BANCA SISTEMA

FINANCIAL STATEMENTS AND REPORTS

AT 31 DECEMBER 2023

BANCA SISTEMA

CONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2023

CONTENTS

DIRECTORS' REPORT AT 31 DECEMBER 2023

COMPOSITION OF THE PARENT'S MANAGEMENT BODIES

BOARD OF DIRECTORS

Chairperson	Ms. Luitgard Spögler
Deputy Chairperson	Mr. Giovanni Puglisi
CEO and General Manager	Mr. Gianluca Garbi
Directors	Mr. Daniele Pittatore
	Ms. Carlotta De Franceschi (Independent)
	Mr. Daniele Bonvicini (Independent)
	Ms. Maria Leddi (Independent)
	Ms. Francesca Granata (Independent)
	Mr. Pier Angelo Taverna (Independent)

BOARD OF STATUTORY AUDITORS

Chairperson	Ms. Lucia Abati
Standing Auditors	Ms. Daniela Toscano
	Mr. Luigi Ruggiero
Alternate Auditors	Mr. Marco Armarolli
	Ms. Daniela D'Ignazio

INDEPENDENT AUDITORS

BDO Italia S.p.A.

MANAGER IN CHARGE OF FINANCIAL REPORTING

Mr. Alexander Muz

COMPOSITION OF THE INTERNAL COMMITTEES

INTERNAL CONTROL AND RISK MANAGEMENT COMMITTEE

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

APPOINTMENTS COMMITTEE

Chairperson	Ms. Carlotta De Franceschi
Members	Ms. Francesca Granata
	Mr. Pier Angelo Taverna

REMUNERATION COMMITTEE

Chairperson	Ms. Francesca Granata
Members	Mr. Giovanni Puglisi
	Ms. Carlotta De Franceschi

ETHICS COMMITTEE

Chairperson	Mr. Giovanni Puglisi
Members	Ms. Maria Leddi
	Ms. Carlotta De Franceschi

SUPERVISORY BODY

Chairperson	Ms. Lucia Abati
Members	Mr. Daniele Pittatore
	Mr. Franco Pozzi

FINANCIAL HIGHLIGHTS AT 31 DECEMBER 2023

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

The scope of consolidation also includes the auction house Art-Rite S.r.l. (wholly owned by Kruso Kapital and outside the Banking Group), the Spanish Joint Venture EBNSistema Finance S.L. and the following special purpose securitisation vehicles whose receivables are not subject to derecognition: Quinto Sistema Sec. 2019 S.r.l., Quinto Sistema Sec. 2017 S.r.l. and BS IVA SPV S.r.l. The parent, Banca Sistema S.p.A., is a company registered in Italy, at Largo Augusto 1/A, ang. via Verziere 13 - 20122 Milan.

Operations are mainly carried out in the Italian market, although the Bank is also active in the Spanish, Portuguese and Greek markets, as described below, in addition to funding in Germany, Austria and Spain.

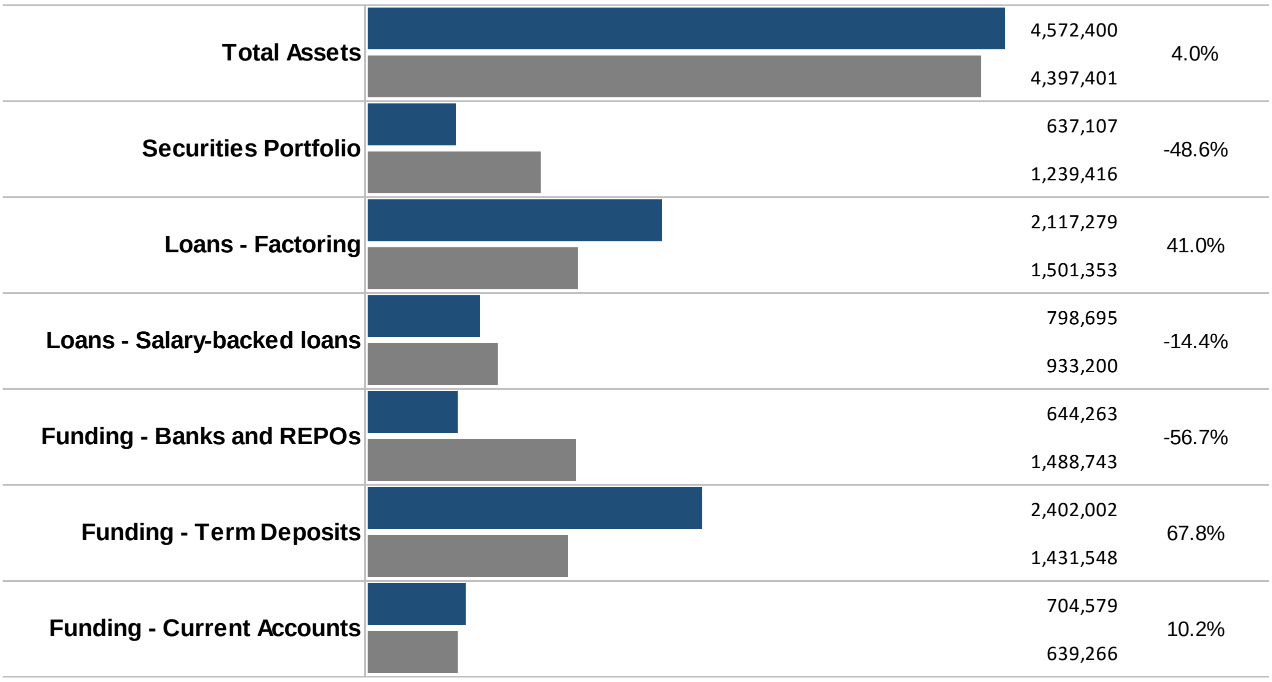
The Parent directly carries out factoring activities (mainly with the Italian public administration) and operates in the salary- and pension-backed loans segment through direct origination and through the purchase of receivables generated by other specialist operators, distributing its product through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

The Parent, Banca Sistema S.p.A., is listed on the Euronext STAR Milan segment of the Euronext Growth Milan market of Borsa Italiana and since 24 January 2024, the subsidiary Kruso Kapital is listed in the Professional Segment of Euronext Growth Milan.

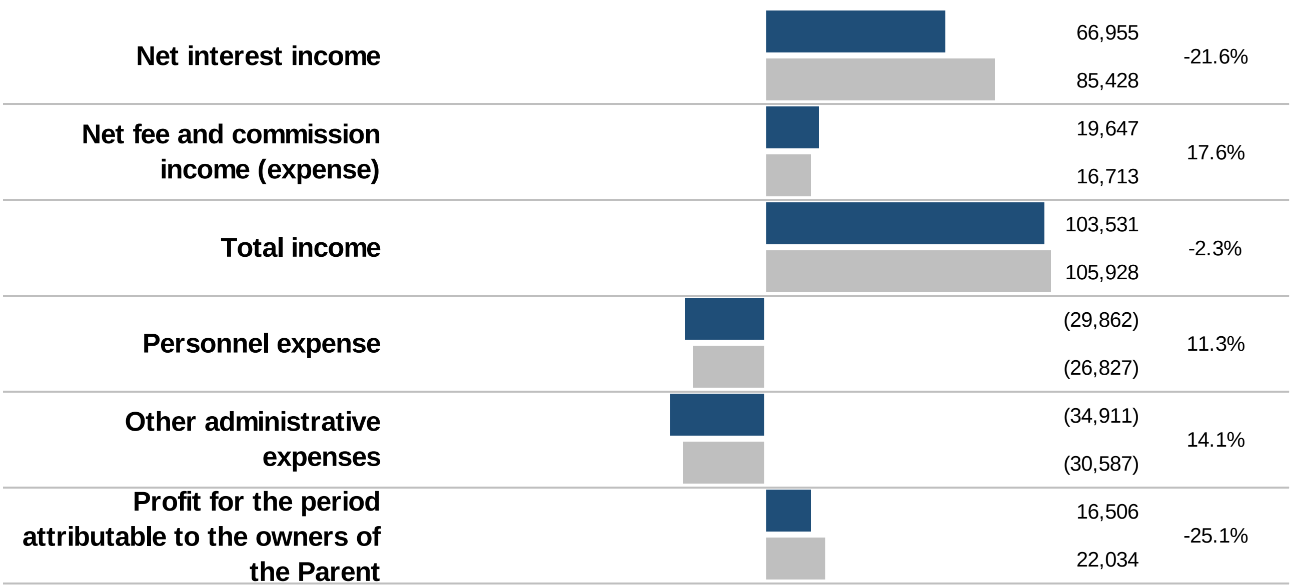
FINANCIAL POSITION AND INCOME STATEMENT DATA

31-Dec-23 31-Dec-22

Statement of financial position data (€,000)



Income statement data (€,000)



SIGNIFICANT EVENTS FROM 1 JANUARY TO 31 DECEMBER 2023

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

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

On 9 September 2023 the Board of Directors of Kruso Kapital (in which Banca Sistema holds a 75% equity interest) approved the start of the process to list the company on the Euronext Growth Market of Borsa Italiana S.p.A.

