the same contract.

Likewise, during 2018, a sixth sale of performing loans for a total of 323 million euro took place on 1 October 2018.

During 2019, a seventh sale of performing loans for a total of 352 million euro took place on 1 December 2019, under the same contract.

During 2022, an eighth sale of performing loans for a total of 167 million euro took place on 1 November 2022, under the same contract.

These securitisations involved the sale of residential mortgages to the SPV, which was simultaneously granted a subordinated loan in order to settle the sale price. Since the Bank retains all the risks and benefits relating to those loans, the operations are not treated as a non-recourse sale pursuant to IFRS 9. These loans were not therefore derecognised.

The principal strategic objectives for this issue including equipping the Parent Company with instruments that can be placed on the market, even via public transactions. In addition, the activation of instruments of this type can contribute to:

- extending the maturities of funding and therefore strengthening its correlation with the medium/long-term loans granted;
- diversifying the long-term sources of funding;
- obtaining favourable conditions, with respect to those available via the routine placement of unsecured bonds.

A complex and detailed process has been established for complying with the related regulatory requirements. The process involves, in particular, calculating and monitoring the tests required by law and contracts, checking compliance with the requirements governing the suitability of the assets assigned, preparing the reports required by the regulations and the rating agency, and performing all the related control activities. Among the various counterparties involved for various reasons, BDO Italia Spa, the independent auditing firm and «asset monitor», is responsible for verifying the tests.

The operations are proceeding smoothly and no issues have emerged with respect to the contractual requirements.

The regulations also require assessment of the objectives, legal, reputational and other risks, and controls put in place by the corporate bodies responsible for strategic supervision and control.

The following information is provided about the bond issued by Banca Popolare di Sondrio S.p.A. for which the vehicle company, Popso Covered Bond s.r.l., acts as Guarantor:

Series and Class	Series 2
ISIN Code	IT0005175242
Issue date	04/04/2016
Maturity Date	04/04/2023
Extended maturity	04/04/2024
Currency	Euro
Amount	500,000,000
Type of rate	Fixed
Parameter	0.750%
Coupon	Annual
Applicable law	Italian

The first series of bonds, with ISIN Code IT0005039711, was repaid in full on 5 August 2019.

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

The Group does not use internal portfolio models for the assessment of credit risk (VaR methodology).

1.2 Banking group - Market risk

1.2.1 Interest rate risk and price risk - trading book for supervisory purposes

QUALITATIVE INFORMATION

A. General aspects

For the Parent Company, reference should be made to the corresponding section of the Company's explanatory notes.

Factorit s.p.a., Sinergia Seconda S.r.l. and Banca della Nuova Terra s.p.a. are not exposed to rate and price risk inherent to the trading book, whereas Popso Covered Bond s.r.l., which is consolidated synthetically with the Parent Company, is included in the analysis carried out for the separate financial statements.

The subsidiary Banca Popolare di Sondrio (SUISSE) SA is not exposed to interest rate risk arising from its trading book. As regards the transactions in derivative instruments (derivatives in the strictest sense), the offices of the Swiss subsidiary occasionally arrange interest rate options and interest rate swaps in order to satisfy the hedging needs of customers; these are then matched with operations of opposite sign arranged with leading financial counterparties. Consequently, such transactions do not generate any risk.

The Swiss subsidiary is exposed to price risk for the contained units of UCI classified as «financial assets held for trading».

A1. Impacts from the Covid-19 pandemic and the Russian-Ukrainian conflict

For the impacts deriving from the pandemic, please refer to what is indicated for the Parent Company in the corresponding section of the Company's notes, given that the subsidiaries' contributions are not material.

B. Management processes and measurement methods of interest rate risk and price risk

For the Parent Company, reference should be made to the corresponding section of the Company's explanatory notes.

At a consolidated level, as well as at a separate level, the internal processes for the measurement, control and management of trading book interest rate risk use two separate monitoring systems that are based respectively on:

– an internal model for the daily calculation of the Value at Risk (VaR), which is also used for the analysis of exposure to price risk;
– an analysis of sensitivity to interest rate based on the strategic Asset & Liability Management (ALM) methodologies detailed in section 1.2.2 below (interest rate risk and price risk of the banking book).

As regards the model based on the calculation of VaR, the Bank adopts an overall system of limits on the exposure to risks from financial assets at a consolidated level similar to what was explained in the notes to the separate financial statements, to which reference should be made also for the characteristics of the internal model used for calculating Value at Risk (VaR).

In particular, in addition to the financial instruments exposed to interest rate risk and price risk included in the Parent Company's trading book for supervisory purposes, the model used covers forward exchange rate contracts and derivatives in the strict sense (foreign exchange and commodity options) and the UCI units of the subsidiary.

With regard to the methodologies used to aggregate the various risk profiles, the aggregation is determined by calculating the VaR in a manner that takes account of the correlation between risk profiles, rather than by simple summation, such that the overall VaR is usually less than the sum of the partial VaRs.

As regards the second methodology, based on sensitivity analyses carried out through an Asset & Liability Management (ALM) procedure, please refer to the notes to the separate financial statements of the Company, where the «stress testing» activities are also explained. With regard to the results, please refer to the contents of the following paragraph (Quantitative information).

B1. Impacts from the Covid-19 pandemic and the Russian-Ukrainian conflict

As explained in the corresponding section of the company's notes to the financial statements, the highly uncertain situation, triggered in particular by the Russian-Ukrainian conflict, led to an increase in VaR measures compared to last year, also undermining the segment's profitability. However, with the exception of an episode of limited entity relating to the more detailed limits of potential exposure in terms of Value at Risk (VaR) on a particular type of risk factor, there were no violations during the year in the system of limits to risk exposure insisting on the set of instruments held for trading purposes («trading book»).

QUANTITATIVE INFORMATION

1. Regulatory trading book: distribution by residual maturity (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

Currency: EURO

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. **Cash assets**	**8,293**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1.1 Fixed-yield securities	–	–	–	–	–	–	–	–
– with early repayment option	–	–	–	–	–	–	–	–
– other	–	–	–	–	–	–	–	–
1.2 Other assets	8,293	–	–	–	–	–	–	–
2. **Cash liabilities**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. **Financial derivatives**	**–**	**4,185,063**	**1,568,083**	**1,184,379**	**1,584,199**	**537,288**	**17,942**	**–**
3.1 With underlying securities	–	58	–	–	–	–	–	–
– Options	–	58	–	–	–	–	–	–
+ Long positions	–	3	–	–	–	–	–	–
+ Short positions	–	55	–	–	–	–	–	–
– Other	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying securities	–	4,185,005	1,568,083	1,184,379	1,584,199	537,288	17,942	–
– Options	–	131,322	143,802	256,384	1,249,654	503,288	17,942	–
+ Long positions	–	65,661	71,901	128,192	624,827	251,644	8,971	–
+ Short positions	–	65,661	71,901	128,192	624,827	251,644	8,971	–
– Other derivatives	–	4,053,683	1,424,281	927,995	334,545	34,000	–	–
+ Long positions	–	2,652,361	930,231	804,024	174,537	17,000	–	–
+ Short positions	–	1,401,322	494,050	123,971	160,008	17,000	–	–

1. Regulatory trading book: distribution by residual maturity (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

Currency: OTHER CURRENCIES

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. **Cash assets**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1.1 Fixed-yield securities	–	–	–	–	–	–	–	–
– with early repayment option	–	–	–	–	–	–	–	–
– other	–	–	–	–	–	–	–	–
1.2 Other assets	–	–	–	–	–	–	–	–
2. **Cash liabilities**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. **Financial derivatives**	**–**	**3,422,033**	**866,459**	**861,080**	**44,280**	**–**	**–**	**–**
3.1 With underlying securities	–	–	–	–	–	–	–	–
– Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
– Other	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying securities	–	3,422,033	866,459	861,080	44,280	–	–	–
– Options	–	28,548	28,564	15,030	3,544	–	–	–
+ Long positions	–	14,274	14,282	7,515	1,772	–	–	–
+ Short positions	–	14,274	14,282	7,515	1,772	–	–	–
– Other derivatives	–	3,393,485	837,895	846,050	40,736	–	–	–
+ Long positions	–	1,054,614	179,302	86,245	20,371	–	–	–
+ Short positions	–	2,338,871	658,593	759,805	20,365	–	–	–

2. Supervisory trading book: distribution of exposures in equity securities and equity indices for the main countries of the listing market

	Listed						
Type of transactions/Listing index	ITALY	FRANCE	SPAIN	NETHERLANDS	GERMANY	OTHER COUNTRIES	Unlisted
A. **Equity securities**							
- Long positions	41,144	5,489	–	852	3,371	–	–
- Short positions	–	–	–	–	–	–	–
B. **Purchase/sale transactions not yet settled in equity securities**							
- Long positions	261	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–
C. **Other derivatives on equity securities**							
- Long positions	6	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–
D. **Derivatives on stock indices**							
- Long positions	1,307	–	–	–	–	–	–
- Short positions	7,632	–	–	–	–	–	–

3. Trading book for supervisory purposes – internal models and methodologies for the analysis of sensitivity

Here we show the year-end figures for VaR split between rate risk and price risk, and between transactions explicitly foreseen in tables above and other transactions for which the calculation is carried out in any case.

Value at Risk (VaR), end of period

	(in thousands of euro)
1. **Cash assets**	**–**
1.1 Fixed-yield securities	–
1.2 Other assets	–
2. **Cash liabilities**	**–**
2.1 Repurchase agreements	–
2.2 Other liabilities	–
3. **Financial derivatives**	**551**
3.1 With underlying securities	–
– Options (on equity securities)	–
+ Long positions	–
+ Short positions	1
– Other derivatives	–
+ Long positions	–
+ Short positions	–
3.2 Without underlying securities	551
– Options	–
+ Long positions	94
+ Short positions	94
– Other derivatives	551
+ Long positions	716
+ Short positions	271
Total interest rate risk	**551**
A. **Equity securities**	**1,899**
– Long positions	1,899
– Short positions	–
B. **Purchase/sale transactions not yet settled in equity securities**	**13**
– Long positions	13
– Short positions	–
C. **Other derivatives on equity securities**	**110**
– Long positions	113
– Short positions	4
D. **Derivatives on stock indices**	**50**
– Long positions	42
– Short positions	155
Total Price risk transactions tab.2	**1,656**
Mutual funds	**1,439**
Total Price risk	**2,954**
Global trading (net of exchange)	**1,435**

Interest-rate risk

Information on average, minimum and maximum VaR is provided below.

Global Value at Risk (VaR)

	(in thousands of euro)
average	961
minimum	112
maximum	3,145

With regard to the distribution of VaR during the year, the average, total, general and specific interest rate VaR for each of the twelve months in 2022 is shown below.

January	144
February	857
March	541
April	493
May	413
June	873
July	1,158
August	1,084
September	1,646
October	2,408
November	1,210
December	648

With reference to fixed-yield securities included in the trading book, the number of days in which actual losses exceeded the VaR was 10 out of 191 total observations, the number of days in which theoretical losses exceeded the VaR was 9 out of 191 total observations, the number of days in which theoretical losses according to the model exceeded the VaR was 7 out of 191 total observations.

With reference to fixed-yield securities in the regulatory trading book (not present at the end of 2022), forward exchange rate contracts, interest rate options and interest rate swaps (excluding the interest rate swaps used by the Parent Company to hedge the interest rate risk arising from the disbursement of fixed-rate loans «Macro Fair Value Hedging» and the interest rate swaps that the Parent Company enters into with primary financial counterparties to hedge similar interest rate swaps that Banca Popolare di Sondrio (SUISSE) SA enters into with the Parent Company to hedge the loans disbursed by the subsidiary), we report below the data from the ALM procedure, similar to those reported in section 1.2.2 below for the banking book. Please note that the outcomes below refer to the hypothetical rate movement scenarios in use for the monthly risk analyses, including:

– the six scenarios described in «Annex III - The standardised interest rate shock scenarios» of the «Guidelines on the management of interest rate risk arising from non-trading book activities» published on 19 July 2018 by the European Banking Authority;
– two hypothetical scenarios for the shift of rates, introduced on the survey at the end of 2021, aimed respectively at capturing future market expectations («ongoing») and specific particularly adverse situations that have occurred in the past («historical»).

Effects of a change in interest rates over a twelve-month period on the future interest margin.

The future interest margin is understood to be the difference between the future interest income and the future interest expense, based solely on transactions outstanding at the reference date, possibly renewed with the same volumes.

The figures given below do not include the effects generated by forward contracts on exchange rates.

Figures in thousands of euro Risk exposure	Change in net interest income from 01/01/2022 to 31/12/2022 at the end of the period	average	minimum	maximum	**31/12/2021**
Parallel up	543	451	47	769	36
Parallel down	-440	-295	-581	-16	-8
shock up parallel shift	543	451	47	769	36
shock down parallel shift	-440	-295	-581	-16	-8
steepener shock shift	-224	-162	-331	-7	-8
flattener shock shift	359	277	12	488	12
short shock up shift	502	404	29	694	24
short shock down shift	-394	-278	-560	-16	-8
ongoing shift	27	80	4	152	4
Historical	501	-20	-116	501	-4
Worst case scenario	-440	-295	-581	-16	-8

Effects of a change in interest rates on the future profit over a twelve-month period.

Future profit is understood to mean the difference between future revenues and future costs calculated solely on existing transactions at the reference date and possibly renewed while maintaining constant volumes.

The figures given below do not include the effects generated by forward contracts on exchange rates.

In thousands of euro Exposure to risk	Change in profit from 01/01/2022 to 31/12/2022 at the end of the period	average	minimum	maximum	**31/12/2021**
Parallel up	543	-1,464	-7,185	703	-680
Parallel down	-440	1,504	-581	6,375	194
shock up parallel shift	543	-1,464	-7,185	703	-680
shock down parallel shift	-440	1,504	-581	6,375	194
steepener shock shift	-224	108	-331	1,426	194
flattener shock shift	359	-376	-2,150	488	-406
short shock up shift	502	-876	-3,876	672	-582
short shock down shift	-394	954	-560	3,751	194
ongoing shift	27	-369	-1,474	152	-136
Historical	501	642	-116	3,355	143
Worst case scenario	-440	-1,464	-7,185	152	-680

Effects of a change in interest rates on equity.

Equity is understood as being the difference between the present value of asset and liability items calculated solely on the transactions outstanding at the reference date in the hypothesis of inertial volumes.

Figures in thousands of euro Risk exposure	Change in equity value from 01/01/2022 to 31/12/2022 at the end of the period	average	minimum	maximum	**31/12/2021**
Parallel up	1,614	26	-6,938	1,960	-458
Parallel down	-1,532	167	-1,681	6,406	175
shock up parallel shift	1,614	26	-6,938	1,960	-472
shock down parallel shift	-1,532	167	-1,681	6,406	175
steepener shock shift	-47	262	-135	1,581	330
flattener shock shift	340	-254	-2,436	461	-505
short shock up shift	781	-322	-3,923	951	-652
short shock down shift	-726	391	-882	3,858	201
ongoing shift	-34	-212	-1,498	194	-171
Historical	1,883	248	-603	3,294	80
Worst case scenario	-1,532	-322	-6,938	194	-652

Price risk

Information on average, minimum and maximum VaR is provided below.

Price Value at Risk (VaR)

	(in thousands of euro))
average	3,562
minimum	981
maximum	4,960

As regards the distribution of VaR during the year, we indicate below the average value of the price VaR in each of the twelve months of 2022.

January	3,892
February	4,504
March	4,254
April	3,659
May	3,196
June	2,121
July	3,256
August	4,093
September	3,113
October	3,422
November	4,049
December	3,214

With reference to equity securities and mutual funds forming part of the trading book for management purposes, the number of days on which actual losses exceeded the VaR was 1 out of 256 observations, the number of days on which theoretical losses exceeded the VaR was 1 out of 256 observations, the number of days on which theoretical losses according to the model exceeded the VaR was 2 out of 256 observations.

1.2.2 Interest rate risk and price risk - Banking book

QUALITATIVE INFORMATION

A. General aspects, management and measurement of interest rate risk and price risk

For the Parent Company, reference should be made to the corresponding section of the Company's explanatory notes.

For Factorit S.p.a., interest rate risk is caused by the different times and methods used in repricing the interest rate on assets and liabilities. The presence of diversified fluctuations in interest rates leads to a variation in the expected interest margin, as well as a change in the present value of the assets and liabilities; this in turn alters the economic value of the items at risk. Note that the characteristics of Factorit's assets and liabilities mean that the impact of a change in market rates on the present value of its assets and liabilities is quite marginal. The high level of rotation of the loans and receivables and the fact that the funding is exclusively short-term, which ensure frequent repricings very close to each other, make it possible to maintain lending and funding terms in line with current market conditions.

Banca della Nuova Terra s.p.a. is exposed to interest rate risk linked to its lending operations to customers and to its limited investment in securities, partially offset by fixed-term deposits with the Parent Company.

Sinergia Seconda S.r.l. is not exposed to interest rate risk, whereas Popso Covered Bond s.r.l., which is consolidated synthetically with the Parent Company, is included, although with a minimal part, in the analysis carried out for the separate financial statements.

At the investee company Banca Popolare di Sondrio (SUISSE), the main source of interest rate risk is represented by fixed-rate lending transactions (mortgages), maturity funding transactions from banks and on-demand funding transactions from customers with appropriate maturity modelling.

From a Group perspective, the internal processes for measuring, controlling and managing the interest rate risk of the banking book make use of two separate monitoring systems managed by the Parent Company, using an integrated database at consolidated level, based respectively on:

- an internal model for the daily calculation of the Value at Risk (VaR), which is also used for the analysis of exposure to price risk;
- an analysis of sensitivity to interest rate risk based on the strategic Asset & Liability Management (ALM) methodologies.

The daily calculation of VaR is used to monitor the consolidated financial assets classified as «other financial assets mandatorily measured at fair value» and the «financial assets measured at fair value through other comprehensive income», excluding the investments made by the pension funds; the internal process for the control and management of interest rate and price risk, as well as the related methodology, are much the same as those detailed in the company's notes. As already indicated in the corresponding section of the Notes, for «financial assets measured at amortised cost», a risk metric is in force that is more representative of the typical risk profile of this type of investment.

The analysis of sensitivity using strategic ALM methodologies read the corresponding section of the explanatory notes. Similarly, the internal interest rate risk management and control processes adopt a system of indicators that hinges on a first group of metrics made up of an indicator on a consolidated basis known as the «primary» with four threshold levels defined by the Board of Directors in scope of the Risk Appetite Framework; on a second group of summary metrics made up of six socalled «complementay» risk indicators whose respective threshold systems are defined by the Board of Directors as part of the Risk Appetite Framework on a consolidated basis and on a third group of metrics made up of four so-called «operational» risk indicators whose limits are established by the Risk Committee, in line with the risk appetite established by the board. The indicator of the first set of metrics is represented by the «Supervisory Outlier Test» described in paragraphs 113, 115 and 116 of the «Guidelines on the management of interest rate risk arising from non-trading book activities» published on 19 July 2018 by the European Banking Authority. The first pair of indicators in the second set of metrics monitors the exposure to interest-rate risk of the banking book by assigning a value limit to the percentage ratio of the minimum between the change in equity and zero, expressed in absolute terms, to total own funds. The numerator of the quotient is obtained for both indicators using the «Sensitivity Analysis in Full Evaluation» method under inertial conditions, simulating parallel shifts in the benchmark rate curves of +/- 200 basis points. The second pair of «complementary» indicators monitors the exposure to interest-rate risk of the banking book by assigning a value limit to the percentage ratio of the minimum between the change in interest margin over a one-year time horizon and zero, expressed in absolute terms, to the net interest income expected over the same time period. The numerator of the quotient is obtained using the «Interactive Simulation» method under static conditions with constant volumes, simulating parallel shifts in the benchmark curves of +/- 200 basis points. The denominator is also calculated using the «Interactive Simulation» method under static conditions with constant volumes in the current rates scenario. The third pair of «complementary» indicators monitors the exposure to interest-rate risk of the banking book calculating the percentage ratio of the minimum between the change in profit over a one-year time horizon and zero, expressed in absolute terms, to the profit expected over the same time period. The numerator of the ratio is obtained through the «Interactive Simulation» method in static conditions at constant volumes to simulate the variation in the interest margin deriving from a parallel movement of the reference curves alternatively equal to +/- 200 basis points, to which is added the variation in the value of instruments through profit or loss or the balance sheet – securities classified as «financial assets measured at fair value through other comprehensive income» (FVOCI) and «other financial assets mandatorily measured at fair value» (FVTPLM) – calculated using the «Sensitivity Analysis in Full Evaluation» assuming the previous movements of the reference curves. The denominator coincides with the expected profit declared in the most recent Strategic Plan approved by the Board of Directors referring to the banking book. The first indicator of the third set of metrics is calculated as the percentage ratio of the minimum between the change in equity and zero, expressed in absolute terms, to total Tier 1 capital. The numerator of the indicator is obtained using the «Sensitivity Analysis in Full Evaluation» method under inertial conditions, simulating the changes in the benchmark curves contained in «Annex III – The standardised interest rate shock scenarios» of the «Guidelines on the management of interest rate risk arising from non-trading book activities» published on 19 July 2018 by the European Banking Authority. The second «operational» indicator is calculated as the percentage ratio of the minimum between the change in interest margin over a one-year time horizon and zero, expressed in absolute terms, to the net interest income expected over the same time period. The numerator is obtained using the «Interactive Simulation» method under static conditions, simulating the changes in the benchmark curves contained in «Annex III – The standardised interest rate shock scenarios» of the «Guidelines on the management of interest rate risk arising from non-trading book activities» published on 19 July 2018 by the European Banking Authority; the denominator is also calculated using the «Interactive Simulation» method under static conditions with constant volumes in the current rates scenario. The third «operational» indicator is calculated as the percentage ratio of the minimum between the change in profit over a one-year time horizon and zero, expressed in absolute terms, and the profit expected over the same time period. The numerator of the ratio is obtained through the «Interactive Simulation» method in static conditions at constant volumes to simulate the variation in the interest margin deriving from the movements of the reference curves contained in «Annex III - The standardised interest rate shock scenarios» of the «Guidelines on the management of interest rate risk arising from non-trading book activities» published on 19 July 2018 by the European Banking Authority, to which is added the change in the value of instruments through profit or loss or the balance sheet - securities classified in «financial assets measured at fair value through other comprehensive income» (FVOCI) and «other financial assets mandatorily measured at fair value» (FVTPLM) - calculated using the «Sensitivity Analysis in Full Evaluation» assuming the previous movements of the reference curves. The denominator coincides with the expected profit declared in the most recent Strategic Plan approved by the Board of Directors referring to the banking book. The fourth «operating» indicator is represented by the «Supervisory Outlier Test» described in paragraphs 114, 115 and 116 of the «Guidelines on the management of interest rate risk arising from non-trading book activities» published on 19 July 2018 by the European Banking Authority.

These indicators are monitored monthly, with the exception of the two indicators relating to the «Supervisory Outlier Test» for which monitoring is quarterly.

The process of monitoring interest-rate risk in relation to the banking book is supported by the preparation of suitable internal information, covering both the situation at specific dates and trends. This information is provided to the competent bodies and functions, either on request or with a fixed frequency, together with the risk analyses and measurements carried out.

With regard to the activity of «stress testing» reference should be made to the corresponding section of the company's notes to the financial statements.

The source of price risk for Banca Popolare di Sondrio (SUISSE) SA lies in equity securities and mutual funds shown under «other financial assets mandatorily measured at fair value» or «financial assets measured at fair value through other comprehensive income».

The measurement and control of price risk essentially involves application of the Parent Company's internal model for the calculation of Value at Risk (VaR) with the characteristics described in corresponding section of the notes.

With regard to the monitoring of investments, the model used covers the equity investments of the Parent Company, excluding investments in Banca Popolare di Sondrio (SUISSE) SA, Factorit s.p.a., Popso Covered Bond s.r.l., Sinergia Seconda s.r.l. and Banca della Nuova Terra s.p.a.; there is also the equity security owned by the Swiss subsidiary classified as «Equity investments».

A1. Impacts from the Covid-19 pandemic and the Russian-Ukrainian conflict

Similarly to what is shown in the corresponding section of the notes to the financial statements, there was an increase in risk measures compared to last year, mainly related to tensions in the financial markets and the adoption of restrictive monetary policies, only indirectly attributable to the inflationary dynamics triggered by the energy crisis. Nonetheless, except for episodes relating to the more detailed limits of potential exposure in terms of VaR on particular types of risk factors, there were no significant violations in the year of the system of limits on exposure to risk insistent on the set of financial instruments of the banking book.

Similar to the individual section, further investigations were conducted at the consolidated level to estimate the potential medium-term impacts of the tensions generated by the outbreak of the conflict between Russia and Ukraine.

B. Fair value hedging

For the Parent Company, reference should be made to the corresponding section of the Company's explanatory notes.

Significant loans with similar characteristics granted by the subsidiary Banca Popolare di Sondrio (SUISSE) SA are normally hedged against rate risk by arranging interest-rate swaps (IRS) via the Parent Company.

C. Cash flow hedging

The Group has not carried out cash flow hedging operations.

QUANTITATIVE INFORMATION

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

Currency: OTHER CURRENCIES

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years to 10 years	Over 10 years	Unspecified duration
3. **Financial derivatives**	**–**	**74,744**	**30,466**	**–**	**3,656**	**–**	**–**	**–**
3.1 With underlying securities	–	–	–	–	–	–	–	–
– Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
– Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying securities	–	74,744	30,466	–	3,656	–	–	–
– Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
– Other derivatives	–	74,744	30,466	–	3,656	–	–	–
+ Long positions	–	44,277	10,156	–	–	–	–	–
+ Short positions	–	30,467	20,310	–	3,656	–	–	–
4. **Other off-balance sheet transactions**	**18,862**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
+ Long positions	9,431	–	–	–	–	–	–	–
+ Short positions	9,431	–	–	–	–	–	–	–

This table only shows financial derivatives as an interest rate risk sensitivity analysis based on internal models is provided for cash assets and liabilities.

2. Banking book: internal models and other sensitivity analysis methods

Interest-rate risk

With reference to the assets and liabilities that generate the net interest income - except for the fixed-yield securities held in the trading book for supervisory purposes (none at the end of 2022), forward contracts on exchange rates, options on interest rates and interest rate swaps, as the information on these is disclosed in the section on the trading book for supervisory purposes – as defined in the paragraph in this section on qualitative information, the following are the figures taken from the ALM procedure.

Please note that the outcomes below refer to the hypothetical rate movement scenarios in use for the monthly risk exposure analyses, including:

- the six scenarios described in «Annex III - The standardised interest rate shock scenarios» of the «Guidelines on the management of interest rate risk arising from non-trading book activities» published on 19 July 2018 by the European Banking Authority;
- two hypothetical scenarios for the shift of rates, introduced on the survey at the end of 2021, aimed respectively at capturing future market expectations («ongoing») and specific particularly adverse situations that have occurred in the past («historical»).

An updated version of the behavioural models relating, respectively, to on-demand items receivable and payable as well as to mortgages and instalment loans was adopted at the end of the period of 31/12/2022.

Effects of a change in interest rates over a twelve-month period on the future interest margin.

The future interest margin is understood to be the difference between the future interest income and the future interest expense, based solely on transactions outstanding at the reference date, possibly renewed with the same volumes.

	Change in net interest income				
	from 01/01/2022 to 31/12/2022				
Figures in thousands of euro Risk exposure	at the end of the period	average	minimum	maximum	**31/12/2021**
Parallel up	41,996	55,012	31,627	91,015	85,602
Parallel down	-17,937	-17,825	-45,788	13,046	18,763
shock up parallel shift	18,849	34,900	9,262	72,190	64,805
shock down parallel shift	-2,184	-9,843	-30,003	13,042	18,754
steepener shock shift	34,468	18,846	48	34,468	27,638
flattener shock shift	-16,781	-3,594	-25,680	30,793	16,833
short shock up shift	-7,924	9,831	-17,220	54,527	41,752
short shock down shift	25,291	6,144	-17,994	28,991	19,481
ongoing shift	894	16,781	894	26,488	3,021
Historical	100,489	-1,334	-18,931	100,489	16,365
Worst case scenario	-17,937	-17,825	-45,788	13,042	3,021

Effects of a change in interest rates on the future profit over a twelve-month period.

Future profit is understood to mean the difference between future revenues and future costs calculated solely on existing transactions at the reference date and possibly renewed while maintaining constant volumes.

	Change in profit				
	from 01/01/2022 to 31/12/2022				
Figures in thousands of euro Risk exposure	at the end of the period	average	minimum	maximum	**31/12/2021**
Parallel up	-25,930	-14,069	-58,493	144,592	-4,473
Parallel down	62,699	64,869	-40,453	86,714	69,123
shock up parallel shift	-48,933	-43,781	-76,512	7,067	-25,263
shock down parallel shift	78,293	66,822	-96,434	94,263	69,114
steepener shock shift	45,839	25,505	-15,830	45,839	42,158
flattener shock shift	-38,960	-16,475	-50,682	92,973	-9,334
short shock up shift	-50,047	-29,377	-69,108	64,449	-10,065
short shock down shift	69,167	49,870	-14,526	76,952	67,718
ongoing shift	-2,920	10,212	-3,858	57,091	-8,846
Historical	28,932	26,013	15,332	50,091	60,738
Worst case scenario	-50,047	-43,781	-96,434	7,067	-25,263

Effects of a change in interest rates on equity.

Equity is understood as being the difference between the present value of asset and liability items calculated solely on the transactions outstanding at the reference date in the hypothesis of inertial volumes.

Figures in thousands of euro Risk exposure	Change in equity value from 01/01/2022 to 31/12/2022 at the end of the period	average	minimum	maximum	31/12/2021
Parallel up	-104,474	-359,268	-445,127	-104,474	-398,529
Parallel down	150,383	431,384	150,383	574,283	196,415
shock up parallel shift	-104,886	-336,889	-416,813	-104,886	-363,415
shock down parallel shift	131,642	405,957	131,642	542,366	196,416
steepener shock shift	129,199	34,211	478	129,199	29,394
flattener shock shift	-116,647	-59,074	-116,647	-28,916	-36,522
short shock up shift	-137,922	-167,201	-212622	-136,592	-150,024
short shock down shift	165,310	210,294	161,457	248,955	179,386
ongoing shift	-24,255	-33,406	-46,084	-22,049	-54,153
Historical	-58,300	185,732	-58,300	260,263	202,378
Worst case scenario	-137,922	-359,268	-445,127	-136,592	-398,529

With respect to fixed-yield securities classified as «financial assets mandatorily measured at fair value», «financial assets measured at fair value through other comprehensive income», information on the average, minimum and maximum VaR is given below.

Interest rate Value at Risk (VaR)

	(in thousands of euro)
average	16,263
minimum	7,835
maximum	22,938

With regard to the distribution of VaR during the year, the average interest rate VaR for each month in 2022 is shown below.

January	9,111
February	14,620
March	17,227
April	14,713
May	15,191
June	19,125
July	21,646
August	20,411
September	17,027
October	15,296
November	14,754
December	15,005

Price risk

With reference to the closing date, we report above all the VaR figures of equity securities (shares and mutual funds) classified as «other financial assets mandatorily measured at fair value» or «financial assets measured at fair value through other comprehensive income», net of any investments servicing pensions and similar obligations of employees and real estate funds, as well as the figure for investments.

Value at Risk (VaR), end of period

	(in thousands of euro)
Equity securities	3,381
Mutual funds	4,863
Total	**6,859**
Equity investments	**8,373**

The following information is provided about the average, minimum and maximum VaR regarding the equity securities (shares and mutual funds) classified among the «other financial assets mandatorily measured at fair value» and the «financial assets measured at fair value through other comprehensive income», excluding any relevant investments by the pension and real estate funds.

Price Value at Risk (VaR)

	(in thousands of euro)
average	8,563
minimum	5,949
maximum	11,455

With regard to the distribution of VaR during the year, the average VaR for each month in 2022 is presented below.

January	6,231
February	6,631
March	10,151
April	9,918
May	8,634
June	8,521
July	8,938
August	9,408
September	9,695
October	9,533
November	7,734
December	6,978

1.2.3 Exchange risk

QUALITATIVE INFORMATION

A. General aspects, management and measurement of exchange risk

For the Parent Company, reference should be made to the corresponding section of the Company's ex-planatory notes.

Exchange risk is marginal for Factorit s.p.a., given the company's policy of systematic hedging of foreign currency amounts. This risk mainly exists, but for limited volumes, in: commissions and interest income not offset by interest expense expressed in currencies other than the euro, as well as guarantees in foreign currency for transactions in euro. Sinergia Seconda S.r.l., Popso Covered Bond S.r.l. and Banca della Nuova Terra S.p.a. are not exposed to exchange risk, as they do not have assets or liabilities in foreign currencies.

Except with regard to securities held in its proprietary portfolio, Banca Popolare di Sondrio (SUISSE) SA enters into currency transactions to satisfy customers' requirements and to cover transitory treasury mis-matches.

The measurement and control of exchange risk at year-end essentially involves application of the Parent Company's internal model for the calculation of Value at Risk (VaR) with the characteristics described in the corresponding section of the Company's explanatory notes.

In particular, the model used covers the financial instruments exposed to exchange risk included in the Parent Company's investment book and all assets and liabilities in foreign currency (excluding gold), on and off the balance sheet, pertaining to the subsidiaries, which are shown on table 1 below. Any inter-company relations are eliminated.

The forward contracts on exchange rates, financial derivatives (in a strict sense), fixed-yield securities and equity securities are treated analytically, whereas the overall difference of the other items by individual currency is treated as a deposit (positive or negative) with a maturity of one day.

A1. Impacts from the Covid-19 pandemic and the Russian-Ukrainian conflict

Given that the predominantly commercial nature of transactions in foreign currencies, the considerations set out in the corresponding section of the company's note apply.