During the first quarter of 2023, the Bank of Italy conducted an inspection to verify the change in the Bank's liquidity risk exposure and related operational controls. At the end of June 2023, the Supervisory Authority issued the relative inspection report to the Board of Directors, but without initiating sanctioning procedures, accompanied by a notice in which it stated the need to prepare a plan to strengthen operational liquidity management to address the findings of the inspection report and the control structure. At the end of July, the Board of Directors sent its response to the inspection report to the Bank of Italy, attaching a detailed Action Plan to address the findings identified in the report. The Bank's internal audit function periodically monitors the implementation of the planned remedial actions, periodically updating the corporate bodies and the Supervisory Authority. The timing and methods of the planned measures have thus far been adhered to and the activities currently underway should be completed within the 2024 financial year.

The Ordinary Shareholders' Meeting of Banca Sistema, which was held on single call on 28 April 2023, resolved to approve the Separate Financial Statements at 31 December 2022 and to allocate a dividend of € 5.2 million, corresponding to € 0.065 per ordinary share, paid on 10 May 2023.

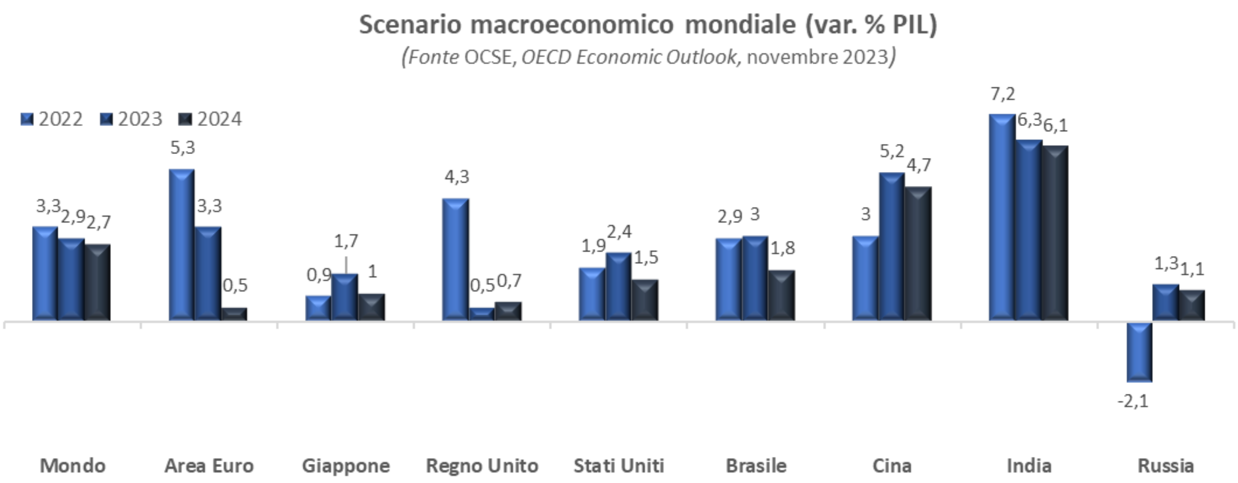
On 23 November 2023, Kruso Kapital S.p.A. signed a binding agreement with the shareholders of Banco Invest S.A. for the purchase of the collateralised lending business of Banco Invest S.A. in Portugal. The transaction involves the demerger from Banco Invest S.A. of the collateralised lending business unit (Credito Economico Popular) into a newco wholly owned by the current shareholders of Banco Invest and the subsequent purchase by Kruso Kapital of 100% of the shares of the newco. Kruso Kapital will pay consideration, including goodwill, of € 11 million, subject to possible adjustment mechanisms at closing. The collateralised lending business, operating under the Credito Economico Popular brand, generated total income in 2022 of about € 3 million (€ 1.5 million in the first half of 2023) and an estimated net profit in 2022 of about € 1.1 million (€ 0.5 million estimated in the first half of 2023). The business comprises sixteen branches spread across the whole of Portugal, with a predominant presence in the Lisbon and Porto regions. With this acquisition, Kruso Kapital continues its strategy of growth and international expansion, focusing on high return, low risk assets. Completion of the transaction is subject to the satisfaction of certain conditions, including the approval of the proposed demerger by the Bank of Portugal and prior notification to the Bank of Italy.

THE MACROECONOMIC SCENARIO

There were some signs of a slowdown in economic activity in 2023. In the US, economic activity slowed, while in China the crisis in the real estate sector dampened economic growth. Consumer price inflation fell in the US and the UK, thanks to a sharp drop in energy prices. The Federal Reserve and the Bank of England left interest rates unchanged and announced that their monetary policies would remain restrictive until inflation returned to target. The Bank of Japan also kept its policy rate unchanged.

GDP in the Eurozone fell again in 2023, reflecting the lack of dynamism in domestic and external demand.

The Bank of Italy's €-Coin indicator, which estimates the underlying GDP trend in the area, remained negative. At its meetings in October and December, the ECB Governing Council decided to leave official interest rates unchanged. Based on the latest assessments, the Governing Council confirmed that interest rates are at levels that will contribute to a return to the inflation target. The increases in interest rates in previous months contributed to a strong deceleration in monetary aggregates, in particular in the trend in current account deposits.



ITALY

In Italy, GDP grew slightly in the third quarter of 2023 but remained flat in the final quarter. Manufacturing activity declined, while construction activity continued to expand thanks to the continued benefits of tax incentives. Investment also declined due to tighter financing conditions. According to the Bank of Italy's projections, GDP will increase by 0.7% in 2023 and by 0.6% in 2024. Industrial production fell in the fourth quarter, reflecting the deepening weakness of the German production cycle, weak demand and tighter financing conditions. Businesses in the sector continued to report problems with the supply of inputs and intermediate goods, but there were no obstacles on the demand side. Investment remained stable in the third quarter, with a decline in spending on capital goods and a rebound in construction investment. A slight decline is forecast for the fourth quarter of 2023, as investment conditions remain rather negative. The Bank of Italy expects the situation to improve in 2024. Household spending will increase by 0.7% in 2023, driven by favourable employment dynamics and rising disposable income. Consumption of services and durable goods increased, thanks in particular to the recovery in automobile purchases. In contrast, spending on non-durable and semi-durable consumer goods declined. The propensity to save increased, although it remained more than one percentage point below pre-pandemic levels. According to Bank of Italy estimates, private consumption was unchanged. Confcommercio (Italian General Confederation of Commerce, Tourism and Services) reported that purchases of goods were stagnant, while spending on services increased slightly. Consumer confidence declined between third and fourth quarters, although it improved markedly in December with the rapid decline in inflation; this reflects the deterioration in opinions on the general economic outlook, while those on the personal component appear more resilient.

Exports returned to growth thanks to a recovery in exports of goods, which more than offset the decline in services, while imports fell due to lower purchases of goods from outside the EU. The most notable decline was in mining products and base metals. Despite the weakness in economic activity, employment continued to expand, with growth in the number of permanent employees increasing while the number of temporary workers fell. Loans to enterprises were negative in the third quarter, but have stabilised since November. Loans to households continued to decline, albeit at a more moderate pace. Loans to companies also fell, particularly in the construction and services sectors, while they were unchanged in manufacturing. Rising interest rates have reduced the demand for loans by businesses. At the end of 2023, the EU Council agreed on the reform of the Stability and Growth Pact. Among the pact's expansionary measures, the most important was the extension of the reduction in social security contributions for employees until 2024.

FACTORING

The Italian factoring market

Statistics from Assifact, the Italian association of factoring providers, indicate stable factoring results for 2023. In fact, the factoring market recorded turnover of around € 290 billion last year, an increase of only 0.87% over the previous year. The volume of factoring transactions increased again in the fourth quarter, following the decline recorded at the end of September. In addition, for the first quarter of 2024, industry players expect an increase in turnover of around 2.05% compared to the same period in 2023. This increase is also expected for the whole of 2024, averaging 3.57%, despite a slight decrease in the expected growth rate at the end of the year. International factoring turnover continued to expand significantly in the fourth quarter of 2023, posting growth of around +13.10%, mainly due to a strong performance in export factoring. However, support for exports by Italian companies is still prevalent. The number of companies using factoring remains high at around 32,357, of which 63% are SMEs. As in previous years, the main sector is manufacturing (around 30.44%). Advances and fees disbursed were essentially stable compared to the same period last year, at around € 58.13 billion.

Factoring with recourse remains by far the most popular option in the market with more than 80% of total turnover with a year-on-year increase of about 1.9%, compared to 20% for with recourse transactions. In terms of amounts outstanding, these percentages do not vary much (78% versus 22%), thereby confirming that the assigning customers prefer completing assignments by hedging the risk associated with the assigned debtors.

The amount outstanding at 31/12/2023 of € 70.3 billion was up slightly from 2022 (+1.18%). Advances/fees paid remained virtually stable year-on-year (+0.03%) and amounted to approximately 58.1 billion.

Factoring companies have never let up in their support of businesses even in difficult economic times. The particular attention paid to the management of purchased or financed receivables and the constant monitoring of collections have, in any case, made it possible to keep risk levels low. The sector's low level of risk is also reflected in Assifact's statistics: non-performing loans at the end of 2023 (3.08%) were down compared to September (3.96%) and the end of 2022 (3.34%). At the end of December 2023, non-performing exposures as a percentage of total gross exposures held by intermediaries amounted to 3.08%, of which 0.83% for non-performing past due exposures, 0.81% for unlikely to pay and 1.45% for bad exposures. It should be noted that non-performing loans and receivables include those relating to invoices which are 90 days past due which, under the EBA's new definition of default which took effect in 2021, are considered "automatic defaults". However, in the factoring business, these receivables are not necessarily indicative of the likely insolvency of the debtor, as is the case in typical bank financing activities, since trade receivables are generally paid slightly later than the nominal due date, not because of financial difficulties of the debtor, but rather due to standard business practice and the amount of administrative time required to reconcile invoices.

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

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

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

Reverse factoring and confirming, which were created to meet the needs of Supply Chain Finance and are so defined because of the unique type of relationship that is created in that they are agreed between the Factors and the purchasing debtors, as opposed to the supplier companies (which are typically SMEs), and aim to facilitate the assignment of credit with the numerous suppliers in the industrial supply chain. Thanks to the development of technological platforms, the turnover generated within the supply chain has grown exponentially in recent years, reaching over € 27 billion per year in 2023 (+15% on 2022), accounting for about 10% of the total volumes.

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

SMEs represent 63% of assignor companies and, with regard to economic sectors, 30% are manufacturers, 11% are commercial enterprises and 10% are construction companies.

In 2023, assignments of receivables from the public sector amounted to around € 20.66 billion (7.1% of the total annual turnover), an increase of around 7% compared to 2022, while the outstanding amounted to € 8.04 billion, a decrease of 5% on the previous year.

At the end of 2023, of the € 8.04 billion in outstanding receivables from the public administration, € 3.3 billion were past due, of which about € 2.3 billion had been past due for more than a year.

In terms of outlook, despite the ECB's policies to contain inflation, estimates made by Assifact see the sector still growing, albeit at much lower rates (+3.57% at the end of 2024).

BANCA SISTEMA AND FACTORING ACTIVITIES

Banca Sistema was one of the pioneers in the factoring of receivables from the Public Administration, initially by purchasing receivables from suppliers to the public health sector, subsequently gradually expanding the business to other sectors of this niche, to include tax receivables and receivables from the football sector. Since the project started, the Bank has been able to grow in the original factoring business with a prudent risk management, and to support businesses (from large multinationals to small and medium-sized enterprises) through the provision of financial and collection services, thus contributing to the businesses' growth and consolidation. Since December 2020, Banca Sistema has also been operating in Spain - through the company EBNSISTEMA Finance, which it owns together with the Spanish banking partner EBN Banco - mainly in the factoring segment for receivables from the Spanish Public Administration, specialising in the purchase of receivables from entities in the public health sector. At the end of 2023, EBNSISTEMA's factoring turnover in the market reached € 222 million (€ 275 million at 31 December 2022).

The bank offers SACE- and MCC-guaranteed loans to its factoring customers and has purchased "110% Eco-Sisma bonus" tax credits for compensation purposes within the limits of its tax capacity and, in the last quarter of 2023, for trading purposes.

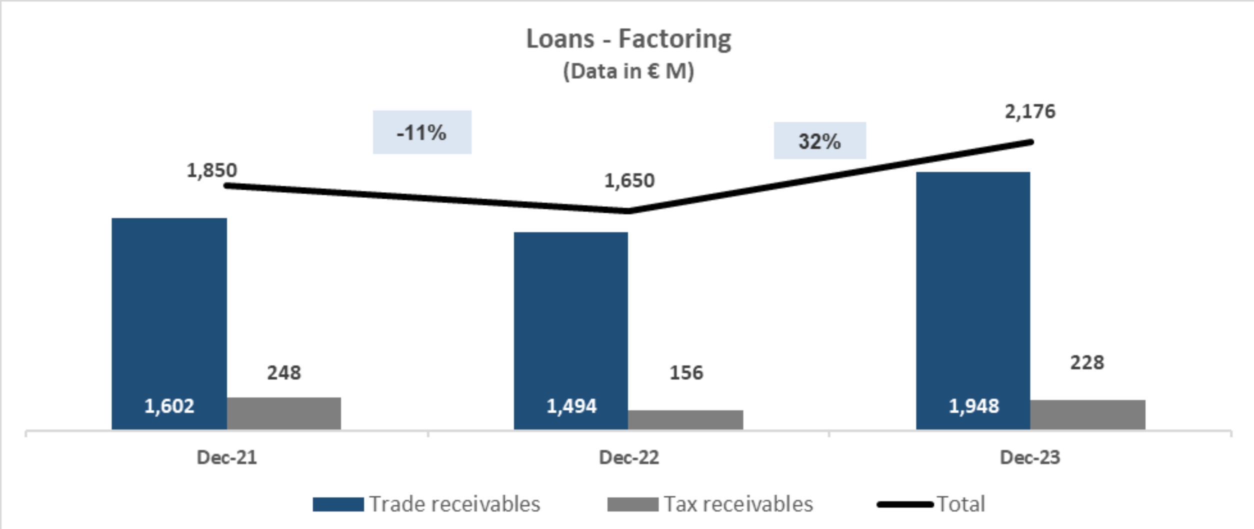
The following table shows the factoring volumes by product type:

Product (millions of Euro)	2023	2022	€ Change	% Change
Trade receivables	4,876	3,696	1,180	31.9%
of which, without recourse	4,110	2,998	1,112	37.1%
of which, with recourse	*766*	*698*	*68*	*9.8%*
Tax receivables	*689*	*722*	*(32)*	*-4.5%*
of which, without recourse	*689*	*722*	*(32)*	*-4.5%*
of which, with recourse	-	-	-	*n.a.*
Total	**5,565**	**4,417**	**1,148**	**26.0%**

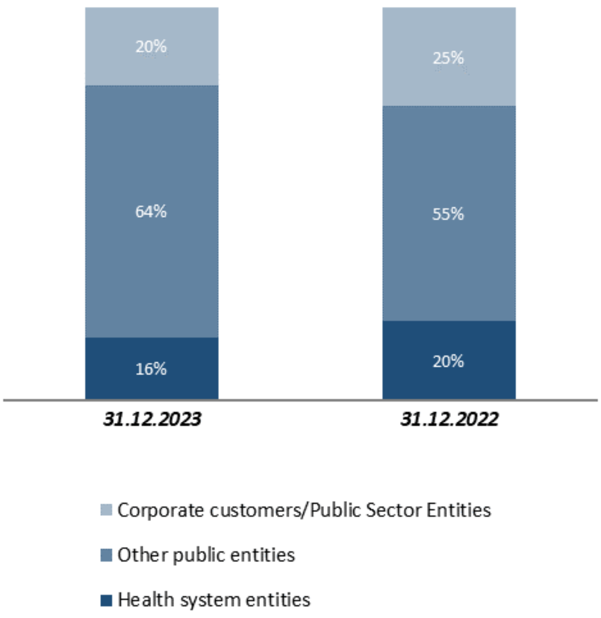
Volumes were generated through both its own internal commercial network and through other intermediaries with which the Group has entered into distribution agreements.

Factoring has proven to be the ideal tool both for small and medium-sized enterprises to finance their working capital and thus trade receivables, and for large companies, such as multinationals, to improve their net financial position, mitigate country risk and receive solid support in servicing and collection activities.

Loans at 31 December 2023 (management figures) amounted to € 2,176 million compared to € 1,650 million at 31 December 2022.



The following chart shows the ratio of debtors to the total exposure in the loans and receivables portfolio at 31 December 2023 and 2022. The Group's core factoring business remains the Public Administration entities segment.



Volumes related to the management of third-party portfolios amounted to € 586 million (an increase compared to the € 474 million recognised in the previous year).

SALARY- AND PENSION-BACKED LOANS AND QUINTOPUOI

The 2023 financial year ended with a downturn in the salary- and pension-backed loan market, which saw a 4.5% decrease in total volumes financed compared to 2022, according to Assofin statistics. There was a notable slowdown towards the end of the year, with a 20.3% decrease compared to December 2022. The main reason for this result is the increase in financing rates, which, although implemented cautiously and only partially by operators compared with the increase in Eurosystem benchmark rates and the repositioning of other financial products, has had a significant impact. On the one hand, it has reduced the attractiveness of this asset for credit institutions due to lower margins. On the other hand, it has consistently reduced the ability of customers to refinance, which is a significant source of volume in the market, as a result of the higher financing rates.

The CQ Division reacted to the rise in benchmark rates by quickly adjusting margins in the early months of the year, even if it meant sacrificing volumes. This proactive approach anticipated the critical transition, resulting in a significant increase in disbursements in the latter half of the year, exceeding those of the first half by over 50%.

Overall, the network proved to be quite resilient, successfully navigating this challenging transition and ending the year with over 80 active mandates and more than 850 identified contacts across the territory.

The total amount disbursed in 2023 was € 194 million, slightly down compared to the previous year when excluding the one-time effect of purchasing a significant portfolio completed in May 2022. However, the run-rate in the last quarter was over 25% higher than the previous year's value, indicating a significant increase in production capacity.