At the level of risk, the limited impacts of the events analysed are confirmed, thanks to the policy to limit open positions in foreign currency, and there were no episodes of violation of the respective limit.

B. Hedging of exchange risk

For the Parent Company, reference should be made to the corresponding section of the Company's explanatory notes.

For the Swiss subsidiary, operations are homogeneous with that carried out by the Parent Company. The subsidiary's Exchange Office administers the positions and matches the exchange risk in the interbank market, while maintaining residual exposures within the limits established in the internal regulations.

QUANTITATIVE INFORMATION

1. Distribution of assets, liabilities and derivatives by foreign currency

	Values					
Items	US Dollar	Pound Sterling	Japanese yen	Swiss francs	Canadian dollars	Other currencies
A. **Financial assets**	**701,007**	**94,440**	**32,700**	**6,306,908**	**35,452**	**96,361**
A.1 Fixed-yield securities	21,659	–	–	9,666	–	–
A.2 Equity securities	26,414	–	1,271	12,649	–	796
A.3 Loans to banks	264,785	81,008	28,485	10,888	34,657	91,081
A.4 Loans to customers	380,311	11,867	2,888	5,343,442	2	3,957
A.5 Other financial assets	7,838	1,565	56	930,263	793	527
B. **Other assets**	**11,902**	**1,592**	**266**	**78,807**	**239**	**1,389**
C. **Financial liabilities**	**873,312**	**106,400**	**40,263**	**3,277,036**	**35,714**	**98,265**
C.1 Due to banks	300,885	8,301	3,440	799,107	705	29,701
C.2 Due to customers	572,427	98,099	36,823	2,419,903	35,009	68,564
C.3 Fixed-yield securities	–	–	–	30,797	–	–
C.4 Other financial liabilities	–	–	–	27,229	–	–
D. **Other liabilities**	**1,025**	**31**	**–**	**323,008**	**–**	**6**
E. **Financial derivatives**	**1,354,078**	**385,772**	**543,061**	**2,693,397**	**16,217**	**198,214**
– Options	69,713	184	–	126	–	6,614
+ Long positions	35,269	92	–	126	–	3,307
+ Short positions	34,444	92	–	–	–	3,307
– Other derivatives	1,284,365	385,588	543,061	2,693,271	16,217	191,600
+ Long positions	734,565	198,461	274,870	23,329	8,212	96,893
+ Short positions	549,800	187,127	268,191	2,669,942	8,005	94,707
Total assets	**1,482,743**	**294,585**	**307,836**	**6,409,170**	**43,903**	**197,950**
Total liabilities	**1,458,581**	**293,650**	**308,454**	**6,269,986**	**43,719**	**196,285**
Net balance (+/–)	**24,162**	**935**	**(618)**	**139,184**	**184**	**1,665**

2. Internal models and other methodologies for the analysis of sensitivity

With reference to the closing date, we report above all the VaR figures split between the transactions explicitly foreseen in table 1 and the other transactions on which the calculation is carried out.

Value at Risk (VaR), end of period

	(in thousands of euro)
Fixed-yield securities	842
Equity securities	579
Net balance between other assets and liabilities	32,795
Financial derivatives	28,892
– Options	–
+ Long positions	559
+ Short positions	437
– Other derivatives	28,892
+ Long positions	32,758
+ Short positions	4,925
Total transactions table 1	**2,706**
– Interest Rate Swap	1
+ Long positions	1
+ Short positions	–
Total	**2,705**

Details of the main currencies	
US Dollar	745
Pound Sterlings	74
Japanese yen	18
Swiss francs	2,741
Canadian dollars	–
Other currencies	10
Total	**2,705**

Information on average, minimum and maximum VaR is provided below.

Exchange rate Value at Risk (VaR)

	(in thousands of euro)
average	3,637
minimum	1,241
maximum	5,576

As regards the distribution of VaR during the year, we indicate below the average value of the currency VaR in each of the twelve months of 2022.

January	1,696
February	4,725
March	5,004
April	4,841
May	3,951
June	3,539
July	3,200
August	3,241
September	2,879
October	3,731
November	3,823
December	2,957

1.3 Derivative instruments and related hedging policy

1.3.1. Trading derivatives

A. Financial derivatives

A.1 Trading financial derivatives: period-end notional amounts

Underlying assets/Types of derivatives	Total 31/12/2022				Total 31/12/2021			
	Over the counter				Over the counter			
		Without central counterparties				Without central counterparties		
	Central counterparties	With settlement agreements	Without settlement agreements	Organised markets	Central counterparties	With settlement agreements	Without settlement agreements	Organised markets
1. **Fixed-yield securities and interest rates**	**–**	**–**	**1,465,683**	**–**	**–**	**–**	**1,487,400**	**–**
a) Options	–	–	46,345	–	–	–	25,531	–
b) Swaps	–	–	1,419,338	–	–	–	1,461,869	–
c) Forwards	–	–	–	–	–	–	–	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
2. **Equity securities and stock indices**	**–**	**–**	**108,818**	**–**	**–**	**–**	**36,313**	**–**
a) Options	–	–	108,818	–	–	–	36,313	–
b) Swaps	–	–	–	–	–	–	–	–
c) Forwards	–	–	–	–	–	–	–	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
3. **Currency and gold**	**–**	**–**	**4,615,949**	**–**	**–**	**–**	**4,421,638**	**–**
a) Options	–	–	155,572	–	–	–	186,014	–
b) Swaps	–	–	–	–	–	–	–	–
c) Forwards	–	–	4,460,377	–	–	–	4,235,624	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
4. **Commodities**	**–**	**–**	**54,242**	**–**	**–**	**–**	**89,593**	**–**
5. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**–**	**–**	**6,244,692**	**–**	**–**	**–**	**6,034,944**	**–**

A.2 Trading financial derivatives: positive and negative gross fair value – breakdown by product

Types of derivatives	Total 31/12/2022				Total 31/12/2021			
	Over the counter				Over the counter			
		Without central counterparties				Without central counterparties		
	Central counterparties	With settlement agreements	Without settlement agreements	Organised markets	Central counterparties	With settlement agreements	Without settlement agreements	Organised markets
1. **Positive fair value**								
a) Options	–	–	4,116	–	–	–	4,800	–
b) Interest rate swaps	–	–	15,291	–	–	–	6,663	–
c) Cross currency swaps	–	–	–	–	–	–	–	–
d) Equity swaps	–	–	–	–	–	–	–	–
e) Forwards	–	–	42,182	–	–	–	14,469	–
f) Futures	–	–	–	–	–	–	–	–
g) Other	–	–	1,772	–	–	–	3,348	–
Total	**–**	**–**	**63,361**	**–**	**–**	**–**	**29,280**	**–**
2. **Negative fair value**								
a) Options	–	–	3,446	–	–	–	2,323	–
b) Interest rate swaps	–	–	13,282	–	–	–	5,069	–
c) Cross currency swaps	–	–	–	–	–	–	–	–
d) Equity swaps	–	–	–	–	–	–	–	–
e) Forwards	–	–	97,416	–	–	–	93,651	–
f) Futures	–	–	–	–	–	–	–	–
g) Other	–	–	1,727	–	–	–	3,295	–
Total	**–**	**–**	**115,871**	**–**	**–**	**–**	**104,338**	**–**

A.3 OTC trading financial derivatives - notional values, positive and negative gross fair value by counterparty

Underlying assets	Central counterparties	Banks	Other financial corporations	Other parties
Contracts not covered by compensation agreements				
1) **Fixed-yield securities and interest rates**				
– notional value	–	1,182,842	247	282,595
– positive fair value	–	16,487	–	65
– negative fair value	–	1,225	12	13,258
2) **Equity securities and stock indices**				
– notional value	–	108,818	–	–
– positive fair value	–	623	–	–
– negative fair value	–	9	–	–
3) **Currency and gold**				
– notional value	–	3,874,928	25,220	715,801
– positive fair value	–	37,600	72	6,742
– negative fair value	–	90,551	635	8,452
4) **Commodities**				
– notional value	–	27,513	–	26,729
– positive fair value	–	1,155	–	617
– negative fair value	–	665	–	1,064
5) **Other**				
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–
Contracts which are part of settlement agreements				
1) **Fixed-yield securities and interest rates**				
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–
2) **Equity securities and stock indices**				
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–
3) **Currency and gold**				
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–
4) **Commodities**				
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–
5) **Other**				
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–

A.4 Residual life of OTC financial trading derivatives: notional values

Underlying/Residual life	Up to 1 year	1 to 5 years	Over 5 years	Total
A.1 Financial derivatives on fixed-yield securities and interest rates	1,046,396	362,187	57,100	1,465,683
A.2 Financial derivatives on equity securities and stock indices	108,818	–	–	108,818
A.3 Financial derivatives on currencies and gold	4,567,712	48,237	–	4,615,949
A.4 Financial derivatives on commodities	54,242	–	–	54,242
A.5 Other financial derivatives	–	–	–	–
Total 31/12/2022	**5,777,168**	**410,424**	**57,100**	**6,244,692**
Total 31/12/2021	**4,647,479**	**1,330,527**	**56,938**	**6,034,944**

B. Credit derivatives

There were no credit derivatives at the reporting date.

1.3.2 – Accounting hedges

QUALITATIVE INFORMATION

On first-time application of IFRS 9, the Group exercised the option provided by the standard to continue to fully apply the rules of IAS 39 for each type of hedging (micro and macro). Therefore, the provisions of IFRS 9 on hedging do not apply.

A. Fair value hedging

For the Parent Company, reference should be made to the corresponding section of the Company's explanatory notes. Loans of non-significant amounts with similar characteristics granted by the subsidiary Banca Popolare di Sondrio (SUISSE) SA are normally hedged against rate risk by arranging interest-rate swaps (IRS) via the Parent Company. The purpose of hedging the interest rate risk is to realign differences in the banking book caused by changes in the fair value of loans to customers due to changes in the interest rate curve (interest rate risk).

The derivatives are not listed on regulated markets, but traded in the context of OTC circuits.

B. Cash flow hedging

The Group has not carried out cash flow hedging operations.

C. Hedges of foreign investments

The Group did not carry out hedging operations on foreign investments.

D. Hedging Instruments

Generally speaking, in the hypothesis of «fair value hedges», the sources of ineffectiveness of a hedging relationship, during its period of validity, can be related to:

- mismatch between the notional amount of the derivative and the underlying hedged item recognised at the time of the initial designation or generated thereafter, such as in the case of partial loan repayments;
- inclusion of the value of the variable leg of the hedging derivative in the effectiveness test.

During the year, no elements were found that might have caused the hedges to be ineffective, giving the possibility of continuing to apply the hedge accounting rules.

During the year the group did not use dynamic hedges, as defined by IFRS 7, paragraph 23C.

E. Elements hedged

Fixed-rate loans

The Banca Popolare di Sondrio Group currently has accounting hedges, macro fair value hedge type, on fixed rate loans through the use of plain vanilla IRSs to hedge the interest rate risk for the entire duration of the underlying.

The portfolio of hedged fixed-rate loans is open-ended, i.e. it is dynamically made up of the fixed-rate instruments managed at an aggregate level through the hedging derivatives entered into over time.

The effectiveness of the Macro Fair Value Hedge (MFVH) on fixed-rate loans is periodically verified on the basis of specific prospective and retrospective tests. The prospective test aims to verify that for each time interval defined by the Bank, the sensitivity of the underwritten hedging transactions (approximated by the «meta-loan» developed on the basis of the fixed leg of the derivative) is lower than the sensitivity of the hedged loans. This is intended to ensure that derivative instruments entered into for hedging purposes do not create overhedging for specific maturity intervals. The retrospective tests, on the other hand, on the one hand aim at verifying that within the potential hedging perimeter a sub-portfolio is identified and that this sub-portfolio presents a Delta Present Value higher than the Delta Present Value of the meta-loan, on the other hand, it is periodically verified, throughout the life of the transaction, that the ratio of the change in fair value of the hedged item to the hedging instrument is within the range 80%-125%.

For the subsidiary Banca Popolare di Sondrio (SUISSE) SA, loans are also hedged against the risk of interest rate fluctuations by entering into IRS contracts.

IBOR reform

As already highlighted in «Part A - Accounting policies» of these explanatory notes in relation to the IBOR reform, the Group has continued the necessary activities to manage the transition for existing contracts that are affected by the reform.

Consistently with the requirements of IFRS 7, paragraph 24 H, a table containing the notional amount of the accounting hedges according to the reference index of interest rates is provided below. The exposure to interest rate risk, managed by the group through accounting hedges, can be correctly represented by hedging derivatives. The figures refer in particular to the contracts of Banca Popolare di Sondrio (SUISSE) SA, which were in place before the reform.

Type of instrument	Flow received	Paid Flow	Current notional (in thousands)	Average residual life (years)
Interest Rate Swap	LIBOR CHF	Tasso fisso	54,433	0.51

For further details, please refer to «Part A - Accounting policies», Other information.

QUANTITATIVE INFORMATION

A. Hedging financial derivatives

A.1 Hedging financial derivatives: period-end notional amounts

	31/12/2022				31/12/2021			
	Over the counter				Over the counter			
		Without central counterparties				Without central counterparties		
Underlying assets/Types of derivatives	Central counterparties	With settlement agreements	Without settlement agreements	Organised markets	Central counterparties	With settlement agreements	Without settlement agreements	Organised markets
1. **Fixed-yield securities and interest rates**	**–**	**–**	**102,717**	**–**	**–**	**–**	**143,839**	**–**
a) Options	–	–	–	–	–	–	–	–
b) Swaps	–	–	102,717	–	–	–	143,839	–
c) Forwards	–	–	–	–	–	–	–	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
2. **Equity securities and stock indices**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
a) Options	–	–	–	–	–	–	–	–
b) Swaps	–	–	–	–	–	–	–	–
c) Forwards	–	–	–	–	–	–	–	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
3. **Currency and gold**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
a) Options	–	–	–	–	–	–	–	–
b) Swaps	–	–	–	–	–	–	–	–
c) Forwards	–	–	–	–	–	–	–	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
4. **Commodities**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
5. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**–**	**–**	**102,717**	**–**	**–**	**–**	**143,839**	**–**

A.2 Hedging financial derivatives: positive and negative gross fair value - breakdown by product

Types of derivatives	Positive and negative fair value							
	Total 31/12/2022				Total 31/12/2021			
	Over the counter				Over the counter			
		Without central counterparties				Without central counterparties		
	Central counterparties	With settlement agreements	Without settlement agreements	Organised markets	Central counterparties	With settlement agreements	Without settlement agreements	Organised markets
Positive fair value								
a) Options	–	–	–	–	–	–	–	–
b) Interest rate swaps	–	–	248	–	–	–	–	–
c) Cross currency swaps	–	–	–	–	–	–	–	–
d) Equity swaps	–	–	–	–	–	–	–	–
e) Forwards	–	–	–	–	–	–	–	–
f) Futures	–	–	–	–	–	–	–	–
g) Other	–	–	–	–	–	–	–	–
Total	**–**	**–**	**248**	**–**	**–**	**–**	**–**	**–**
Negative fair value								
a) Options	–	–	–	–	–	–	–	–
b) Interest rate swaps	–	–	227	–	–	–	2,446	–
c) Cross currency swaps	–	–	–	–	–	–	–	–
d) Equity swaps	–	–	–	–	–	–	–	–
e) Forwards	–	–	–	–	–	–	–	–
f) Futures	–	–	–	–	–	–	–	–
g) Other	–	–	–	–	–	–	–	–
Total	**–**	**–**	**227**	**–**	**–**	**–**	**2,446**	**–**

A.3 OTC hedging financial derivatives - notional values, positive and negative gross fair values by counterparty

Underlying assets	Central counterparties	Banks	Other financial corporations	Other parties
Contracts not covered by compensation agreements				
1) **Fixed-yield securities and interest rates**				
– notional value	–	102,717	–	–
– positive fair value	–	248	–	–
– negative fair value	–	227	–	–
2) **Equity securities and stock indices**				
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–
3) **Currency and gold**				
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–
4) **Commodities**				
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–
5) **Other**				
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–
Contracts which are part of settlement agreements				
1) **Fixed-yield securities and interest rates**				
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–
2) **Equity securities and stock indices**				
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–
3) **Currency and gold**				
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–
4) **Commodities**				
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–
5) **Other**	–	–	–	–
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–

A.4 Residual life of OTC hedging financial derivatives: notional amounts

Underlying/Residual life	Up to 1 year	1 to 5 years	Over 5 years	Total
A.1 Financial derivatives on fixed-yield securities and interest rates	54,504	18,176	30,037	102,717
A.2 Financial derivatives on equity securities and stock indices	–	–	–	–
A.3 Financial derivatives on currencies and gold	–	–	–	–
A.4 Financial derivatives on commodities	–	–	–	–
A.5 Other financial derivatives	–	–	–	–
Total 31/12/2022	**54,504**	**18,176**	**30,037**	**102,717**
Total 31/12/2021	**91,956**	**48,882**	**3,001**	**143,839**

B. Hedging credit derivatives

This case does not exist for the Group; the relevant tables are therefore omitted.