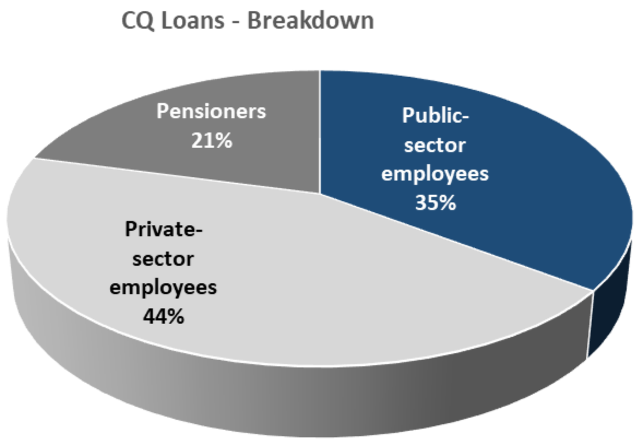
Outstanding capital decreased from € 933 million at the end of 2022 to € 799 million on 31 December 2023, as was expected. This reduction was due to the gradual decrease in without recourse exposure and some spot loan sales to other credit institutions, aimed at balancing the business's overall exposure and income statement result.

In 2023, the Division also focused on enhancing and maximizing the value of its agency network by establishing 17 Quintopuoi-branded agencies across the country. Furthermore, it expanded the agency mandates to include the placement of personal loans issued by other affiliated credit institutions and other products offered by the Bank, such as current accounts and Factoring products.

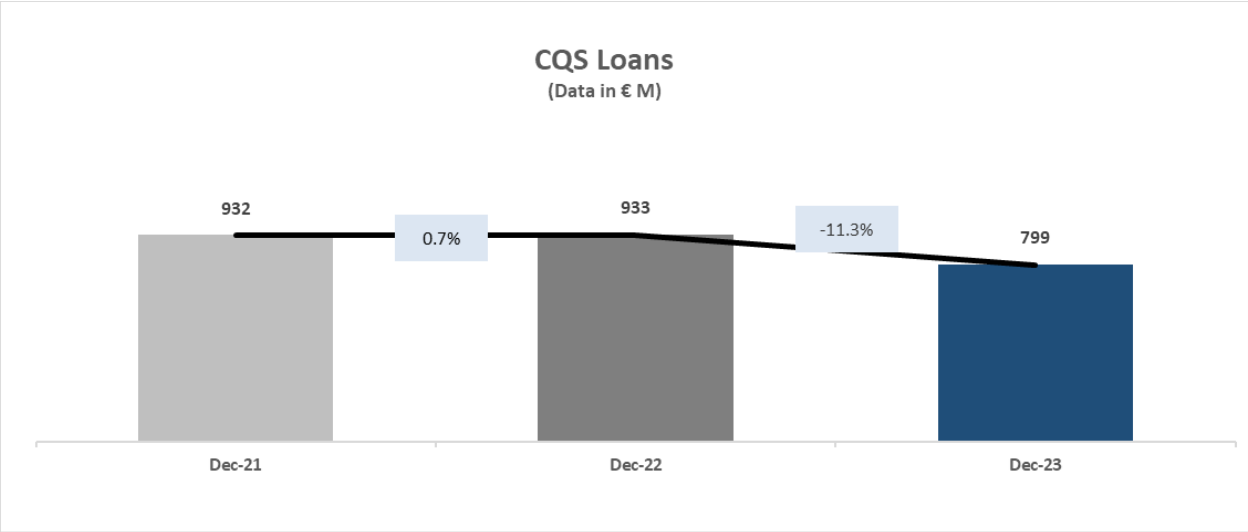
In addition, the Division continued its commitment to the digitalisation programme with the already tested process of remote identification and signature using video recognition or SPID/CIE, which has been consistently used for about 50% of processes. More recently, the extension of the digital signature with OTP to cover all production, including in-person recognition, has made it possible to completely dematerialise the process, with benefits in terms of costs and environmental impact.

	2023	2022	€ Change	% Change
No. of applications (#)	9,390	15,212	(5,822)	-38.3%
of which originated	9,388	6,504	2,884	44.3%
Volumes disbursed (millions of Euro)	194	322	(128)	-39.7%
of which originated	194	104	90	86.7%

Loans are split between private-sector employees (21%), pensioners (44%) and public-sector employees (35%). Therefore, over 79% of the volumes refer to pensioners and employees of Public Administration, which remains the Bank's main debtor.



The following chart shows the performance of outstanding loans in the salary-/pension-backed loans (CQS/CQP) portfolio:



COLLATERALISED LENDING AND KRUSO KAPITAL

At 31 December 2023, Kruso Kapital held approximately 69.1 thousand policies (collateralised loans), amounting to total loans of € 121.3 million. This figure reflects a 14% increase from the previous year's total of € 106.7 million at 31 December 2022.

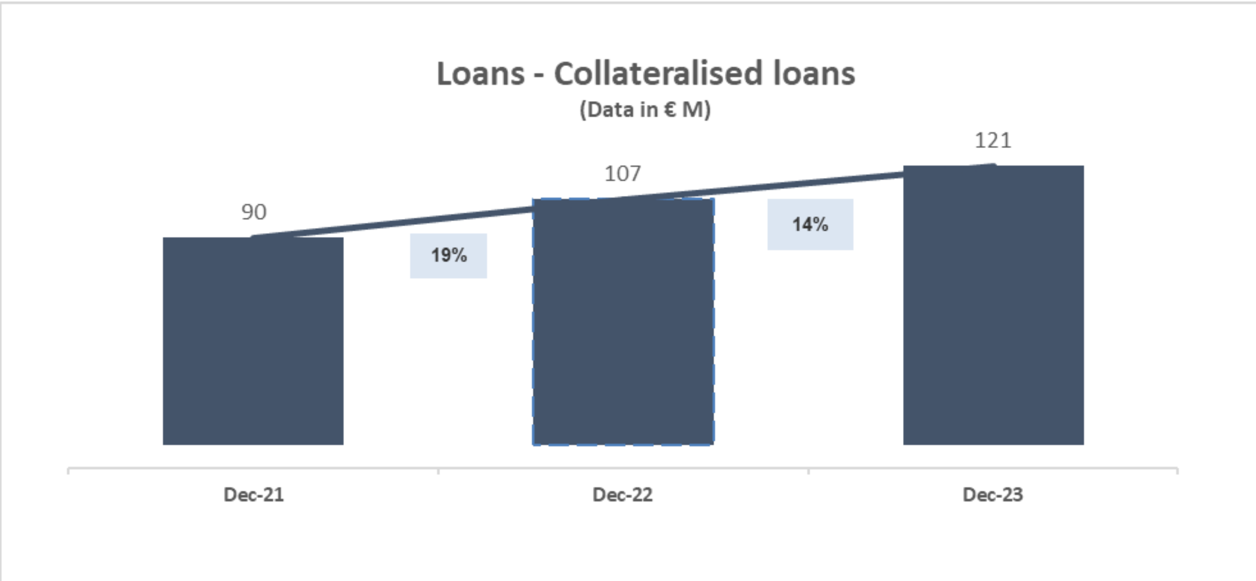
In Italy, the volumes generated as at 31 December 2023 amounted to € 201.1 million, of which € 113.8 million were renewals, with more than 20% being performed online.

In 2023, 42 auctions were conducted in Italy for assets originating from the collateralised lending business; 99.9% of the secret bids in auctions were placed online.

While the subsidiary Art-Rite is active in the asset auction business, in addition to sales in private negotiations, it carried out 19 auctions as of 31 December 2023.

In the last quarter of 2023, the company completed the digitalisation process by launching the first app to fully digitalise the collateralised lending product. Taking into account the launch around mid-November 2023, as of 31 December 2023, approximately 6% of policies were issued digitally using blockchain technology.

The following chart shows the performance of outstanding loans:



The main consolidated statement of financial position and income statement aggregates of Kruso Kapital are shown below.

Assets (€,000)	31.12.2023	31.12.2022	€ Change	% Change
Cash and cash equivalents	6,710	5,061	1,649	32.6%
Financial assets measured at amortised cost	121,444	106,912	14,532	13.6%
a) loans and receivables with banks	35	118	(83)	-70.4%
b1) loans and receivables with customers - loans	121,409	106,794	14,615	13.7%
Property and equipment	4,334	5,997	(1,663)	-27.7%
Intangible assets	31,451	30,559	892	2.9%
of which: goodwill	29,606	29,606	(0)	0.0%
Tax assets	563	1,082	(519)	-48.0%
Other assets	3,189	2,817	372	13.2%
Total assets	**167,690**	**152,428**	**15,262**	**10.0%**

Liabilities and equity (€,000)	31.12.2023	31.12.2022	€ Change	% Change
Financial liabilities measured at amortised cost	113,815	101,613	12,202	12.0%
Tax liabilities	2,273	1,530	743	48.6%
Other liabilities	7,544	8,138	(594)	-7.3%
Post-employment benefits	900	857	43	5.0%
Provisions for risks and charges	705	715	(10)	-1.5%
Valuation reserves	(27)	(22)	(5)	22.3%
Reserves	16,434	14,613	1,821	12.5%
Share capital	23,162	23,162	0	0.0%
Profit (loss) for the period	2,885	1,822	1,063	58.4%
Total liabilities and equity	**167,691**	**152,428**	**15,263**	**10.0%**

The assets consist mainly of loans and receivables with customers related to the collateralised lending business (up 13.7% from the previous year mainly due to the increase in collateralised loans in Italy) and goodwill of € 29.6 million, broken down as follows:

- the goodwill amounting to € 28.4 million arising from the acquisition of the former Intesa Sanpaolo business unit completed on 13 July 2020;
- goodwill of € 1.2 million, resulting from the acquisition of Art-Rite.