C. Non-hedging derivative instruments

This case does not exist for the Group; the relevant tables are therefore omitted.

D. Instruments hedged

This case does not exist for the Group; the relevant tables are therefore omitted.

E. Effects of hedging transactions on equity

This case does not exist for the Group; the relevant tables are therefore omitted.

1.3.3 Other information on derivative instruments (trading and hedging)

A. Financial and credit derivatives

A.1 OTC financial and credit derivatives: net fair value by counterparty

	Central counterparties	Banks	Other financial corporations	Other parties
A. **Financial derivatives**				
1) **Fixed-yield securities and interest rates**				
– notional value	–	1,285,559	247	282,595
– net positive fair value	–	16,735	–	65
– net negative fair value	–	1,452	12	13,258
2) **Equity securities and stock indices**				
– notional value	–	108,818	–	–
– net positive fair value	–	623	–	–
– net negative fair value	–	9	–	–
3) **Currency and gold**				
– notional value	–	3,874,928	25,220	715,801
– net positive fair value	–	37,600	72	6,742
– net negative fair value	–	90,551	635	8,452
4) **Commodities**				
– notional value	–	27,513	–	26,729
– net positive fair value	–	1,155	–	617
– net negative fair value	–	663	–	1,064
5) **Other**				
– notional value	–	–	–	–
– net positive fair value	–	–	–	–
– net negative fair value	–	–	–	–
B. **Credit derivatives**				
1) **Purchase of protection**				
– notional value	–	–	–	–
– net positive fair value	–	–	–	–
– net negative fair value	–	–	–	–
2) **Sale of protection**				
– notional value	–	–	–	–
– net positive fair value	–	–	–	–
– net negative fair value	–	–	–	–

1.4 Banking group - Liquidity risk

QUALITATIVE INFORMATION

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

For the Parent Company, reference should be made to the corresponding section of the Company's notes.

The Group's overall strategy for managing liquidity risk, with its low propensity for risk, manifests itself in the decision to favour, from a prudential perspective, the balance of the structure by maturity of assets and liabilities over the pursuit of increasing levels of profitability.

The coverage of expected liquidity requirements is checked and monitored on a continuous basis and timely action is taken in the markets to ensure the appropriate availability of funds.

In this context, the Parent Company acts as the subsidiary's counterparty of choice in the raising of funds and in the investment of any cash surpluses.

The liquidity reserves in the form of assets eligible as collateral at the European Central Bank are mostly held by the Parent Company; the total value of the assets in question, net of haircuts, amounts to 16,321 million euro, 5,252 were free and 11,069 used as collateral or pledges (including 5,397 million of A.Ba.Co. Loans).

The portfolio of the subsidiary Banca della Nuova Terra spa consists of securities issued by the Italian government and characterised by a high degree of liquidity. As regards the Swiss subsidiary, it holds a bond portfolio mainly composed of securities eligible as collateral at the European Central Bank.

The Parent Company carries out daily monitoring of liquidity risk at a consolidated level. The subsidiaries oversee it through the use of monitoring tools suitable for detecting the operations performed; in the case of Banca Popolare di Sondrio (Suisse) SA, they comply with the rules laid down by the Swiss Supervisory Authority.

The following disclosures are provided in accordance with the requirements of IFRS 7.39.

QUANTITATIVE INFORMATION

1. Distribution by residual contractual maturity of financial assets and liabilities

Currency: EURO

Items/Time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 y ears	Unspecified duration
A. **Cash assets**	**5,194,706**	**267,119**	**691,611**	**1,995,962**	**2,428,862**	**1,694,297**	**2,386,821**	**15,986,078**	**11,389,697**	**385,891**
A.1 Government securities	14	–	276	225,613	6,114	210,801	299,246	5,267,845	4,631,000	–
A.2 Other fixed-yield securities	9,189	–	135	12,969	4,474	86,146	179,911	2,015,284	1,012,112	1,259
A.3 Mutual funds	733,109	–	–	–	–	–	–	–	–	–
A.4 Loans	4,452,394	267,119	691,200	1,757,380	2,418,274	1,397,350	1,907,664	8,702,949	5,746,585	384,632
– Banks	203,749	5,139	1,325	65,725	12,964	1,193	62,302	–	–	347,500
– Customers	4,248,645	261,980	689,875	1,691,655	2,405,310	1,396,157	1,845,362	8,702,949	5,746,585	37,132
B. **Cash liabilities**	**31,757,467**	**1,583,615**	**601,348**	**1,084,435**	**455,910**	**5,013,025**	**922,823**	**6,686,729**	**703,586**	**–**
B.1 Deposits and current accounts	31,522,507	3,737	351,121	1,034,069	342,802	103,989	54,816	77,497	–	–
– Banks	387,723	–	16,063	10,039	–	–	–	–	–	–
– Customers	31,134,784	3,737	335,058	1,024,030	342,802	103,989	54,816	77,497	–	–
B.2 Fixed-yield securities	116,783	–	220	894	105,080	535,767	271,964	2,009,997	632,201	–
B.3 Other liabilities	118,177	1,579,878	250,007	49,472	8,028	4,373,269	596,043	4,599,235	71,385	–
C. **«Off-balance sheet» transactions**	**8,115,398**	**253,501**	**635,463**	**2,688,911**	**1,521,736**	**2,137,020**	**3,785,052**	**492,493**	**798,566**	**–**
C.1 Financial derivatives with exchange of capital	–	240,758	613,852	701,459	922,652	664,340	857,703	71,906	–	–
– Long positions	–	122,983	428,232	501,806	812,031	557,520	768,878	35,958	–	–
– Short positions	–	117,775	185,620	199,653	110,621	106,820	88,825	35,948	–	–
C.2 Financial derivatives without exchange of capital	34,651	–	–	–	111	45	122	–	–	–
– Long positions	18,583	–	–	–	1	7	122	–	–	–
– Short positions	16,068	–	–	–	110	38	–	–	–	–
C.3 Deposits and loans to be received	–	–	–	–	–	–	–	–	–	–
– Long positions	–	–	–	–	–	–	–	–	–	–
– Short positions	–	–	–	–	–	–	–	–	–	–
C.4 Irrevocable commitments to make loans	8,080,747	12,743	21,611	1,987,452	598,973	1,472,635	2,927,227	420,587	798,566	–
– Long positions	56,610	9,813	12,016	1,926,233	481,196	1,394,094	2,884,302	419,996	798,566	–
– Short positions	8,024,137	2,930	9,595	61,219	117,777	78,541	42,925	591	–	–
C.5 Financial guarantees issued	–	–	–	–	–	–	–	–	–	–
C.6 Financial guarantees received	–	–	–	–	–	–	–	–	–	–
C.7 Financial derivatives with exchange of capital	–	–	–	–	–	–	–	–	–	–
– Long positions	–	–	–	–	–	–	–	–	–	–
– Short positions	–	–	–	–	–	–	–	–	–	–
C.8 Financial derivatives without exchange of capital	–	–	–	–	–	–	–	–	–	–
– Long positions	–	–	–	–	–	–	–	–	–	–
– Short positions	–	–	–	–	–	–	–	–	–	–

Item B.1 – Deposits and current accounts reports due to banks and customers allocated to the specific line items.

The breakdown by maturity is based on the residual life of assets and liabilities, being the difference between the reporting date and the maturity dates of each transaction. In the event of repayment plans, the residual maturity of each payment has been considered. Mutual funds are conventionally assigned to the «on demand» segment. The deposit with the Bank of Italy as a compulsory reserve is shown under loans and receivables with banks within unspecified duration. Non-performing loans are allocated to the pertinent time bands on the basis of forecasts for the recovery of the underlying cash flows made by the Bank for financial statements purposes. Irrevocable commitments to grant loans include all of the irrevocable commitments, whether or not certain to be called on, relating to lines of credit granted to banks and customers.

1. Distribution by residual contractual maturity of financial assets and liabilities

Currency: OTHER CURRENCIES

Items/Time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified duration
A. **Cash assets**	**321,972**	**492,489**	**174,463**	**153,071**	**415,789**	**285,030**	**442,142**	**2,811,204**	**1,283,217**	**922**
A.1 Government securities	–	–	–	–	–	1,440	4,557	14,939	–	–
A.2 Other fixed-yield securities	–	–	–	–	–	5,169	–	5,220	–	–
A.3 Mutual funds	38,671	–	–	–	–	–	–	–	–	–
A.4 Loans	283,301	492,489	174,463	153,071	415,789	278,421	437,585	2,791,045	1,283,217	922
– Banks	73,545	275,339	85,366	9,640	108,740	837	1,439	–	–	–
– Customers	209,756	217,150	89,097	143,431	307,049	277,584	436,146	2,791,045	1,283,217	922
B. **Cash liabilities**	**3,099,117**	**238,900**	**121,162**	**68,114**	**106,725**	**66,817**	**39,609**	**231,526**	**408,444**	**-**
B.1 Deposits and current accounts	3,098,855	238,841	120,804	53,889	78,859	51,959	38,268	207,017	407,205	–
– Banks	78,175	235,642	112,851	6,932	10,537	5,182	25,392	207,017	407,205	–
– Customers	3,020,680	3,199	7,953	46,957	68,322	46,777	12,876	–	–	–
B.2 Fixed-yield securities	48	–	–	15	203	4,204	1,229	23,935	1,115	–
B.3 Other liabilities	214	59	358	14,210	27,663	10,654	112	574	124	–
C. **«Off-balance sheet» transactions**	**20,624**	**511,610**	**827,162**	**1,055,025**	**1,033,919**	**866,894**	**861,115**	**44,281**	**-**	**-**
C.1 Financial derivatives with exchange of capital	–	510,870	827,128	1,053,429	1,032,372	866,573	861,103	44,281	–	–
– Long positions	–	252,867	292,983	376,104	147,816	193,642	93,771	22,144	–	–
– Short positions	–	258,003	534,145	677,325	884,556	672,931	767,332	22,137	–	–
C.2 Financial derivatives without exchange of capital	307	–	–	68	16	13	12	–	–	–
– Long positions	153	–	–	–	–	–	–	–	–	–
– Short positions	154	–	–	68	16	13	12	–	–	–
C.3 Deposits and loans to be received	5,982	–	–	–	–	–	–	–	–	–
– Long positions	2,991	–	–	–	–	–	–	–	–	–
– Short positions	2,991	–	–	–	–	–	–	–	–	–
C.4 Irrevocable commitments to make loans	14,335	740	34	1,528	1,531	308	–	–	–	–
– Long positions	6,440	–	–	–	–	–	–	–	–	–
– Short positions	7,895	740	34	1,528	1,531	308	–	–	–	–
C.5 Financial guarantees issued	–	–	–	–	–	–	–	–	–	–
C.6 Financial guarantees received	–	–	–	–	–	–	–	–	–	–
C.7 Financial derivatives with exchange of capital	–	–	–	–	–	–	–	–	–	–
– Long positions	–	–	–	–	–	–	–	–	–	–
– Short positions	–	–	–	–	–	–	–	–	–	–
C.8 Financial derivatives without exchange of capital	–	–	–	–	–	–	–	–	–	–
– Long positions	–	–	–	–	–	–	–	–	–	–
– Short positions	–	–	–	–	–	–	–	–	–	–

1.5 Banking group - Operational risks

QUALITATIVE INFORMATION

A. General aspects, operational risk measurement and management

The operational risk represents the risk of suffering losses from the inadequacy or malfunctioning of procedures, human resources and internal systems, or from external events.

This category also includes losses caused by fraud, human error, operational interruptions, system downtime, contractual non-performance and natural catastrophes; the scope of operational risk includes legal risks and IT risk, but excludes strategic and reputational risks.

«Section 5 - Operational Risks» in the Separate Financial Statements of the Parent Company Banca Popolare di Sondrio explains the system of operational risk management adopted at Group level, which is applied by the subsidiaries, each in proportion to the nature and size of its activity.

Impacts resulting from the Covid-19 pandemic

Reference should be made to the above mentioned Section of the Separate Financial Statements of the Parent Company Banca Popolare di Sondrio also as regards the measures implemented during the year for the purpose of managing operational risks attributable to the Covid-19 pandemic emergency.

QUANTITATIVE INFORMATION

The most significant impacts in absolute terms are mainly represented by loss events attributable to errors/failures in relations with non-customer counterparties, contested breaches of regulatory/contractual obligations and the adoption of improper business and market practices. These types of losses are mainly prudential provisions to the Provision for Risks and Charges for legal proceedings/compensation claims against Group companies.

The total amount of losses also includes disbursements arising from exogenous phenomena, which are usually mitigated through dedicated insurance policies, such as ATM robberies/ cashouts and fraud on payment services (e.g. payment cards, credit transfers), as well as losses due to errors/delays in the conduct of operations, system failures and business interruptions.

The following chart shows the operational losses recognised over the past five years (2018-2022) as part of the Loss Data Collection process, according to the regulatory classification for operational risk events (Event Type):

- *Internal fraud* - Events involving fraud, embezzlement or circumvention of the law by the Bank's own staff to obtain personal benefits that involve damage (in the form of monetary losses) that would be borne by the Bank.
- *External fraud* - Events of fraud, embezzlement or circumvention of the law by external/ third parties to obtain personal benefits that involve damage to the Bank.
- *Employment and job safety* - Events attributable to acts that do not comply with the law or agreements on employment, health and safety at work.
- *Customers, products and professional practices* - Events due to non-compliance/ negligence in the application of laws, codes, rules of conduct and professional obligations towards customers or due to defects in the nature or characteristics of products, services and models.
- *Damage from external events* - Events involving damage or destruction of property due to accidents, natural disasters or other vandalism.
- *Operational interruptions and system malfunctions* - Events attributable to interruption of business continuity and unavailability/malfunctioning of the information systems used to support company operations.

- *Execution, delivery and management of processes* - Events due to errors, shortages and unintentional delays in the execution of daily operations, in the management of processes and relationships with counterparties other than customers (e.g. commercial counterparties, suppliers of goods and services).

Banca Popolare di Sondrio Group – Sources of operational losses (accounting period: 01/01/2018 – 31/12/2022)

Event Type	Number of operational loss events (%)	Impacts of operational loss events (%)
- Internal fraud	0.10	0.11
- External fraud	16.73	4.71
- Employment practices and workplace safety	0.45	0.81
- Customers, products and professional practices	33.90	44.56
- Damage from external events	8.36	0.82
- Operational interruptions and system malfunctions	0.85	4.96
- Execution, delivery and management of processes	39.61	44.03
Total	**100**	**100**

1.6 Sovereign risk

Information on exposure to sovereign debt

Consob with communication No. DEM/11070007 of 5 August 2011 invited listed companies to provide in the financial statements information on exposures to sovereign debtors, i.e. bonds issued by central and local governments, government agencies and any loans made to them.

In this regard, the overall exposure of the banking group at 31 December 2022 amounted to 12,222 million and was structured as follows:

a) Italian government securities: 7,800 million;

b) Securities of other issuers: 3,484 million;

c) Loans to government departments: 107 million;

d) Loans to state-owned or local government-owned enterprises: 461 million;

e) Loans to other public administrations and miscellaneous entities: 370 million.

The table below shows the book value of the Group's total fixed-yield securities exposure to sovereign states as at 31 December 2022, by portfolio.

(in thousands of euro)	Financial assets measured at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income	Financial assets measured at amortised cost	Book value
Government securities				
Italy	–	1,696,969	6,102,699	7,799,668
France	–	–	586,401	586,401
Spain	–	338,768	1,405,409	1,744,177
Germany	–	–	337,672	337,672
Other Securities from public bodies				
– Italy	8,354	36,110	607,062	651,525
– Other	27,446	–	136,777	164,223
Total	**–**	**–**	**–**	**11,283,666**

The table does not include GACS-assisted securitisation securities.

With regard to government bond exposures, the following table provides information on maturity, by portfolio:

	Within 1 year	from 1 to 5 years	Over 5 years	Total
Financial assets measured at fair value through other comprehensive income (Item 30)	–	1,492,341	543,397	2,035,737
Financial assets measured at amortised cost (Item 40)	565,276	3,656,072	4,210,833	8,432,181

PART F Information on equity

Section 1 Consolidated equity

A. QUALITATIVE INFORMATION

A healthy banking system is absolutely in the public interest, and the solvency and reliability of banks requires them to maintain appropriate capital resources. Such resources must be sufficient for Group to absorb any losses without prejudicing the rights of depositors, bearing in mind that losses also affect the Bank's reputation.

The need for adequate capital was made even more evident by the crisis and the actions of the Supervisory Authorities, which now operate on a transnational basis.

The economic/financial crisis has brought the equity levels of banks into sharp focus following the large losses recorded, the explosion of expected losses caused by the recession, the deterioration of loan quality and the uncertain value of assets. Said need is made even more topical by the ongoing tensions linked to the rise in inflation, the Russian-Ukrainian conflict and the energy crisis. Without forgetting, at the same time, the need to support the economy in order to stimulate a recovery. Recent events that have affected the banking system are evidence of this. Supervisory Bodies are focusing more and more on the capital adequacy of banks.

The Group has always made every effort to have an adequate and suitable level of capital to enable its operations to grow steadily and to protect against risk in accordance with the requirements of the supervisory regulations. In line with its origin as a cooperative bank, the capitalisation policy of the Parent Company has been identified as the instrument that, by creating the role of shareholder/customer, made it possible to pursue the strategy of autonomous growth decided by management.

By resolution of the shareholders' meeting of 29 December 2021, the Bank, in accordance with the provisions of Law No. 33 of 24 March 2015, converted from a cooperative company limited by shares to a joint-stock company. The transformation into a joint-stock company will not undermine the founding principles that underpin the Bank's activities.

This is why the history of Banca Popolare di Sondrio features periodic increases in capital, carried out in ways that are technically straightforward and transparent, so that the shareholders can immediately understand the terms of the operation. Based on this premise, we have never issued innovative capital instruments and the repeated increases have always been taken up en masse.

The financial resources raised by such operations, together with the reserves built up in accordance with the articles of association, have enabled the Group to expand its activities harmoniously and to look forward to future challenges with a certain tranquillity.

It should be emphasised that the critical situation in the financial markets, especially in the area of loans to customers, has had a negative impact on banks' profitability and consequently on self-financing, which in the past, has always contributed substantially to banks' capitalisation. The tensions that have characterised the banking system in recent years and that have affected various banks have not, in the last analysis, facilitated the projects to strengthen the capital adequacy of the Bank, despite the growth in operations designed to add specialist instruments in support of the real economy. In this context, we have acquired Factorit Spa, Banca della Nuova Terra spa and Prestinuova spa in recent years, while also increasing the equity interests held in companies with complementary activities. The last increase in share capital took place in 2014 through a combined bonus and rights issue with the receipt for the cash portion of 343 million euro.

B. QUANTITATIVE INFORMATION

In addition to as described below, for information on the component parts and size of the Group's capital and equity refer to Part B, Liabilities, sections 14 and 13 of these notes to the financial statements.

B.1 Analysis of consolidated equity by type of company

Items/Values	Prudential consolidation	Insurance companies	Other companies	Eliminations and adjustments from consolidation	**Total**
1. **Share capital**	**1,360,161**	**–**	**–**	**–**	**1,360,161**
2. **Share premium accounts**	**78,978**		**–**	**–**	**78,978**
3. **Reserves**	**1,687,352**		**1,667**	**101,449**	**1,790,468**
4. **Equity instruments**					**–**
5. **(Treasury shares)**	**(25,402)**		**–**	**–**	**(25,402)**
6. **Valuation reserves**	**(44,621)**	**–**	**196**	**(23,661)**	**(68,086)**
– Equity securities measured at fair value through other comprehensive income	68,849	–	–	–	68,849
– Hedge of equity securities measured at fair value through other comprehensive income					–
– Financial assets (other than equity securities) measured at fair value through other comprehensive income	(71,024)	–	–	–	(71,024)
– Property, equipment and investment property	11,850				11,850
– Intangible assets					–
– Hedges of foreign investments					–
– Cash-flow hedges					–
– Hedging instruments (non-designated elements)					–
– Exchange differences	–	–	–	246	246
– Non-current assets and disposal groups held for sale					–
– Financial liabilities measured at fair value through profit or loss (changes in own creditworthiness)					–
– Actuarial profits (losses) related to defined-benefit pension plans	(54,296)	–	4	–	(54,292)
– Portions of valuation reserves related to subsidiaries carried at equity	–	–	–	(23,907)	(23,907)
– Special revaluation regulations	–	–	192	–	192
7. **Profit (Loss)**	**238,357**	**–**	**(4,851)**	**17,815**	**251,321**
Total	**3,294,825**	**–**	**(2,988)**	**95,603**	**3,387,440**

B.2 Valuation reserve of financial assets measured at fair value through comprehensive income: breakdown

	Prudential consolidation		Insurance companies		Other companies		Eliminations and adjustments from consolidation		Total	
Assets/Amounts	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Fixed-yield securities	–	(71,024)	–	–	–	–	–	–	–	(71,024)
2. Equity securities	72,804	(3,955)	–	–	–	–	–	–	72,804	(3,955)
3. Loans	–	–	–	–	–	–	–	–	–	–
Total 31/12/2022	**72,804**	**(74,979)**	**–**	**–**	**–**	**–**	**–**	**–**	**72,804**	**(74,979)**
Total 31/12/2021	**95,212**	**(7,073)**	**–**	**–**	**–**	**–**	**–**	**–**	**95,212**	**(7,073)**

B.3 Valuation reserves of financial assets measured at fair value through other comprehensive income: changes in the year

	Fixed-yield securities	Equity securities	Loans
1. **Opening balance**	**13,468**	**74,671**	**–**
2. **Positive changes**	**1,351**	**5,600**	**–**
2.1 Increases in fair value	–	5,571	–
2.2 Adjustments for credit risk	1,318	–	–
2.3 Transfer to income statement of negative reserves from disposals	33	–	–
2.4 Transfer to other components of equity (equity securities)	–	–	–
2.5 Other changes	–	29	–
3. **Negative changes**	**(85,843)**	**(11,423)**	**–**
3.1 Reductions in fair value	(77,942)	(10,266)	–
3.2 Write-backs for credit risk	(958)	–	–
3.3 Transfer to income statement from positive reserves: from disposals	(6,943)	–	–
3.4 Transfer to other components of equity (equity securities)	–	(1,128)	–
3.5 Other changes	–	(29)	–
4. **Closing balance**	**(71,024)**	**68,849**	**–**

B.4 Valuation reserves relating to defined-benefit plans: changes in the year

The valuation reserve relating to the defined-benefit plans is negative by 54.292 million euro.

This amount derives from the recognition of the related actuarial gains and losses and the associated taxation.

Section 2 Capital and capital adequacy ratios

The disclosure on own funds and capital adequacy is represented in the document «Disclosure to the Public - Pillar 3 at 31 December 2022» prepared on the basis of the regulatory provisions established by Circular No. 285 of 17 December 2013 and subsequent updates, issued by the Bank of Italy, and by Regulation (EU) No. 575/2013 of the European Parliament and Council of 26 June 2013 (CRR), as amended. The document contains consolidated information and is published together with the financial statements on the Parent Company's website.

PART G Business combinations involving companies or business units

Section 1 Transactions carried out during the financial year

Business combinations

(amounts in millions of euro)

Company Name	Transaction date	Cost of the operation	Acquired interest	Total revenues (a)	Profit/(loss) of the Company (b)
Rent2Go S.r.l	01/04/2022	9.5	66.67%	25.4	(2.386)
Prima S.r.l.	28/07/2022	0.3	100%	0.06	(2.659)

(a) Revenues for the full year 2022. Revenues recognised from the date of acquisition and included in the consolidated results of the Banca Popolare di Sondrio Group amounted to 18.9 million for Rent2Go S.r.l. and 0.03 million for Prima S.r.l.

(b) Profit/Loss of the Company for the entire year 2022. Profit/Loss for the year resulting from the financial statements of companies prepared in accordance with the National Accounting Standards issued by the OIC. Losses recognised from the date of acquisition and included in the consolidated results of the Banca Popolare di Sondrio Group amounted to 1.4 million for Rent2Go S.r.l. and 2.7 million for Prima S.r.l.

The acquisition of Rent2Go S.r.l. and Prima S.r.l.

Description of transactions

On 1 April 2022 was the acquisition by the parent company Banca Popolare di Sondrio S.p.a. of 66.67% of the share capital of Rent2Go S.r.l. (hereinafter «Rent2Go»), a long-term rental company dedicated to professionals, VAT holders and small businesses, in which the Bank already held a 33.33% stake.

The consideration paid for the capital acquisition amounted to 9.491 million euro.

On 28 July 2022 was the acquisition by the subsidiary Immobiliare San Paolo S.r.l. of 100% of the share capital of Prima Srl, a real estate company acquired as a result of a transaction aimed at protecting the Parent Company's credit.

The consideration paid for the capital acquisition amounted to 0.3 million euro.

Accounting for the business combination using the acquisition method under IFRS 3

The acquisition of control of the two companies took the form of a business combination to be accounted for according to the provisions of IFRS 3, which requires the application of the acquisition method. Under this method, the purchaser must proceed to:

- identify the purchaser and the date of acquisition;
- determine the cost of the acquisition;
- allocate the cost of the acquisition (Purchase Price Allocation, «PPA») by recognising the assets, liabilities and contingent liabilities deemed identifiable of the acquired company at their fair values at that date, including any identifiable intangible assets not recognised in the financial statements of the acquired company.

Any excess of the cost of the combination that is not allocated to the individual assets and liabilities acquired must be recognised under assets as goodwill; otherwise, the negative difference, resulting from accounting for the combination at favourable prices, is recognised in the income statement as negative goodwill (badwill).

IFRS 3 allows the final accounting for the business combination to be made within twelve months of the acquisition date. Specifically, paragraph 45 of IFRS 3 provides that in the event that «*If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer shall report in* *its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer shall also recognise additional assets or liabilities. However, the measurement period shall not exceed one year from the acquisition date*».

It should be noted that both acquisitions are being definitively accounted for in these financial statements.

Identification of the acquirer and date of acquisition and determination of the acquisition cost

In the acquisition of Rent2Go, the acquiring party is Banca Popolare di Sondrio, while in the acquisition of Prima S.r.l., the acquiring party is Immobiliare San Paolo S.r.l..

The acquisition date is a relevant element for the accounting of the transaction as it is the reference date for determining the fair values of the assets and liabilities acquired as well as the date from which the economic results of the acquired entity are incorporated into the consolidated income statement of the acquiring entity. The transaction was finalised on 1 April 2022, with respect to Rent2Go, and on 28 July 2022, with respect to Prima S.r.l.

It is therefore from these dates that Banca Popolare di Sondrio and Immobiliare San Paolo S.r.l., holding 100% of the share capital of the two companies, acquired control as defined by IFRS 10, and that the respective economic results are consolidated on a line-by-line basis.

For Prima S.r.l., the situation as at 30 June 2022 was conventionally used in consideration of the immateriality of the accounting events referring to the month of July.

With reference to the determination of the cost of the acquisition, it is necessary to take into account the minority interests already held by Banca Popolare di Sondrio in Rent2Go before taking control, and that therefore, the transaction in question qualified as a business combination realised in several stages; consequently, the cost of the acquisition was determined by taking into account the sum of the cash consideration transferred for the majority interests and the fair value of the interests already held. To summarise, the total acquisition cost amounted to 11.6 million, of which 2.1 million related to the fair value of the interest already held by Banca Popolare di Sondrio, substantially equal to the carrying value, and 9.5 million referred to the cash consideration transferred for the acquisition of the majority stake. Contractually defined price adjustments have been valued immaterially.

For the acquisition of Prima S.r.l., the acquisition cost was assumed to be equal to the cash consideration transferred at the closing date for 100% of the share capital, i.e., 0.3 million.

The fair value of assets and liabilities acquired and the PPA Process

As mentioned above, the accounting for the combination requires measuring the identifiable assets acquired and liabilities assumed at their respective fair values, including contingent liabilities and any identifiable intangible assets not recognised in the financial statements of the acquiree. What remains after this allocation must be recognised as goodwill, which represents a payment made by the acquirer in anticipation of future economic benefits from assets that cannot be individually identified and separately recognised.

With reference to Rent2Go, as at 30 June, goodwill had been recognised for a provisional amount of 5.4 million euro, equal to the difference between the purchase cost and the company's equity at the date of acquisition of control. Subsequent work to determine goodwill revealed that, at the date of acquisition, there were no significant differences between the book values resulting from the financial statements and the relevant fair values. On the other hand, with regard to the identification of specific intangible assets, an intangible asset, previously unrecognised in the Rent2Go financial statements, was recognised. This is the so-called «Customer Relationship», which reflects the value of existing rental agreements, including the fair value of the residual value of rental vehicles, as at 31 March 2022. Assessments conducted with the support of an independent expert revealed a value of «Customer Relationship» of 1.5 million euro. The related deferred tax liability of approximately 0.5 million euro was also recognised.

On the other hand, with regard to the acquisition of Prima S.r.l., from the analysis of the financial statements and following the information provided by the company, at the date of acquisition, certain differences emerged between the book values resulting from the accounting situation as at 30/06/2022 and the relative fair values, relative to the property owned by the company and certain debts. There were no specific intangible assets previously unrecognised in the company's financial statements.

Summary of the acquisition cost allocation process and the final determination of goodwill

At the acquisition date, the acquirer must recognise the difference between the cost of the business combination and the acquirer's interest in the net fair value of the assets, liabilities and contingent liabilities identified, if positive, among assets as goodwill and, if negative, among income in the income statement as badwill.

The following is a summary of the acquisition cost allocation process with the identification of the resulting goodwill or badwill for the two companies.

(in millions of euro)		RENT2GO S.R.L.	PRIMA S.R.L.
Total acquisition cost at acquisition date	**a**	**11.551**	**0.325**
IAS/IFRS equity at acquisition date	**b**	**6.183**	**0.908**
Effects of PPA	**c**	**1.004**	**-0.374**
Client Relationship		*1.500*	
Deferred tax liabilities on Client Relationship		*-0.496*	
Property, equipment and investment property			*-2.684*
Payables			*2.310*
Equity at fair value at acquisition date	**f = b + c**	**7.187**	**0.534**
Goodwill/Negative goodwill recognised	**a – f**	**4.364**	**- 0.209**

As shown in the table above, the comparison between the total acquisition cost and the equity revalued at fair value resulted in unallocated residual differences of 4.364 million for Rent2Go allocated to goodwill, while for Prima S.r.l., a badwill of 0.209 million emerged in the income statement under item «230 Other operating income/expense».

For the sake of completeness, the balance sheet of Rent2Go S.r.l. as at the acquisition date is shown below.

For the sake of completeness, the balance sheet of Rent2Go S.r.l. as at the acquisition date is shown below:

Balance Sheet (in thousands of euro)	Book value at acquisition date	Fair Value Differences	Fair Value at acquisition date
Cash and cash equivalents	2,858	–	2,858
Property, equipment and investment property	70,487	–	70,487
Intangible assets	428	1,500	1,928
Tax assets	76	–	76
Other assets	13,918	–	13,918
Total assets	**87,767**	**1,500**	**89,267**
Financial liabilities measured at amortised cost	56,717	–	56,717
Tax liabilities	5	496	501
Other liabilities	23,829	–	23,829
Provision for employee severance pay	44	–	44
Provisions for risks and charges	989	–	989
Equity	6,183	1,004	7,187
Total liabilities and equity	**87,767**	**1,500**	**89,267**

Other assets include net receivables of 6.222 million (8.506 million gross).

Section 2 Transactions realised after the end of the financial year

2.1 Business combinations

There have been no business combinations after 31 December 2022 and up to the date of approval of these Consolidated Financial Statements.

Section 3 Retrospective adjustments

In the year 2022, no adjustments were recognised in connection with business combinations that occurred in the same or previous years.

PART H *Related-party transactions*

1. Information on the remuneration of managers with strategic responsibilities

Below is information on the remuneration paid to Directors, Statutory Auditors and key management personnel in accordance with IAS 24.

The values shown with reference to the Directors (including the emolument attributable to the Chief Executive Officer), the Statutory Auditors and the other Managers with strategic responsibilities refer to the emoluments pertaining to the financial year, regardless of their payment.

	Board of Directors	Board of Statutory Auditors	Other managers with strategic responsibilities
Fees for the office held in Banca Popolare di Sondrio	1,327	279	–
Non-monetary benefits	–	–	184
Bonuses and other incentives	–	–	405
Other remuneration	206	19	2,552

In accordance with the provisions of Article 123-*ter* of Legislative Decree 58/1998, as amended, and Article 84-*quater* of the Issuers' Regulation (Consob Resolution No. 11971/1999, as amended), the Bank has made available both at its registered office and on its website the «Report on Remuneration Policy and Compensation Paid». Please refer to said document for more details on the above-mentioned fees.

2. Related-party disclosures

In accordance with Consob Resolution No. 17221 of 12.3.2010 and subsequent amendments, by resolution of the Board of Directors on 11 November 2010, the Bank adopted its own Internal Regulation on related party transactions.

Said regulation was updated by resolutions of the Board of Directors of 26 March 2013, 29 June 2021 and is published on the company website at www.istituzionale.popso.it.

A related party is understood as being a person in a certain position who could exercise an influence over the Bank such as to condition, directly or indirectly, the way that it operated to favour their own personal interests.

Related parties have been identified in accordance with IAS 24 and with the above mentioned Consob Regulation. Related parties are:

1. Subsidiary companies, parent companies and companies under joint control.
2. Companies that can exercise significant influence over the reporting bank.
3. Associated companies and their subsidiaries.
4. Joint ventures in which the reporting bank holds an investment.
5. Managers with strategic responsibilities within the bank or its parent company.
6. Close family members of the parties listed in point 5.
7. Subsidiary companies, companies under joint control by one of the parties listed in points 5 and 6.
8. Pension funds of employees and any other entity related to them.

Close family members are defined as follows: the spouse (not legally separated) or companion of the person concerned; the children and dependant relatives of the person concerned, of the spouse (not legally separated) and of the companion; the parents, second degree relatives and others living with the person concerned.