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

Amounts due to banks include loans from Banca Sistema and other banks (the latter amounting to just over 30% of the total).

The consolidated income statement of Kruso Kapital at 31 December 2023 is provided below.

For a proper year-on-year comparison, it should be noted that Kruso Kapital's scope of consolidation includes the following wholly-owned subsidiaries:

- ProntoPegno Greece, a company incorporated on 12 April 2022 (the branch began operations in the fourth quarter of 2022);
- Art-Rite S.r.l., a company acquired on 2 November 2022.

Income statement (€,000)	2023	2022	€ Change	% Change
Total income	**19,405**	**15,366**	**4,039**	**26.3%**
Net impairment losses on loans and receivables	(73)	(46)	(27)	59.2%
Net financial income (expense)	**19,332**	**15,320**	**4,012**	**26.2%**
Personnel expense	(6,934)	(6,058)	(876)	14.5%
Other administrative expenses	(6,538)	(5,127)	(1,411)	27.5%
Net impairment losses on property and equipment/intangible assets	(1,685)	(1,466)	(219)	14.9%
Other operating income (expense)	390	218	172	78.9%
Operating costs	**(14,767)**	**(12,433)**	**(2,334)**	**18.8%**
Pre-tax profit from continuing operations	**4,565**	**2,887**	**1,678**	**58.1%**
Income taxes for the period	(1,680)	(1,065)	(615)	57.7%
Profit (loss) for the period of Kruso Kapital Group	**2,885**	**1,822**	**1,063**	**58.4%**

The 2023 financial year ended with a consolidated net profit of € 2,885 thousand (+58% yoy). To make a precise comparison with 2022, it is essential to take into account the information provided earlier regarding the scope of consolidation. Subsidiaries, which are substantially still in the start-up phase, posted the following losses: 1) ProntoPegno Greece -€ 653 thousand; 2) Art-Rite -€ 44 thousand. Kruso Kapital recorded a net profit of € 3,582 thousand at the individual level, up 54% yoy, driven by revenues (+21% yoy) which grew faster than costs. The increase in revenues was the result of increased lending and higher margins, which more than proportionally absorbed the increase in the cost of funding.

Consolidated total income, which amounted to € 19,405 thousand, was up 26.3% yoy, mainly due to the collateralised lending business in Italy, whose contribution amounted to 18,499 thousand (€ 15,330 thousand in 2022). A large part of the remaining contribution to Total income comes from Art-Rite's auction business.

Operating costs increased by 18.8% yoy (11% for Kruso Kapital alone), partly due to the contribution of the two subsidiaries. Personnel expenses increased over the previous year. This increase is attributed to the effect of consolidating the personnel of the subsidiaries and, particularly in the fourth quarter, to increases stemming from the collective labour agreement specific to the banking sector (CCNL bancario). The number of Group employees remained substantially stable, going from 88 employee on 31 December 2022 to a total of 89 on 31 December 2023.

Other administrative expenses (+27.5% yoy), apart from the consolidation effect, also increased at Kruso Kapital alone. This increase is largely due to costs associated with new project initiatives such as the Digital Collateral and non-recurring costs such as the IPO process and consultancy for extraordinary activities such as the acquisition announced in November 2023 (the latter two totalling € 639 thousand).

Net of the non-recurring costs, mentioned above, the Cost Income would be 71% (76% on the accounting result in 2023) vs. 81% in 2022.

Pre-tax profit increased by 58% yoy.

FUNDING AND TREASURY ACTIVITIES

TREASURY PORTFOLIO

A treasury portfolio has been established to support the Bank’s liquidity commitments almost exclusively through investment in Italian government bonds.

The balance at 31 December 2023 was equal to a nominal € 647 million compared to € 1,286 million at 31 December 2022.

The treasury portfolio allowed for optimal management of the Treasury commitments, which are characterised by a concentration of transactions in specific periods.

At 31 December 2023, the nominal amount of securities in the HTCS portfolio amounted to € 586 million (€ 586 million reported at 31 December 2022) with a duration of 13.8 months (25.6 months at 31 December 2022).

At 31 December 2023, the HTC portfolio amounted to € 61 million with a duration of 43.6 months (compared to € 700 million at 31 December 2022 with a duration of 12.3 months), as a result of the disposal decided in July 2023 to improve the liquidity ratios and at the same time achieve positive results on account of market performance.

WHOLESALE FUNDING

At 31 December 2023, wholesale funding was about 22% of the total (45% at 31 December 2022), mainly comprising refinancing transactions with the ECB.

Securitisations with salary- and pension-backed loans as collateral completed with a partly-paid securities structure continue to allow Banca Sistema to efficiently refinance its CQS/CQP portfolio and to continue to grow its salary- and pension-backed loan business, whose funding structure is optimised by the securitisations. The Bank also continues to adhere to the ABACO procedure introduced by the Bank of Italy which was expanded to include consumer credit during the Covid-19 emergency.

In terms of customer deposits, the Bank continued its strategy of reducing deposits from corporate customers, which are known to be less stable and more concentrated, in order to achieve greater diversification and focus on the more stable sources.

At the same time, the stock of deposits from private customers reached € 3.1 billion at the end of the financial year, almost entirely from term deposits.

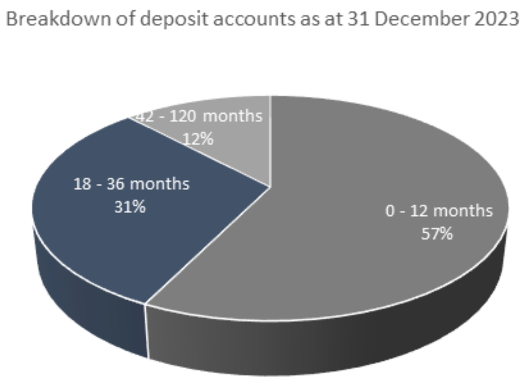
At 31 December 2023, the LCR stood at 547%, compared to 271% at 31 December 2022.

RETAIL FUNDING

Retail funding accounts for 78% of the total and is composed of the account SI Conto! Corrente and the product SI Conto! Deposito.

Total term deposits as at 31 December 2023 amounted to € 2,402 million, an increase of 68% compared to 31 December 2022. The above-mentioned amount also includes total term deposits of € 1,832 million (obtained with the help of partner platforms) held with entities resident in Germany, Austria, and Spain (accounting for 76% of total deposit funding), an increase of € 1,209 million over the same period of the previous year.

The breakdown of funding by term is shown below.



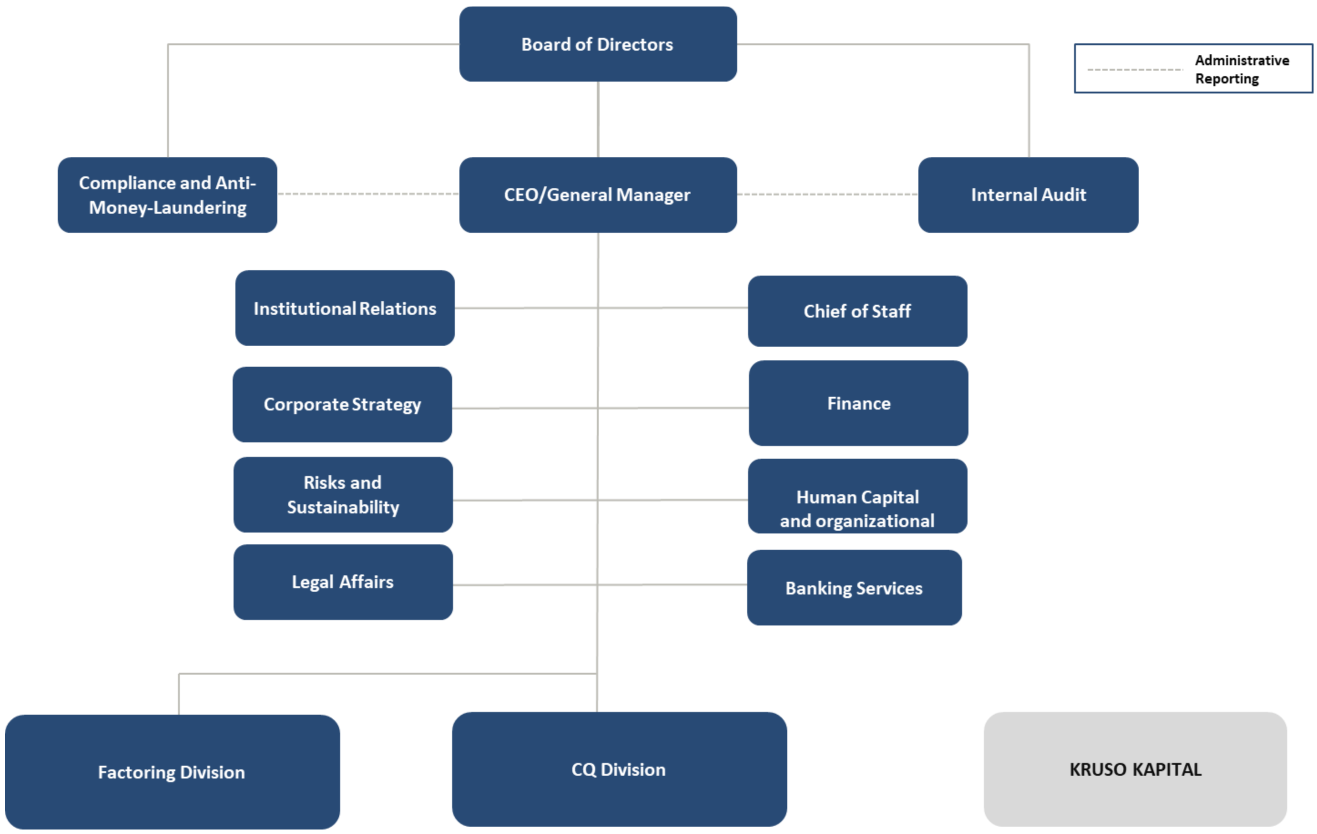
The average residual life is 15 months compared to 12 months in the same period of 2022.