Significant influence is presumed to exist if the shareholder holds a voting interest of at least 10% unless the contrary can be clearly demonstrated.

Relations with companies in which investments are held are conducted as part of normal operations and mainly relate to current accounts, deposit accounts and loans. These relations are regulated from a Group perspective and are normally in line with the conditions applied to the Parent Company in the reference markets and may differ from those that the subsidiary could see applied to it acting autonomously.

Other relations with other related parties, excluding the above companies, are also settled on the market terms applying to the individual transactions, or on terms in line with those applied to employees, if applicable.

Related parties with administration, management and control functions, are applied a special approval procedure for the granting of bank credit laid down in art. 136 of the TUB. This makes the transaction subject to the unanimous approval of the Board of Directors and the consent of all members of the Board of Statutory Auditors.

The balance sheet and income statement figures as at 31 December 2022 are shown below for related parties as defined above on the basis of IAS 24:

(thousands of euro)	Assets	Liabilities	Income	Charges	Guarantees given and commitments	Guarantees received
Directors	580	10,138	12	54	134	736
Statutory auditors	714	439	11	0	267	2,186
Management	2	1,155	0	15	618	0
Family members	1,257	6,771	27	41	434	10,774
Associated companies	774,164	103,561	6,170	53	211,318	1,192
Other	2,231	1,224	39	0	969	1,275
Totals	**778,948**	**123,288**	**6,259**	**163**	**213,740**	**16,163**

Assets and liabilities mainly refer to item 40 «Financial assets measured at amortised cost - b) loans and receivables with customer» and item 10 «Financial liabilities measured at amortised cost - b) amounts due to customers» and have a percentage incidence of 1.85% and 0.3%, respectively. Income and expenses mainly relate to interest and commission items and account for 0.5% and 0.1%, respectively.

The exposure to associated companies is attributable for 341 million euro to Arca Holding spa and 308 million euro to Alba Leasing spa.

PART L *Segment information*

The segment reporting was prepared in accordance with IFRS 8 - Operating segments.

Each segment is identified in consideration of the nature of the products and services offered and the type of reference customer, so as to present internally adequately homogeneous characteristics in terms of risk and profitability.

Even though this classification reflects the lines of business envisaged under the Standardised Approach for calculating the minimum capital requirement for operational risk, it is based substantially on internal practice for the subdivision of activities used to apply corporate policies and to evaluate their results.

Geographical distribution is based on the distribution of branches throughout Italy and Switzerland.

A.1 Distribution by activity sectors: economic data

The following sub-segments are discussed:

- *Corporate*: these comprise «non-financial companies» and «family»; the figures shown here relate to credit and loans, deposits, leasing and payment services. Revenues from currency transactions with resident and non-resident customers are also significant to this sub-segment.
- *Individuals and other customers*: these comprise «consumer households», «public administrations», «finance companies» and «non-profit organisations»; the results reported derive from routine transactions with these customers, including the taking of deposits, intermediation in savings transactions, the granting of long-term loans and consumer credit, the provision of collection and payment services, the issue of credit and debit cards and other ancillary functions.
- *Securities*: this sub-segment comprises the results of transactions with customers involving direct trading in, the acceptance of instructions, the placement of financial instruments, insurance and pension productions, and the management of portfolios.
- *Central functions*: this sub-segment reports the results deriving from the management of portfolio own securities and equity investments, currency transactions on own account, and treasury management activities. In addition, it includes certain residual activities not classified elsewhere since the revenues earned are not significant.

The following tables show the pre-tax results of the sub-segments for 2022 and 2021.

Interest income and expense include a notional element to reflect the contribution to the financial margin made by each sub-segment.

This aspect is managed by using a multiple internal transfer rate («treasury pool»), considering both currency and duration, which keeps assets and liabilities in balance and which is settled within the «central functions» sub-segment.

Administrative expenses are allocated directly to the various sub-segments, wherever possible; in other cases, they are allocated using suitable drivers that essentially reflect the scale of the activities concerned.

The «reconciliation» column is used for the tie-in to the financial statements.

Items	Corporate	Individuals and other customers	Securities	Central functions	**Total**	Reconciliation	**Total 31/12/2022**
Interest income	381,418	322,554	–	368,057	1,072,029	-237,471	834,558
Interest expense	-103,237	-181,686	–	-106,039	-390,962	237,471	-153,491
Net interest income	**278,181**	**140,868**	**–**	**262,018**	**681,067**	**–**	**681,067**
Fee and commission income	176,317	87,112	114,470	23,731	401,630	-456	401,174
Fee and commission expense	-6,219	-8,201	-6,687	922	-20,185	-399	-20,584
Dividends and similar income	29	–	–	6,435	6,464	–	6,464
Net trading income	–	–	–	28,404	28,404	–	28,404
Net hedging gains (losses)	–	–	–	-181	-181	–	-181
Gains/losses from sales or repurchases	-63	-454	–	41,342	40,825	–	40,825
Net gains/losses on financial assets and liabilities measured at fair value	-7,443	-3,017	–	-57,128	-67,588	–	-67,588
Total income	**440,802**	**216,308**	**107,783**	**305,543**	**1,070,436**	**-855**	**1,069,581**
Net adjustments to financial assets	-122,885	-27,617	–	1,202	-149,300	–	-149,300
Net financial income	**317,917**	**188,691**	**107,783**	**306,745**	**921,136**	**-855**	**920,281**
Administrative expenses	-125,664	-179,210	-57,107	-163,189	-525,170	-55,073	-580,243
Net accruals to provisions for risks and charges	-21,638	-9,504	–	-3,083	-34,225	–	-34,225
Depreciation and net impairment losses on property, equipment and investment property	-10,094	-14,715	-4,864	-15,595	-45,268	–	-45,268
Amortisation and net impairment losses on intangible assets	-4,502	-6,382	-2,073	-4,255	-17,212	–	-17,212
Other operating income/ expense	3,578	2,657	-181	23,397	29,451	55,928	85,379
Net gains (losses) on equity investments	–	–	–	27,768	27,768	–	27,768
Net result of fair value measurement of property, equipment and investment property and intangible assets	–	–	–	-2,762	-2,762	–	-2,762
Gains/losses on sale of investments	–	–	–	172	172	–	172
Gross result	**159,597**	**-18,463**	**43,558**	**169,198**	**353,890**	**–**	**353,890**

Items	Corporate	Individuals and other customers	Securities	Central functions	**Total**	Reconciliation	**Total 31/12/2021**
Interest income	306,368	252,870	–	197,399	756,637	-114,569	642,068
Interest expense	-29,946	-93,218	–	-104,549	-227,713	114,569	-113,144
Net interest income	**276,422**	**159,652**	**–**	**92,850**	**528,924**	**–**	**528,924**
Fee and commission income	155,312	82,945	114,792	22,428	375,477	-675	374,802
Fee and commission expense	-5,270	-5,577	-6,482	451	-16,878	-270	-17,148
Dividends and similar income	–	–	–	5,208	5,208	–	5,208
Net trading income	–	–	–	63,650	63,650	–	63,650
Net hedging gains (losses)	–	462	–	-219	243	–	243
Gains/losses from sales or repurchases	7,020	-3,344	–	42,940	46,616	–	46,616
Net gains/losses on financial assets and liabilities measured at fair value	4,733	-535	–	22,528	26,726	–	26,726
Total income	**438,217**	**233,603**	**108,310**	**249,836**	**1,029,966**	**-945**	**1,029,021**
Net adjustments to financial assets	-116,070	-26,407	–	-2,808	-145,285	–	-145,285
Net financial income	**322,147**	**207,196**	**108,310**	**247,028**	**884,681**	**-945**	**883,736**
Administrative expenses	-125,359	-174,369	-55,198	-143,765	-498,691	-62,321	-561,012
Net accruals to provisions for risks and charges	5,109	-4,935	–	-1,022	-848	–	-848
Depreciation and net impairment losses on property, equipment and investment property	-10,184	-14,634	-4,872	-7,669	-37,359	–	-37,359
Amortisation and net impairment losses on intangible assets	-4,506	-6,267	-2,033	-3,869	-16,675	–	-16,675
Other operating income/ expense	3,366	3,424	-58	1,302	8,034	63,266	71,300
Net gains (losses) on equity investments	–	–	–	35,901	35,901	–	35,901
Net result of fair value measurement of property, equipment and investment property and intangible assets	–	–	–	-882	-882	–	-882
Gains/losses on sale of investments	–	–	–	384	384	–	384
Gross result	**190,573**	**10,415**	**46,149**	**127,408**	**374,545**	**–**	**374,545**

Below is a breakdown of commission income by services rendered, defined from a management perspective, and by IFRS 8 operating segment, in line with the disclosure requirements introduced by IFRS 15.

Type of services	Corporate	Individuals and other customers	Securities	Central functions	Reconciliation	2022	2021
FEE AND COMMISSION INCOME	**176,317**	**87,112**	**114,470**	**23,731**	**(456)**	**401,174**	**374,802**
Guarantees given	**27,563**	**5,319**	**–**	**–**	**–**	**32,882**	**28,811**
Management, Brokerage and Consulting	**–**	**–**	**114,470**	**–**	**–**	**114,470**	**114,792**
of which assets under administration	–	–	33,786	–	–	33,786	33,348
of which assets under management	–	–	55,073	–	–	55,073	56,825
of which insurance collection	–	–	25,611	–	–	25,611	24,619
Collection and payment services	**45,068**	**38,718**	**–**	**17,510**	**–**	**101,296**	**94,536**
Keeping and management of current accounts	**30,236**	**11,339**	**–**	**–**	**–**	**41,575**	**38,867**
Other fees and commissions	**73,450**	**31,736**	**–**	**6,221**	**(456)**	**110,951**	**97,796**
of which loans	67,689	18,557	–	–	–	86,246	76,556
of which third-party products	2,559	1,686	–	–	–	4,245	3,640
of which foreign services and products	2,537	5,568	–	–	–	8,105	7,893
of which other	665	5,925	–	6,221	(456)	12,355	9,707
FEE AND COMMISSION EXPENSE	**(6,219)**	**(8,201)**	**(6,687)**	**922**	**(399)**	**(20,584)**	**(17,148)**
NET FEE AND COMMISSION INCOME	**170,098**	**78,911**	**107,783**	**24,653**	**(855)**	**380,590**	**357,654**

It should be noted that the breakdown by services is made according to management logic and therefore, the breakdown differs from the individual items of the financial statements required by the format 262/2005 for the composition of commission income.

A.2 Distribution by activity sector: financial data

Items	Corporate	Individuals and other customers	Securities	Central functions	**Total 31/12/2022**
Financial assets	19,621,423	16,042,907	–	12,338,764	48,003,094
Other assets	–	–	–	9,163,690	9,163,690
Property, equipment and investment property	119,152	168,887	54,851	308,018	650,908
Intangible assets	4,784	7,073	2,358	22,454	36,669
Financial liabilities	11,818,328	30,002,023	–	11,448,457	53,268,808
Other liabilities	14,730	5,512	–	846,746	866,988
Provisions	135,086	115,546	25,272	55,221	331,125
Guarantees given	4,148,632	566,414	–	160,569	4,875,615
Commitments	14,258,167	3,526,854	46,449	687,783	18,519,253

Items	Corporate	Individuals and other customers	Securities	Central functions	**Total 31/12/2021**
Financial assets	18,968,148	13,821,782	–	14,801,411	47,591,341
Other assets	–	–	–	6,814,349	6,814,349
Property, equipment and investment property	124,220	174,347	56,989	223,890	579,446
Intangible assets	4,956	7,074	2,343	16,640	31,013
Financial liabilities	11,226,840	28,125,591	–	10,932,995	50,285,426
Other liabilities	12,906	5,799	–	1,007,689	1,026,394
Provisions	118,222	114,067	26,950	70,013	329,252
Guarantees given	3,807,439	445,424	–	157,955	4,410,818
Commitments	13,007,170	2,999,902	37,736	315,026	16,359,834

A.3 Distribution by activity sector: comment

The results of the various sub-segments are discussed below.

Corporate sector: particularly noteworthy is the contribution of «Factorit», which showed a positive result of 33,473 thousand euro in this area, up from the previous year (+17.5%) mainly due to the significant growth in net interest income and net commissions.

This segment contributes 45.1% of overall results.

Financial assets and financial liabilities amount to 19,621 million euro and 11,818 million euro, respectively.

With respect to total income, net adjustments for the impairment of financial assets represent 27.9% of the total, while administrative expenses absorb 28.5%.

The comparison with the previous year shows a significant decrease in the segment result (-30,976 thousand euro), mainly attributable to the synergic effect of the following factors:

- slight increase in net interest income (0.6%), in a general context of narrowing lending and funding spreads offset by appreciable growth in assets;
- marked increase in commission flows (+13.4%), where in particular commissions on loans and the collection and payment business grew;
- change in the result from the sale of non-performing loans (item «Gains (losses) from sales»), positive in 2021;
- loss recognised on receivables measured at fair value (-7,443 thousand euro);
- growth in net value adjustments on financial assets (+5.9%);
- substantial stability in administrative expenses (+0.2%);
- increase in net provisions and reserves for risks and charges, negative by -21.6 million euro.

Individuals and other customers: the contribution of the Swiss subsidiary was decisive, with a positive result of 44,092 thousand euro, significantly up on the previous year (+30.8%), primarily due to the improvement in net interest income and the favourable trend in value adjustments to financial assets.

Also appreciable was the contribution made by BNT, which, thanks to the return on salary/pension-backed loans, achieved a positive result of 3,712 thousand euro, albeit down 35.2% compared to the previous year.

This segment contributes -5.2% of overall results.

Financial assets and financial liabilities amount to 16,043 million euro and 30,002 million euro, respectively.

Net value adjustments for the impairment of financial assets represent 12.8% of the total income, while administrative expenses absorb 82.8%.

The comparison with the previous year shows a significant decrease in the segment result (-28,878 thousand euro), mainly attributable to the synergic operation of the following factors:

- decrease in the net interest income (-11.8%), due to a general rise in rates, which had a greater impact on funding also due to the higher volumes in place;
- significant increase in commission flows (+2%), where in particular current account and financing fees increased;
- increase in value adjustments on financial assets (+4.6%), mainly attributable to increased provisions on positions;
- slight increase in administrative expenses (+2.8%);
- significant increase in net provisions and reserves for risks and charges, with a negative contribution of 9.5 million euro.

Securities: this segment contributes 12.3% of overall results.

Compared to the intermediation margin, administrative expenses affect the amount of 53.0%.

The comparison with the previous year shows a significant worsening of the segment result

(-5.6%), mainly due to the contribution of the Swiss subsidiary, where a decrease of -4,238 thousand euro was recorded.

The increase of 1,648 thousand euro in the Parent Company's contribution was significant, due in part to the positive performance of the insurance and pension products and investment funds segments.

Central structure: the segment contributes 47.8% of overall results.

The comparison with the previous year shows a marked increase in the result (+32.8%), mainly due to the contribution of the Parent Company, mainly attributable to the positive trend in net interest income, which more than offset the negative changes in fair value recorded as a result of the negative trend in the financial markets.

B. Distribution by geographical areas

The geographical distribution was made on the basis of the location of the branches; the representation according to the alternative criterion, based on the residence of the counterparties, does not lead to significant differences.

For the Parent Company, branches are aggregated into two geographical areas, «Northern Italy» and «Central Italy», since there is a significance difference in the respective customer profiles, while products, services, commercial and management policies are all the same.

In fact, in terms of intermediated volumes, in Northern Italy the most significant market shares pertain to «non-financial companies» and «consumer and producer households» while in Central Italy the «public administration» sector assumes particular importance.

The discrepancies existing between the Parent Company and the Swiss subsidiary, regarding the type of customers served, the products and services offered, the sales and management policies, make the separate representation of the «Switzerland» operating area significant.