COMPOSITION AND STRUCTURE OF THE GROUP

Organisational chart

Since 2020, the Bank's organisational structure has been based on the divisional organisational model which assigns specific powers and autonomy in terms of lending, sales and operations to each of the Factoring and CQ businesses, and more specifically, also allows the divisional organisational structures to evolve according to their respective needs and objectives. During the third quarter of 2023, the Organisation Department was assigned to the Human Capital and Organisations Department. Finally, as of about a month ago, responsibility for the Institutional Relations department passed ad interim to the Chief Executive Officer, who will manage its activities until a new manager is identified.

Consequently, the organisational chart in force since 15 September 2023 is as follows:



HUMAN RESOURCES

As at 31 December 2023, the Group had a staff of 299, broken down by category as follows:

FTES	31.12.2023	31.12.2022
Senior managers	26	24
Middle managers (QD3 and QD4)	67	62
Other personnel	206	204
Total	**299**	**290**

In 2023, a total of 32 individuals were recruited to support business expansion, fill staff vacancies or to replace long-term absentee workers. Among these hires, 4 occurred specifically in the fourth quarter with over 77% of these new recruits being offered permanent contracts, primarily in the Factoring Division, the Corporate Centre and the Kruso Kapital subsidiary. An additional 14 positions were filled by existing bank employees who applied through an internal job posting, which serves as the primary tool for job rotation, offering opportunities for professional growth and development to Group employees. Turnover was 6.5% in 2023, a year in which the labour market dynamics were more significant than last year, particularly for certain professional profiles related to technology and data management and operations.

During 2023, the progressive digitalisation of the selection and recruitment process was initiated with the aim of significantly expanding the pool of candidates collected and analysed, as well as the speed of hiring and replacement.

Regarding skills development, the Bank identified professional and technical training requirements related to legal and regulatory issues. During the year, the Bank organized training sessions conducted by both internal and external trainers. These sessions focused on technical and professional training in areas such as anti-money laundering, Mifid II, cybersecurity, and language training for a total of 258 training days.

The Group continues to provide flexible working arrangements with middle managers and employees in the professional areas having the possibility of working remotely in accordance with the law and through individual agreements signed with those requesting it. Bank employees who perform all their work in-person at the various locations will receive a special welfare credit in 2023 to compensate for the increased transport and meal costs they incur over time.

To mitigate the effects of inflation on purchasing power over the years, a series of measures have been decided for 2024 to benefit employees and their families through the welfare credit system allocated to each job category, with an increase of approximately 10% compared to the annual amount allocated in 2023.

In addition, to support the expenses of employees' families with dependent children, an additional contribution is planned for 2024 for each child financially supported by employees who has not reached the age of 25 on 31 December 2023.

The average age of Group employees is 47.9 for men and 43.1 for women. The breakdown by gender is essentially balanced with men accounting for 54.5% of the total.

INCOME STATEMENT RESULTS

Income statement (€,000)	2023	2022	€ Change	% Change
Net interest income	66,955	85,428	(18,473)	-21.6%
Net fee and commission income (expense)	19,647	16,713	2,934	17.6%
Dividends and similar income	227	227	-	0.0%
Net trading income (expense)	2,772	(1,518)	4,290	<100%
Net hedging result	5	-	5	n.a.
Gain from sales or repurchases of financial assets/liabilities	13,925	5,078	8,847	>100%
Total income	**103,531**	**105,928**	**(2,397)**	**-2.3%**
Net impairment losses on loans and receivables	(4,574)	(8,502)	3,928	-46.2%
Gains/losses from contract amendments without derecognition	(1)	-	(1)	n.a.
Net financial income (expense)	**98,956**	**97,426**	**1,530**	**1.6%**
Personnel expense	(29,862)	(26,827)	(3,035)	11.3%
Other administrative expenses	(34,911)	(30,587)	(4,324)	14.1%
Net accruals to provisions for risks and charges	(3,171)	(4,461)	1,290	-28.9%
Net impairment losses on property and equipment/intangible assets	(3,281)	(2,995)	(286)	9.5%
Other operating income (expense)	(2,027)	647	(2,674)	<100%
Operating costs	**(73,252)**	**(64,223)**	**(9,029)**	**14.1%**
Gains (losses) on equity investments	25	(31)	56	<100%
Pre-tax profit from continuing operations	**25,729**	**33,172**	**(7,443)**	**-22.4%**
Income taxes for the period	(8,502)	(10,659)	2,157	-20.2%
Post-tax profit for the year	**17,227**	**22,513**	**(5,286)**	**-23.5%**
Post-tax profit (loss) from discontinued operations	-	(23)	23	-100.0%
Profit for the year	**17,227**	**22,490**	**(5,263)**	**-23.4%**
Profit (loss) attributable to non-controlling interests	(721)	(456)	(265)	58.1%
Profit for the year attributable to the owners of the parent	**16,506**	**22,034**	**(5,528)**	**-25.1%**

The 2023 financial year ended with a profit of € 16.5 million, down compared to the previous year, due to a decrease in net interest income caused by an increase in the cost of funding due to market conditions that was not counterbalanced by loan yields, excluding fixed-rate portfolios related to the salary- and pension-backed loan (CQ) business acquired in the past.

With regard to operating costs, growth was moderate and essentially driven by higher administrative expenses for new project initiatives, including the listing of the Kruso Kapital subsidiary completed in January 2024.

Net interest income (€,000)	2023	2022	€ Change	% Change
Interest and similar income				
Loans and receivables portfolios	148,344	93,926	54,418	57.9%
Factoring	99,549	58,377	41,172	70.5%
CQ	21,931	20,606	1,325	6.4%
Collateralised lending	11,153	7,846	3,307	42.1%
Government-backed loans to SMEs	15,711	7,097	8,614	>100%
Securities portfolio	24,259	5,289	18,970	>100%
Other	5,831	518	5,313	>100%
Financial liabilities	-	2,212	(2,212)	-100.0%
Total interest income	**178,434**	**101,945**	**76,489**	**75.0%**
Interest and similar expense				
Due to banks	(20,748)	(677)	(20,071)	>100%
Due to customers	(83,492)	(13,594)	(69,898)	>100%
Securities issued	(7,239)	(2,241)	(4,998)	>100%
Financial assets	-	(5)	5	-100.0%
Total interest expense	**(111,479)**	**(16,517)**	**(94,962)**	**>100%**
Net interest income	**66,955**	**85,428**	**(18,473)**	**-21.6%**

Interest income was higher compared with the previous year, reflecting the good performance of the Factoring Division (which includes revenue from "factoring" and "Government-backed loans to SMEs"), which offset the increase in the cost of funding allocated to the Division. Interest expense, which continued to benefit from the low cost of funding throughout 2022, increased as a result of the ECB rate hikes over the course of 2023, although the average cost of funding is still well below the ECB rate.

The total contribution of the Factoring Division to interest income was € 111 million, equal to 78% of the entire loans and receivables portfolio, to which the commission component associated with the factoring business and the revenue generated by the assignment of receivables from the factoring portfolio need to be added. The item also includes the interest component tied to the amortised cost of superbonus loans used in compensation amounting to € 3.8 million.

The component owed for late payments pursuant to Legislative Decree 231/02 (consisting of default interest and compensation) legally enforced at 31 December 2023 amounted to € 36.5 million (€ 15.2 million at 31 December 2022):

- of which € 1.2 million resulting from the updated recovery estimates and expected collection times (€ 1.6 million in 2022);
- of which € 6.4 million recorded following the increases in benchmark rates (ECB) in 2022, which led to an increase in the "Legislative Decree No. 231 of 9 October 2002" rate (decree implementing European legislation on late payments) from 8% to 10.5% from 1 January 2023 to 30 June 2023, to 12% from 1 July 2023 to 31 December 2023, and to 12.5% from 1 January 2024;

- of which € 18.7 million resulting from the current recovery estimates (€ 7.5 million in 2022);
- of which €6.5 million (€6.1 million in 2022) coming from the difference between the amount collected during the period, equal to €10.8 million (€10.4 million in 2022) and that recognised on an accruals basis in previous years.
- of which € 3.7 million resulting from the current estimates for the recovery of the € 40 component of the compensation claims pursuant to Article 6 of Legislative Decree No. 231/02.

With reference to compensation claims, it should be noted that the recent ruling of the Court of Justice of the European Union of 20 October 2022, which is also binding for national courts in all Member States, confirmed and clarified the right to recover at least € 40 to be calculated for each overdue invoice to the Public Administration as compensation for the costs of recovering the debt.

Based on this binding clarification, which put an end to often inconsistent and varying application in the courts, the Bank has decided to start including these amounts in its cash flow calculations for recognising the amount receivable using the amortised cost method, in the same way that it does for default interest.

The recognition was based on the same time series and models that are already being used today to recognise default interest, whose model continues to show increasingly higher collection percentages over the years compared to what has been recorded as a receivable. To date, the scope only includes injunctions issued from April 2021, the period from which the Bank began to systematically request compensation. The Bank will move to claim these amounts for all invoices paid late, provided that the injunction has not been closed with a settlement and the right to claim has not lapsed, as even a failure to claim is not the legal equivalent of a waiver. Therefore, the scope over which the amortised cost will be calculated by including the € 40 amount may be expanded over time.

The amount of the stock of default interest from legal actions accrued at 31 December 2023, relevant for the allocation model, was € 129 million (€ 104 million at the end of 2022), which becomes € 234 million when including default interest related to positions with troubled local authorities, a component for which default interest is not allocated in the financial statements, whereas the loans and receivables recognised in the financial statements, that includes late payments pursuant to Legislative Decree 231/02 (consisting of default interest and compensation), amount to € 78 million. Therefore, the amount of default interest accrued but not recognised in the income statement is € 155 million.

The contribution from interest from the salary- and pension-backed portfolios amounted to € 21.9 million, up from the previous year from the reduced impact of portfolio prepayment, along with a greater contribution from new loans originated at higher rates, although the effect of lower yield compared to the current market environment on portfolios purchased in previous years remains significant.

The sustained growth of the Collateralised Lending Division was confirmed, whose contribution to the income statement amounted to € 11.1 million, compared to € 7.8 million in 2022.

The interest component from government-backed loans also had a positive and significant impact.

The increased contribution of the securities portfolio, which grew by € 19 million over the previous year, is related to the growth in average yield, achieved thanks to purchases of securities at better market conditions, and is commensurate with the higher costs of financing the repo securities portfolio which are included within interest expense.

The growth in interest expense is entirely due to the series of rate hikes by the ECB; however, the Bank's average cost of funding is still 100 bps below the average ECB rate.

Net fee and commission income (€,000)	2023	2022	€ Change	% Change
Fee and commission income				
Factoring activities	12,666	11,996	670	5.6%
Fee and commission income - off-premises CQ	9,751	9,816	(65)	-0.7%
Collateralised loans (fee and commission income)	11,164	8,327	2,837	34.1%
Collection activities	1,351	1,058	293	27.7%
Other fee and commission income	1,609	384	1,225	>100%
Total fee and commission income	**36,541**	**31,581**	**4,960**	**15.7%**
Fee and commission expense				
Factoring portfolio placement	(1,333)	(1,176)	(157)	13.4%
Placement of other financial products	(4,143)	(1,717)	(2,426)	>100%
Fees - off-premises CQ	(9,299)	(10,439)	1,140	-10.9%
Other fee and commission expense	(2,119)	(1,536)	(583)	38.0%
Total fee and commission expense	**(16,894)**	**(14,868)**	**(2,026)**	**13.6%**
Net fee and commission income	**19,647**	**16,713**	**2,934**	**17.6%**

Net fee and commission income (expense), amounting to € 19.6 million, increased by 17.6%, due growth in commissions from the collateralised lending business.

Fee and commission income from factoring should be considered together with interest income, since it makes no difference from a management point of view whether profit is recognised in the commissions and fees item or in interest in the without recourse factoring business.

Fee and commission income from the collateral-backed loans business grew by € 2.8 million compared to the previous year thanks to the continuing growth of the business.

Commissions on collection activities, related to the service of reconciliation of third-party invoices collected from the Public Administration are up 27.7% compared to last year, driven by the recent development of the servicer business for third-party securitisations.

Other Fee and commission income, includes commissions and fees related to current account services and auction fees related to the Art-Rite subsidiary amounting to € 0.9 million.

Fee and commission income - off-premises CQ refers to the commissions on the salary- and pension-backed loan (CQ) origination business of € 9.8 million, which should be considered together with the item Fees - off-premises CQ, amounting to € 9.3 million, which are composed of the commissions paid to financial advisers for the off-premises placement of the salary- and pension-backed loan product.

Fees and commissions for the placement of financial products paid to third parties are attributable to returns to third party intermediaries for the placement of the SI Conto! Deposito product under the passporting regime, whereas the fee and commission expense of placing the factoring portfolios is linked to the origination costs of factoring receivables, which remained in line with those reported in the previous year.

Other fee and commission expense includes commissions for trading third-party securities and for interbank collections and payment services.

Net trading results (€,000)	2023	2022	€ Change	% Change
Trading results from financial instruments	(338)	(1,518)	1,180	-77.7%
Trading results from Superbonus 110	3,110	-	3,110	n.a.
Total	**2,772**	**(1,518)**	**4,290**	**<100%**

In addition to the trading income from securities, this item includes the result of trading in Superbonus and the valuation of loans at their fair value.

Gain (loss) from sales or repurchases (€,000)	2023	2022	€ Change	% Change
Gains from HTCS portfolio debt instruments	1,317	1,088	229	21.0%
Gains from HTC portfolio debt instruments	7,916	248	7,668	>100%
Gains from receivables (Factoring portfolio)	2,142	2,213	(71)	-3.2%
Gains from receivables (CQ portfolio)	2,550	1,529	1,021	66.8%
Total	**13,925**	**5,078**	**8,847**	**>100%**

The item Gain (loss) from sales or repurchases includes net realised gains from the securities portfolio and factoring receivables, the revenue from which derives from the sale of factoring portfolios to private-sector assignors, and the sale of CQ loans and receivables portfolios. In particular, following the resolution of the Bank's Board of Directors of 21 July to sell all or a portion of the government bonds in the HTC portfolio, this item includes the profit realised from the almost complete disposal of this portfolio.

Impairment losses on loans and receivables at 31 December 2023 amounted to € 4.6 million (€ 8.5 million at 31 December 2022). The loss rate decreased to 0.17% at 31 December 2023 from 0.29% in 2022.

Personnel expense (€,000)	2023	2022	€ Change	% Change
Wages and salaries	(23,214)	(20,576)	(2,638)	12.8%
Social security contributions and other costs	(5,065)	(4,765)	(300)	6.3%
Directors' and statutory auditors' remuneration	(1,583)	(1,486)	(97)	6.5%
Total	**(29,862)**	**(26,827)**	**(3,035)**	**11.3%**

The increase in personnel expense compared to the previous year was due to the increase in costs following the revision of the banking contract applicable to the majority of employees, partly offset by the release in the first quarter of 2022 of the estimate of the variable compensation component allocated in 2021 as a result of applying the remuneration policies (which had an impact of € 1 million compared to € 0.1 million in

2023), in addition to the one-off positive effect of replacing, for some of the assignees, the non-compete agreement with a new retention plan of € 0.8 million (recorded in the fourth quarter of 2022). The average number of employees went from 282 to 294.

Other administrative expenses (€,000)	2023	2022	€ Change	% Change
Consultancy	(7,051)	(5,822)	(1,229)	21.1%
IT expenses	(7,275)	(5,908)	(1,367)	23.1%
Servicing and collection activities	(1,972)	(2,206)	234	-10.6%
Indirect taxes and duties	(3,252)	(3,591)	339	-9.4%
Insurance	(1,256)	(1,342)	86	-6.4%
Other	(1,052)	(973)	(79)	8.1%
Expenses related to management of the SPVs	(590)	(764)	174	-22.8%
Outsourcing and consultancy expenses	(725)	(396)	(329)	83.1%
Car hire and related fees	(763)	(691)	(72)	10.4%
Advertising and communications	(2,785)	(1,430)	(1,355)	94.8%
Expenses related to property management and logistics	(2,641)	(2,785)	144	-5.2%
Personnel-related expenses	(93)	(71)	(22)	31.0%
Entertainment and expense reimbursement	(733)	(671)	(62)	9.2%
Infoprovider expenses	(871)	(624)	(247)	39.6%
Membership fees	(343)	(321)	(22)	6.9%
Audit fees	(382)	(411)	29	-7.1%
Telephone and postage expenses	(527)	(478)	(49)	10.3%
Stationery and printing	(96)	(183)	87	-47.5%
Total operating expenses	**(32,407)**	**(28,667)**	**(3,740)**	**13.0%**
Resolution Fund	(1,568)	(1,920)	352	-18.3%
One-off expenses	(936)	-	(936)	n.a.
Total	**(34,911)**	**(30,587)**	**(4,324)**	**14.1%**

Administrative expenses increased over the previous year, due to higher advertising costs and higher charges for external consulting.