B.1 Distribution by geographical areas: economic data

Items	Northern Italy	Central-Southern Italy	Switzerland	**Total**	Reconciliation	**Total 31/12/2022**
Interest income	930,454	72,221	77,054	1,079,729	-245,171	834,558
Interest expense	-341,409	-44,376	-14,416	-400,201	246,710	-153,491
Net interest income	**589,045**	**27,845**	**62,638**	**679,528**	**1,539**	**681,067**
Fee and commission income	325,249	51,981	27,925	405,155	-3,981	401,174
Fee and commission expense	-16,094	-3,550	-3,043	-22,687	2,103	-20,584
Dividends and similar income	35,592	29	39	35,660	-29,196	6,464
Net trading income	18,542	–	10,134	28,676	-272	28,404
Net hedging gains (losses)	-32	–	-25	-57	-124	-181
Gains/losses from sales or repurchases	41,924	-1,099	–	40,825	–	40,825
Net gains/losses on financial assets and liabilities measured at fair value	-64,453	-1,847	-1,306	-67,606	18	-67,588
Total income	**929,773**	**73,359**	**96,362**	**1,099,494**	**-29,913**	**1,069,581**
Net adjustments to financial assets	-137,235	-17,020	5,006	-149,249	-51	-149,300
Net financial income	**792,538**	**56,339**	**101,368**	**950,245**	**-29,964**	**920,281**
Administrative expenses	-418,536	-38,075	-70,549	-527,160	-53,083	-580,243
Net accruals to provisions for risks and charges	-27,805	-5,911	-997	-34,713	488	-34,225
Depreciation and net impairment losses on property, equipment and investment property	-43,028	-2,952	-5,290	-51,270	6,002	-45,268
Amortisation and net impairment losses on intangible assets	-13,817	-1,336	-1,684	-16,837	-375	-17,212
Other operating income/expense	34,295	898	-37	35,156	50,223	85,379
Net gains (losses) on equity investments	1,106	–	–	1,106	26,662	27,768
Net result of fair value measurement of property, equipment and investment property and intangible assets	-2,762	–	–	-2,762	–	-2,762
Gains/losses on sale of investments	172	–	–	172	–	172
Gross result	**322,163**	**8,963**	**22,811**	**353,937**	**-47**	**353,890**

Items	Northern Italy	Central-Southern Italy	Switzerland	**Total**	Reconciliation	**Total 31/12/2021**
Interest income	635,943	56,172	66,464	758,579	-116,511	642,068
Interest expense	-212,598	-6,983	-8,046	-227,627	114,483	-113,144
Net interest income	**423,345**	**49,189**	**58,418**	**530,952**	**-2,028**	**528,924**
Fee and commission income	300,541	47,976	29,393	377,910	-3,108	374,802
Fee and commission expense	-12,310	-3,727	-2,771	-18,808	1,660	-17,148
Dividends and similar income	22,299	-	36	22,335	-17,127	5,208
Net trading income	50,606	–	13,340	63,946	-296	63,650
Net hedging gains (losses)	–	–	462	462	-219	243
Gains/losses from sales or repurchases	47,603	-987	–	46,616	–	46,616
Net gains/losses on financial assets and liabilities measured at fair value	24,801	-1,048	2,922	26,675	51	26,726
Total income	**856,885**	**91,403**	**101,800**	**1,050,088**	**-21,067**	**1,029,021**
Net adjustments to financial assets	-136,469	-6,084	-2,452	-145,005	-280	-145,285
Net financial income	**720,416**	**85,319**	**99,348**	**905,083**	**-21,347**	**883,736**
Administrative expenses	-398,301	-39,038	-62,159	-499,498	-61,514	-561,012
Net accruals to provisions for risks and charges	2,853	-2,679	-853	-679	-169	-848
Depreciation and net impairment losses on property, equipment and investment property	-32,829	-2,982	-4,975	-40,786	3,427	-37,359
Amortisation and net impairment losses on intangible assets	-13,321	-1,345	-1,363	-16,029	-646	-16,675
Other operating income/expense	13,299	1,318	-1,604	13,013	58,287	71,300
Net gains (losses) on equity investments	-835	–	–	-835	36,736	35,901
Net result of fair value measurement of property, equipment and investment property and intangible assets	-882	–	–	-882	–	-882
Gains/losses on sale of investments	384	–	–	384	–	384
Gross result	**290,784**	**40,593**	**28,394**	**359,771**	**14,774**	**374,545**

B.2 Distribution by geographical area: balance sheet

Items	Northern Italy	Central-Southern Italy	Switzerland	**Total 31/12/2022**
Financial assets	39,020,849	3,428,554	5,553,691	48,003,094
Other assets	8,151,871	–	1,011,819	9,163,690
Property, equipment and investment property	570,927	35,346	44,635	650,908
Intangible assets	32,410	1,389	2,870	36,669
Financial liabilities	37,736,905	9,406,554	6,125,349	53,268,808
Other liabilities	825,453	5,945	35,590	866,988
Provisions	279,010	41,164	10,951	331,125
Guarantees given	3,842,674	763,838	269,103	4,875,615
Commitments	14,979,362	3,204,445	335,446	18,519,253

Items	Northern Italy	Central-Southern Italy	Switzerland	**Total 31/12/2021**
Financial assets	38,703,503	3,813,267	5,074,571	47,591,341
Other assets	5,845,428	–	968,921	6,814,349
Property, equipment and investment property	498,582	36,896	43,968	579,446
Intangible assets	27,324	1,457	2,232	31,013
Financial liabilities	34,944,115	9,707,784	5,633,527	50,285,426
Other liabilities	989,035	4,042	33,317	1,026,394
Provisions	264,796	36,576	27,880	329,252
Guarantees given	3,472,816	675,622	262,380	4,410,818
Commitments	13,771,756	2,276,309	311,769	16,359,834

Disclosure of information State by State pursuant to Circular 285 of 17 December 2013 on «Supervisory provisions for Banks» 4th revision dated 17 June 2014

This information is available (in Italian) in the «Governance» section of the website www.popso.it.

PART M *Information on Leasing*

Section 1 *Lessee*

QUALITATIVE INFORMATION

Contracts that fall within the application of IFRS 16 can be grouped into three distinct categories:

a) real estate, which is the most relevant case with its appurtenances (e.g. parking spaces even if they have a marginal incidence);

b) cars;

c) other types, including the rental of IT equipment.

In accordance with IFRS 16, the rights held under licence agreements have been excluded from the scope of application of the standard. They continue to be recognised under IAS 38 – Intangible assets.

The lease contracts mainly relate to buildings used as bank branches and generally have a duration of more than 48 months, typically 72 or 108 months, with automatic renewal options. For contracts with indefinite useful life, as provided for by existing policies, the useful life was defined on the basis of the duration historically recognised for the contract at the date of first-time application of IFRS 16. In the absence of this information, it is set equal to that of the contract to which it is strictly functional, if any, or to that of contracts that have similar characteristics.

Lease instalments are revised annually from the second year of the contract to reflect 75% or 100% of the change in the consumer price index for the families of blue- and white-collar workers.

Lease contracts for cars and IT equipment typically have a four-year term without the exercise of renewal and/or purchase options and payment on a monthly basis.

Checks for indicators of potential impairment are carried out consistently with the criteria for other Property, equipment and investment property (e.g. existence of plans to divest or negotiate branches, presence of disused branches). There was no evidence of any impairment in the right-of-use asset.

In line with the disclosures required by paras. 51, 53 and 59 of IFRS 16, the following supplementary information is provided:

- variable lease payments: situations involving variable lease payments are marginal for disclosure purposes, as this practice is rare in contracts signed by the group;
- extension and termination options: contracts signed by the group generally envisage giving 6 months' notice of termination. Most contracts for the lease of branch premises require payment of the cost of restoring them to their original condition if the lease is terminated. This amount is not very relevant;
- guarantees on the residual value: the group does not provide guarantees on the residual value;
- leases not yet signed: the group has not made any lease commitments of significant amount;
- sale and leaseback transactions: the group has no sales plans or leaseback agreements in place.

Part B of the Notes to the financial statements provides information about leased right-to-use assets (Tables 9.1 - 9.6 Part B, Assets) and lease liabilities (Tables 1.1 - 1.6 Part B, Liabilities and equity). In particular, right-to-use assets total 168 million, while lease liabilities total 171 million euro.

Part C of the Notes to the financial statements contains the information required by para. 53 of IFRS 16 about the interest charged on lease liabilities and the income earned from sub-leasing transactions. See those sections for further details.

Consistently with the provisions of IFRS 16, the Group makes use of the exemptions allowed by the standard for short-term leases and leases of low-value assets, the costs of which, during 2022, amount to 0.118 million euro.

With Regulation (EU) 2021/1421 of 31 August 2021, the EU endorsed the IASB document «Concessions on royalties related to COVID-19 as of 30 June 2021 (Amendment to IFRS 16)». The amendment to the International Financial Reporting Standard (IFRS) 16 Leasing introduces as a practical expedient the possibility for the lessee not to treat the unpaid fees, as a direct consequence of Covid-19, as changes to the original contract and therefore do not imply a change of the amortisation plan of the lease, with consequent recalculation of the liability.

Taking the above into account, the Banca Popolare di Sondrio Group did not request any suspension of payment of the lease instalments to deal with the emergency; furthermore, no branch closure was carried out that could have revealed signs of impairment of the rights of use.

QUANTITATIVE INFORMATION

As required by para. 53 of IFRS 16, the following information is provided: carrying amount of right-to-use assets at the reporting date and the depreciation charge on right-to-use assets by category of underlying asset.

	2022				2021
Assets/Values	Properties	Cars	Other	Total	Total
Initial right-of-use	180,550	261	157	180,968	199,167
Depreciation	(21,484)	(80)	(82)	(21,646)	(21,279)
Other changes	8,192	(61)	69	8,200	3,080
Closing carrying amount	**167,258**	**120**	**144**	**167,522**	**180,968**

As regards the Other changes during the year, the impact is due to recalculation of the right-of-use following the ISTAT changes and the opening/closing of contracts.

Section 2 *Lessor*

QUALITATIVE INFORMATION

The Group is party to operational leases on buildings. These operational lease contracts do not transfer to the lessee substantially all the risks and benefits deriving from ownership of the assets, which remain with the lessor. In the case of operational lease contracts, the lessor recognises the lease instalments in the income statement on an accruals basis.

QUANTITATIVE INFORMATION

1. Balance sheet and income statement information

Reference should be made to the contents of Part C - Income Statement, Table 16.2 (Other operating income: breakdown) for information on other income deriving from operating leases.

3. Operational leases

The maturities of the payments to be received are summarised below.

3.1 Maturities of payments to be received

	2022	2021
Time band	Lease payments receivable	Lease payments receivable
Up to 1 year	131	119
1 to 2 years	133	110
2 to 3 years	134	101
3 to 4 years	134	93
4 to 5 years	135	85
Over 5 years	409	234
Total	**1.076**	**742**

3.2 Other information

No other information to be reported

Certification of the consolidated Financial Statements at 31 December 2022 pursuant to article 81-*ter* of Consob Regulation No. 11971 of 14 May 1999, as amended.

1. The undersigned Mario Alberto Pedranzini, in his capacity as Chief Executive Officer, and Maurizio Bertoletti, in his capacity as Manager responsible for preparing the company's accounting documents of Banca Popolare di Sondrio S.p.A., attest, also taking into account the provisions of Article 154-*bis*, paragraphs 3 and 4, of Legislative Decree No. 58 of 24 February 1998:

   – the adequacy, in relation to the characteristics of the enterprise,
   – the actual application,

   of the administrative and accounting procedures for the preparation of the consolidated financial statements for 2022.

2. The evaluation of the adequacy and effective application of the administrative and accounting procedures for the formation of the consolidated financial statements as at 31 December 2022 were based on a model, defined by Banca Popolare di Sondrio S.p.A., which makes reference to the principles of the «Internal Control - Integrated Framework (CoSO)», issued by the Committee of Sponsoring Organizations of the Treadway Commission, which acts as a reference framework for the internal control system and for financial reporting that is generally accepted internationally.

3. It is also certified that:

   3.1 the consolidated financial statements as at 31 December 2022:

   a) have been prepared in compliance with the international accounting standards endorsed by the European Union pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and the Council of 19 July 2002;
   b) correspond to the accounting books and records;
   c) provide a true and fair representation of the equity, economic and financial situation of the issuer and the whole of the companies included in the scope of consolidation.

   3.2 The report on operations includes reliable analysis on the performance, result of operations and the business of the issuer and of all entities included in the consolidated financial statements as well as description of principal risks and uncertainties to which they are exposed.

Sondrio, 16 March 2023

Chief Executive Officer	The Manager responsible for preparing the company's accounting documents
Mario Alberto Pedranzini	Maurizio Bertoletti

Building a better working world

Banca Popolare di Sondrio S.p.A.

Consolidated financial statements at December 31, 2022

Independent auditor's report
pursuant to article 14 of Legislative Decree n. 39,
dated January 27, 2010, and article 10 of EU Regulation n. 537/2014

EY S.p.A.
Via Meravigli, 12
20123 Milano

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Independent auditor's report In accordance with article 14 of Legislative Decree n. 39, dated January 27, 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

To the Shareholders of
Banca Popolare di Sondrio S.p.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Banca Popolare di Sondrio Group (the "Group"), which comprise the consolidated balance sheet at December 31, 2022, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the cash flow statement for the year then ended, and the 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 at December 31, 2022 and of the results of its operations 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 article 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 Banca Popolare di Sondrio S.p.A. (the "Bank" or the "Parent Company") 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 period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Building a better working world

We identified the following key audit matter:

Key audit matter	Audit response
Classification and measurement of loans to customers ("Loans") Loans measured at amortised cost, presented in item 40 b) of the balance sheet, amount to approximately Euro 31,869 million and represent about 55% of total assets. The classification and valuation of Loans is relevant for the audit both as the value of Loans is significant for the consolidated financial statements as a whole and as the value of the related impairment losses is determined by the Directors through the use of estimates that have a high degree of complexity and subjectivity. In addition, these estimation processes have been updated to reflect the current context of uncertainty about the evolution of the macroeconomic framework affected by the Russo-Ukrainian war, rise of energy costs and inflationary trends. Among these, the following matters are particularly relevant: • the identification and calibration of parameters for determining the significant increase in credit risk compared to the initial detection date, for the purpose of allocating exposures in *Stage 1* and *Stage 2* (performing loans); • the definition of *Probability of Default* (PD), *Loss Given Default* (LGD) and *Exposure at Default* (EAD) models and parameters applied for the calculation of *Expected Credit Losses* (ECL) to one year for *Stage 1* classified exposures and *lifetime* for *Stage 2* classified exposures based on historical observation of data for each risk class and *forward looking* factors, including those macroeconomic related; • the identification of evidences that may suggest that the Loan book value (*impairment* evidence) cannot be fully recoverable, with subsequent classification of exposures in *Stage 3* (non-performing loans); • for Loans classified in Stage 3, the determination of the criteria used for	In relation to these aspects, our audit procedures included, among others: • updating the understanding of the *policies*, processes and controls implemented by the Group in relation to the classification and measurement of Loans and performing compliance procedures on the key controls, including those relating to IT safeguards, in order to verify its operational effectiveness; • performing substantive procedures, on sample basis, aimed at verifying the proper classification and measurement of Loans; • understanding the methodology used for statistical assessments and the reasonableness of the assumptions adopted, including the new macroeconomic scenarios and their weighting; • performing compliance and substantive procedures, aimed at verifying the accurate determination of PD, LGD and EAD parameters relevant for the determination of expected credit loss adjustments; • performing of benchmarking procedures for the portfolio and its related coverage levels, with reference to the most significant deviations from the balances of the previous year; • the verification, through analysis of the supporting documentation, of the accounting of the disposal of non-performing loans carried out during the year, resulting from the fulfilment of the plan aimed at reducing the portfolio of non performing loans. The procedures described above have also been carried out with the support of experts from the EY network on models for the evaluation of financial instruments and IT systems.

estimating the expected cash flows according to the recovery strategy.

Information on the evolution of the quality, classification and measurement of Loans is provided within Part A - Accounting Policies, in Part B - Information on the balance sheet, in Part C - Information on the Income Statement and in Part E - Information on risks and related hedging policy of the notes to the financial statements.

Finally, we have analysed the adequacy of the disclosure provided in the notes to the consolidated financial statements.

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 article 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 consolidated 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 or to cease operations, or have no realistic alternative but to do so.

The Board of statutory auditors ("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 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 them all matters that may reasonably be thought to bear on our independence, and where applicable, the actions taken to eliminate relevant risks or the safeguard measures 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 consolidated 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 the Bank (at the time Banca Popolare di Sondrio S.C.p.A), in the general meeting held on April 29, 2017, appointed us to perform the audits of the consolidated financial statements of each year from the year ending December 31, 2017 to December 31, 2025.

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 Group 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 Board of statutory auditors ("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 the provisions of Delegated Regulation (EU) no. 815/2019

The Directors of Banca Popolare di Sondrio S.p.A. are responsible for applying the provisions of the European Commission Delegated Regulation (EU) no. 815/2019 for the regulatory technical standards on the specification of a single electronic reporting format (ESEF – European Single Electronic Format) to the consolidated financial statement, to be included in the annual financial report.

We have performed the procedures under the auditing standard SA Italia no. 700B, in order to express an opinion on the compliance of the consolidated financial statement 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 Delegated Regulation.

Due to certain technical limitations, some information included in the explanatory 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 January 27, 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated February 24, 1998

The Directors of Banca Popolare di Sondrio S.p.A., are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and Ownership Structure of the Group at December 31, 2022 including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information 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 February 24, 1998, with the consolidated financial statements of the Group 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 the Group 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 January 27, 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 December 30, 2016

The Directors of Banca Popolare di Sondrio S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated December 30, 2016. We have verified that non-financial information has been approved by Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated December 30, 2016, such non-financial information is subject to a separate compliance report signed by us.

Milan, April 5, 2023

EY S.p.A.
Signed by: Davide Lisi, Auditor

This independent auditor's report has been translated into the English language solely for the convenience of international readers. Accordingly, only the original text in Italian language is authoritative.

RESOLUTIONS OF THE EXTRAORDINARY AND ORDINARY SHARE-HOLDERS' MEETING

Of 29 April 2023 (in a single call)

AGENDA

Extraordinary part
1) Proposal to amend article 24 of the Articles of Association. Related and consequent resolutions.

Ordinary part
1) Financial statements at 31 December 2022:
   a) Presentation of the financial statements at 31 December 2022: Directors' report on operations; report of the Board of Statutory Auditors; related and consequent resolutions; presentation of the consolidated financial state-ments at 31 December 2022;
   b) Allocation of the profit for the financial year 2022 and distribution of the dividend; related and consequent resolutions;

2) Resolutions on remuneration matters:
   a) Annual report on remuneration policy and compensation paid:
      a1) Approval of the 2023 Remuneration Policies of the Banca Popolare di Son-drio Banking Group;
      a2) Approval by non-binding resolution of the remuneration paid in the finan-cial year 2022;
   b) Approval of the 2023 Share-based Remuneration Plan, pursuant to art. 114-bis of Legislative Decree 58/98 (Consolidated Finance Act;
   c) Approval of the Long-term share-based compensation plan based on finan-cial instruments, pursuant to art. 114-bis of Legislative Decree 58/98 (Con-solidated Finance Act);

3) Resolutions on treasury shares:
   a) Authorisation to purchase and sell treasury shares pursuant to art. 8 of the Articles of Association and articles 2357 and 2357-ter of the Italian Civil Code, art. 132 of Legislative Decree 58/98 (Consolidated Finance Act), and article 144-bis of Regulation No. 11971 approved by Consob resolution of 14 May 1999;
   b) Authorisation for the use of treasury shares already held in service of the 2023 Share-based Remuneration Plan, pursuant to article 114-bis of Legis-lative Decree 58/98 (Consolidated Finance Act), and/or to service the Long-term Share-based Remuneration Plan, pursuant to article 114-bis of Legis-lative Decree 58/98 (Consolidated Finance Act);

4) Determination of directors' emoluments;

5) Appointment of five Directors for the three-year period 2023-2025;

6) Appointment of a director for the remainder of the three-year period 2021-2023 pursuant to Article 25(3) of the Articles of Association to replace a di-rector who left office early.

For the extraordinary part
Point 1) on the agenda
The Extraordinary Shareholders' Meeting of Banca Popolare di Sondrio

società per azioni, having taken note of the illustrative Report of the Board of Directors on the proposed amendment to the Articles of Association and the proposal formulated therein,

resolved:

A. to amend Article 24 of the Articles of Association, approving this change in the text set forth in the Explanatory Report, for the reasons stated therein;
B. to confer on the Board of Directors, and on its behalf the Chair and the Managing Director, also jointly and severally, within the limits of the law, any and all powers to provide whatever is necessary for the implementation and full execution of this resolution, with any and all powers necessary and appropriate for this purpose, none excluded and excepted, including the power to make any amendments, additions or deletions of a non-substantial nature to this resolution that are necessary for its registration in the Company Registry, including any amendment necessary or opportune for technical-legal reasons or required by the competent Authorities, declaring as of now that the action has been taken and is valid».

For the ordinary part

Point 1) on the agenda

Letter a)

The Meeting, having heard the directors' report on operations during 2022; having noted the report of the Board of Statutory Auditors and that of the Independent Auditors; having taken as read the balance sheet, the income statement, the explanatory notes and, in addition, the financial statements of the subsidiary and associated companies,

approved:

– the directors' report on operations;
– the financial statements at 31 December 2022 in the results shown in the balance sheet and income statement and the related notes; financial statements that show a profit for the year of € 212,901,668;

noted:

– the consolidated financial statements at 31 December 2022.

Letter b)

The Shareholders' Meeting, recalling the resolutions taken when approving the financial statements at 31 December 2022, having heard the report on the proposed allocation of the profit for the year; having acknowledged the report of the Board of Statutory Auditors and that of the independent auditors, approved the allocation of the profit for the year of € 212,901,668, as proposed by the Board of Directors in accordance with the law and the articles of association, and more specifically resolved:

a) to pay a dividend of € 0.28 to each of the 453,385,777 shares in circulation at 31/12/2022 with dividend rights as from 01/01/2022, transferring to the extraordinary reserve the amount of the dividends due to any treasury shares held by the Bank on the working day prior to going ex-coupon, for a total amount of € 126,948,017.56

b) to allocate the residual profit:

– to the charity	€	300,000.00
– to the unavailable reserve pursuant to Legislative Decree 38/2005 (Art. 6.1.a)	€	11,741,126.51
– to the extraordinary reserve	€	73,912,523.93

In accordance with the Stock Exchange calendar, the dividend was paid from 24 May 2023, going ex-coupon no. 45 on 22 May 2023.

Point 2) on the agenda

Letter a1)

The Shareholders' Meeting approved, with a binding vote, the 2023 Remuneration Policies of the Banca Popolare di Sondrio Banking Group contained in the first section of the Annual Report on Remuneration Policy and Remuneration Paid, and acknowledged the Public Disclosure required by the supervisory regulations on remuneration and incentive policies and practices contained in the annex to the Annual Report on Remuneration Policy and Remuneration Paid, as well as the information received on the activities carried out by the Remuneration Committee.

Letter a2)

The Meeting approved, by non-binding vote, the second section of the Annual report on remuneration policy and compensation paid for 2022.

Letter b)

The Meeting approved the 2023 Share-based Remuneration Plan, pursuant to art. 114-bis of Legislative Decree 58/98, Consolidated Law on Finance, as described in the aforesaid Information Document relating to the 2023 Share-based Remuneration Plan, and granted the Board of Directors, with the right to sub-delegate, all powers necessary to the actual implementation of the aforesaid Plan, to be exercised in accordance with the relevant Information Document.

Letter c)

The Meeting approved the Long-term Share-based Remuneration Plan, pursuant to Article 114-bis of Legislative Decree No. 58/98, Consolidated Law on Finance, as described in the aforesaid Information Document relating to the Long-term Share-based Remuneration Plan, and granted the Board of Directors, with the right to sub-delegate, all powers necessary to the actual implementation of the aforesaid Plan, to be exercised in accordance with the relevant Information Document.

Point 3) on the agenda

Letter a)

The Meeting resolved:

– to authorise the Board of Directors to purchase and/or dispose of ordinary treasury shares and/or to cancel them, pursuant to current legislation and the Articles of Association, for the period of time between today's date and the date of the Shareholders' Meeting called to approve the 2023 financial statements, on the basis specified below, on condition that the start of the purchase programme, or its suspension and/or its termination is authorised by the Board of Directors, with the right to delegate to the Executive Committee, which will therefore publish the information required pursuant to art. 144-bis, para.3, of the Issuer's Regulation on the programme start date;

Purchases of treasury shares

- purchases may be made up to a maximum amount of € 30,000,000 (thirty million) without exceeding the available reserves, on condition in all cases that the number of shares held never exceeds 2% of the shares representing share capital;
- purchase transactions may be made at any time until the date of the Shareholders' Meeting called to approve the 2023 financial statements;
- the purchase price of the shares must not be more than 20% greater than the official price for Banca Popolare di Sondrio shares posted by Borsa Italiana S.p.A. at the end of the market day immediately prior to each transaction;
- purchases must be made in one of the ways specified in para.1, letters a), b), c), d-bis), d-ter), or in para.1-bis of art. 144-bis of Regulation No. 11971 approved by Consob on 14 May 1999, as subsequently amended.

<u>Trading and sale of treasury shares</u>

- the treasury shares purchased in execution of this Shareholders' resolution, as well as those purchased pursuant to previous Shareholders' resolutions, may be traded and disposed of and, therefore, assigned even prior to making the maximum purchase covered by this requested authorisation, on one or more occasions, in the manner deemed most appropriate for the reasons expressed in the directors' report and in the interests of the Bank;
- the disposals or dispositions may be made at any time prior to the Shareholders' Meeting called to approve the 2023 financial statements;
- the treasury shares purchased may be disposed of, on one or more occasions, even prior to making the maximum authorised purchase of treasury shares;

- the disposals may be made on the basis and with the timing deemed most appropriate in the interests of the Bank, in any manner considered suitable in relation to the objectives pursued, without prejudice in all cases to compliance with the authorisation conditions and the applicable regulations;
- the selling price of the shares – if sold in the market – must not be more than 20% lower than the official price for Banca Popolare di Sondrio shares posted by Borsa Italiana S.p.A. at the end of the market day immediately prior to each transaction.

Maximum volumes
- the purchases and sales – in the latter case if made in the market – must not exceed 25% of the average daily volume of the shares traded on the market run by Borsa Italiana S.p.A., calculated with reference to the average daily volume of trades in the 20 trading days prior to the date of each transaction.

Cancellation of treasury shares
- the treasury shares purchased in execution of this Shareholders' resolution, as well as those purchased pursuant to previous Shareholders' resolutions, may be cancelled on one or more occasions, in the manner deemed most appropriate for the reasons expressed in the directors' report and in the interests of the Bank, without prejudice to compliance with the regulatory requirements and the Articles of Association, using the reserve for treasury shares held to cover any differences between their cancellation value and their purchase price.
  – to grant the Board of Directors, and the Managing Director, on its behalf, all powers needed to implement this resolution, as well as to make any changes to it that might be needed or suggested by the Supervisory Authorities or those that manage the market.

Letter b)
The Meeting authorised the Board of Directors to use, to service the 2023 share-based remuneration plan based and/or to service the long-term share-based remuneration plan and within the limits of their terms, Banca Popolare di Sondrio ordinary shares already held by the Bank up to a total value maximum of € 1,715,000. The number of shares used to service the above Plans shall be determined with reference to the closing price struck on the date on which the Board of Directors resolves to assign the variable remuneration.
The Board of Directors, and the Managing Director, on its behalf, was also granted all powers needed to implement this resolution, as well as to make any changes to it that might be needed or suggested by the Supervisory Authorities or those that manage the market.

Point 4) on the agenda
The Shareholders' Meeting determined the remuneration of the directors

in compliance with the Remuneration Policies contained in Section I - Remuneration Policies 2023 of the BPS Banking Group - of the «Annual Report on Remuneration Policy and Remuneration Paid».

Point 5) on the agenda
Pursuant to the Articles of Association, the Shareholders' Meeting appointed Messrs. Pedranzini Mario Alberto (managing director), Stoppani Lino Enrico, Zambelli Rossana (independent director), Stefini Silvia (independent director) - taken from «List no. 1» submitted by the Board of Directors -, Malaguti Maria Chiara (independent director), taken from «List No. 2» submitted by 13 shareholders.

Point 6) on the agenda
The Shareholders' Meeting elected Mr. Attilio Piero Ferrari, who had already been co-opted by the Board of Directors on 17 March last year to replace an outgoing director, as a director for the remainder of the three-year period 2021-2023. At the time, Mr. Ferrari was a candidate in «List No. 1» presented for the appointment of five directors for the three-year period 2021-2023 at the Shareholders' Meeting of 11 May 2021, the same list from which the outgoing director was drawn.

THE PROGRESS OF BANCA POPOLARE DI SONDRIO IN THE MAIN ITEMS OF THE FINANCIAL STATEMENTS

Year	Financial investments euro	Customer loans euro	Fiduciary funds euro	Equity (capital &reserves) euro	Profit for the year euro	Dividend euro
1871	26	93	37	47	1	0.001
1875	109	675	569	181	21	0.002
1880	46	1,024	777	360	33	0.002
1885	213	1,431	1,161	410	42	0.002
1890	459	1,805	1,646	457	49	0.002
1895	840	1,380	1,631	453	36	0.002
1900	860	1,627	1,987	465	43	0.002
1905	940	2,330	2,834	504	53	0.002
1910	1,460	3,717	4,738	563	68	0.003
1915	2,425	3,399	5,178	658	59	0.002
1920	7,906	9,100	22,320	1,232	186	0.005
1925	9,114	35,692	39,924	2,303	523	0.006
1930	12,899	43,587	54,759	3,230	561	0.006
1935	21,402	30,912	53,190	3,543	339	0.004
1940	24,397	32,808	57,064	3,091	312	0.002
1945	112,239	101,840	191,619	6,491	817	0.002
1950	608,460	892,440	1,359,864	50,496	10,834	0.041
1955	1,413,363	2,372,139	3,573,499	262,122	25,998	0.124
1960	3,474,898	5,864,314	9,124,181	495,960	45,997	0.150
1965	6,564,058	9,861,955	18,238,851	670,265	60,044	0.170
1970	11,228,709	21,140,462	34,440,002	1,577,469	86,800	0.196
1975	49,247,998	46,458,454	103,136,018	4,940,413	336,351	0.284
1980	248,877,713	135,350,391	386,128,259	44,618,760	2,298,768	0.620
1981	303,227,605	149,856,755	435,958,220	70,294,839	3,543,126	0.878
1982	434,505,499	168,991,589	564,440,308	93,988,765	5,876,973	0.930
1983	551,731,767	201,889,280	722,876,267	105,498,725	9,795,722	1.394
1984	657,323,707	244,311,938	885,640,690	117,286,747	11,754,271	1.911
1985	669,773,787	327,572,423	985,454,131	123,347,208	13,332,058	2.582
1986	854,978,708	381,346,894	1,108,118,326	129,106,270	13,582,958	2.169
1987	954,429,924	407,643,937	1,205,007,005	134,486,897	13,588,657	2.169
1988	950,465,324	510,164,638	1,285,408,512	139,730,318	13,665,548	2.272
1989	958,277,398	634,760,956	1,431,120,712	145,100,954	13,984,014	2.324
1990	919,261,388	819,877,375	1,567,539,101	170,006,961	14,919,668	1.653
1991	886,480,827	1,014,385,379	1,708,284,250	192,743,654	16,018,859	1.653
1992	1,162,262,510	1,202,265,949	2,151,786,340	198,979,714	16,304,997	1.704
1993	1,675,065,908	1,441,158,530	2,862,510,529	250,913,662	17,860,906	1.136
1994	1,438,251,891	1,701,208,296	2,922,731,483	258,100,923	16,976,601	1.136
1995	1,828,374,994	1,903,530,111	3,401,567,857	335,480,368	18,688,353	0.413
1996	1,817,497,737	2,120,842,006	3,590,238,215	345,127,951	20,685,619	0.439
1997	1,730,940,393	2,485,706,688	3,844,781,082	353,507,281	20,796,084	0.439
1998	2,005,202,039	2,990,333,100	4,343,203,973	535,162,454	24,784,724	0.196
1999	1,993,529,114	3,724,763,745	5,058,960,710	557,555,696	30,555,532	0.232
2000	2,043,141,602	4,443,945,484	5,829,901,035	576,036,331	38,428,768	0.300
2001	2,618,137,267	5,579,546,805	7,374,954,358	731,304,438	46,064,525	0.180
2002	3,218,789,508	6,246,734,925	8,626,473,276	752,369,741	46,703,800	0.190
2003	2,827,584,863	7,117,211,453	9,139,503,657	773,957,639	60,117,119	0.230
2004	3,492,730,224	8,078,424,234	10,498,481,204	1,031,391,991	73,210,556	0.170
2005	4,029,597,013	9,197,849,967	11,928,279,967	1,119,500,111	85,178,406	0.190
2006	4,216,404,673	10,560,504,042	13,316,179,364	1,231,012,722	107,113,135	0.230
2007	5,174,395,815	12,402,268,867	15,844,113,698	1,592,235,650	130,823,404	0.220
2008	5,260,646,663	14,936,103,083	18,469,073,506	1,492,021,195	13,735,247	0.030
2009	4,794,397,579	16,711,080,589	19,779,755,056	1,683,715,881	190,674,454	0.330
2010	5,063,550,816	18,247,861,145	21,243,136,724	1,722,830,035	133,319,754	0.210
2011	5,742,516,051	20,606,382,386	24,261,565,885	1,676,472,699	57,283,707	0.090
2012	7,098,208,844	22,3 90,051,929	27,490,789,964	1,711,323,846	25,822,369	0.033
2013	8,696,206,457	20,843,577,225	27,752,052,266	1,773,767,299	48,831,672	0.050
2014	11,078,365,152	20,535,826,086	29,329,977,518	2,221,418,922	97,552,111	0.060
2015	10,945,940,157	20,021,406,321	28,704,284,801	2,334,513,952	100,064,082	0.070
2016	11,185,303,807	21,331,910,550	30,252,182,840	2,334,785,742	80,047,620	0.060
2017	15,201,247,408	21,819,028,458	34,664,943,911	2,426,948,619	118,400,102	0.070
2018	14,716,303,975	21,483,735,791	33,770,793,630	2,366,819,712	83,623,117	0.050
2019	12,258,037,925	22,314,013,776	33,139,673,205	2,517,571,741	100,695,191	0.000
2020	15,725,255,450	24,097,378,444	41,392,257,234	2,641,048,692	75,045,078	0.060
2021	18,378,602,771	25,039,636,995	45,539,331,233	2,831,986,698	212,099,145	0.200
2022	17,320,911,729	26,711,957,796	48,509,904,000	2,872,857,462	212,901,668	0.280

The figures for the years prior to 1993 have not been adjusted for consistency with those of subsequent years, which are aggregated with different criteria following the regulatory changes that have occurred

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