IT expenses consist of costs for services rendered by the IT outsourcer providing the legacy services and costs related to the IT infrastructure, which are increasing in part due to higher investments related to the digitalisation project of the pawn product.

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

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

The increase in Advertising expenses relates to costs incurred for advertising campaigns to promote the Bank's funding products.

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

The Extraordinary charges represent the costs incurred in 2023 related to the listing of Kruso Kapital, which took place in January 2024, and the costs related to the acquisition of assets related to the collateralised lending business of Banco Invest S.A. in Portugal. Kruso Kapital has signed a binding agreement with the current shareholders of Banco Invest S.A., a transaction which will be completed in 2024, subject to the fulfilment of certain conditions. These conditions include the authorisation by the Bank of Portugal of the aforementioned demerger and the prior notification of the Bank of Italy.

Net impairment losses on property and equipment/intangible assets (€,000)	2023	2022	€ Change	% Change
Depreciation of buildings used for operations	(827)	(727)	(100)	13.8%
Depreciation of furniture and equipment	(386)	(365)	(21)	5.8%
Amortisation of value in use	(1,469)	(1,591)	122	-7.7%
Amortisation of software	(550)	(289)	(261)	90.3%
Amortisation of other intangible assets	(49)	(23)	(26)	>100%
Total	**(3,281)**	**(2,995)**	**(286)**	**9.5%**

The impairment losses on property and equipment/intangible assets are the result of higher depreciation and amortisation for property used for business purposes, as well as the depreciation of the "right-of-use" asset following the application of IFRS 16.

Other operating income (expense) (€,000)	2023	2022	€ Change	% Change
Auction buyer's premiums	511	559	(48)	-8.6%
Recovery of expenses and taxes	1,105	1,213	(108)	-8.9%
Amortisation of multiple-year improvement costs	(646)	(456)	(190)	41.7%
Other income (expense)	(3,775)	(882)	(2,893)	>100%
Contingent assets and liabilities	778	213	565	>100%
Total	**(2,027)**	**647**	**(2,674)**	**<100%**

The total of this item was significantly impacted by the increase in the contribution to the interbank fund, which increased by € 2.3 million compared to 2022.

THE MAIN STATEMENT OF FINANCIAL POSITION AGGREGATES

Assets (€,000)	31.12.2023	31.12.2022	€ Change	% Change
Cash and cash equivalents	250,496	126,589	123,907	97.9%
Financial assets measured at fair value through other comprehensive income	576,002	558,384	17,618	3.2%
Financial assets measured at amortised cost	3,396,281	3,530,678	(134,397)	-3.8%
a) loans and receivables with banks	926	34,917	(33,991)	-97.3%
b1) loans and receivables with customers - loans	3,334,250	2,814,729	519,521	18.5%
b2) loans and receivables with customers - debt instruments	61,105	681,032	(619,927)	-91.0%
Hedging derivatives	-	-	-	n.a.
Changes in fair value of portfolio hedged items (+/-)	3,651	-	3,651	n.a.
Equity investments	995	970	25	2.6%
Property and equipment	40,659	43,374	(2,715)	-6.3%
Intangible assets	35,449	34,516	933	2.7%
of which: goodwill	33,526	33,526	-	0.0%
Tax assets	25,211	24,861	350	1.4%
Non-current assets held for sale and disposal groups	64	40	24	60.0%
Other assets	243,592	77,989	165,603	>100%
Total assets	**4,572,400**	**4,397,401**	**174,999**	**4.0%**

The year ended 31 December 2023 closed with total assets up by 3.9% over the end of 2022 and equal to € 4.6 billion.

The securities portfolio relating to Financial assets measured at fair value through other comprehensive income ("HTCS") of the Group continues to be mainly comprised of Italian government bonds with an average duration of about 13.8 months (the average remaining duration at the end of 2022 was 25.6 months). The nominal amount of the government bonds held in the HTCS portfolio amounted to € 586 million at 31 December 2023 (€ 586 million at 31 December 2022). The associated valuation reserve was negative at the end of the period, amounting to € 17.6 million before the tax effect.

Loans and receivables with customers (€,000)	31.12.2023	31.12.2022	€ Change	% Change
Factoring receivables	2,117,279	1,501,353	615,926	41.0%
Salary-/pension-backed loans (CQS/CQP)	798,695	933,200	(134,505)	-14.4%
Collateralised loans	121,315	106,749	14,566	13.6%
Loans to SMEs	285,772	196,909	88,863	45.1%
Current accounts	412	289	123	42.6%
Compensation and Guarantee Fund	7,511	72,510	(64,999)	-89.6%
Other loans and receivables	3,266	3,719	(453)	-12.2%
Total loans	**3,334,250**	**2,814,729**	**519,521**	**18.5%**
Securities	61,105	681,032	(619,927)	-91.0%
Total loans and receivables with customers	**3,395,355**	**3,495,761**	**(100,406)**	**-2.9%**

The item loans and receivables with customers under Financial assets measured at amortised cost (hereinafter HTC, or "Held to Collect"), is composed of loan receivables with customers and the "held-to-maturity securities" portfolio.

Outstanding loans for factoring receivables compared to Total loans, therefore excluding the amounts of the securities portfolio, were 64% (53% at the end of 2022). The volumes generated during the quarter amounted to € 5,565 million (€ 4,417 million at 31 December 2022).

Salary- and pension-backed loans were lower than the end of the previous year, with volumes disbursed directly by the agent network amounting to € 194 million (€ 322 million at the end of 2022).

Government-backed loans to small and medium-sized enterprises increased to € 286 million as a result of new loans being disbursed.

The collateralised lending business, which is conducted through the Kruso Kapital subsidiary, grew during the period, with loans granted at 31 December 2023 amounting to € 121 million.

HTC Securities are composed entirely of Italian government securities with an average duration of 43.6 months for an amount of € 61 million. The mark-to-market valuation of the securities at 31 December 2023 shows a pre-tax unrealised loss of € 5.4 million.

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

Status	31/12/2022	31/03/2023	30/06/2023	30/09/2023	31/12/2023
Bad exposures - gross	170,369	173,944	173,412	174,216	173,767
Unlikely to pay - gross	32,999	34,474	63,081	59,246	59,172
Past due - gross	81,449	67,432	61,857	53,904	64,176
Non-performing - gross	**284,817**	**275,850**	**298,350**	**287,366**	**297,115**
Performing - gross	**2,598,125**	**2,686,758**	**2,838,474**	**2,740,646**	**3,108,776**
Stage 2 - gross	112,799	109,587	94,497	89,457	90,912
Stage 1 - gross	2,485,326	2,577,171	2,743,977	2,651,189	3,017,864
Total loans and receivables with customers	**2,882,942**	**2,962,608**	**3,136,824**	**3,028,012**	**3,405,891**
Individual impairment losses	**61,727**	**62,203**	**63,654**	**64,167**	**65,359**
Bad exposures	47,079	47,334	48,218	48,331	49,119
Unlikely to pay	13,750	13,780	14,186	14,677	15,080
Past due	898	1,089	1,250	1,159	1,160
Collective impairment losses	**6,486**	**5,538**	**5,808**	**6,345**	**6,282**
Stage 2	1,993	689	607	653	694
Stage 1	4,493	4,849	5,201	5,692	5,588
Total impairment losses	**68,213**	**67,741**	**69,462**	**70,512**	**71,641**
Net exposure	**2,814,729**	**2,894,867**	**3,067,362**	**2,957,500**	**3,334,250**

The ratio of gross non-performing loans to the total portfolio decreased to 8.7% compared to 9.9% at 31 December 2022, following the decrease in past due loans, which remain high because of the entry into force of the new definition of default on 1 January 2021 ("New DoD"). Past due loans are associated with factoring receivables without recourse from Public Administration and are considered normal for the sector. Despite the new technical rules used to report past due loans for regulatory purposes, this continues not to pose particular problems in terms of credit quality and probability of collection.

The coverage ratio for non-performing loans is 22.0%, up from 21.7% on 31 December 2022; excluding the component relating to municipalities in financial difficulty, which for regulatory purposes is classified as bad debt, although both principal and default interest are in fact recoverable, the coverage ratio of the bad exposures alone is 93.1%.

Property and equipment includes the property located in Milan, which is also being used as Banca Sistema's offices, and the building in Rome. The carrying amount of the properties, including capitalised items, is € 34.8 million after accumulated depreciation. The other capitalised costs include furniture, fittings and IT devices and equipment, as well as the right of use relating to the lease payments of the branches and company cars.

Intangible assets refer to goodwill of € 33.5 million, broken down as follows:

- the goodwill originating from the merger of the former subsidiary Solvi S.r.l. which took place in 2013 amounting to € 1.8 million;
- the goodwill generated by the acquisition of Atlantide S.p.A. on 3 April 2019 amounting to € 2.1 million;
- the goodwill amounting to € 28.4 million arising from the acquisition of the former Intesa Sanpaolo collateralised lending business unit completed on 13 July 2020;
- provisional goodwill of € 1.2 million, resulting from the acquisition of ArtRite which was completed on 2 November 2022.

The investment recognised in the financial statements relates to the 50/50 joint venture with EBN Banco de Negocios S.A. in EBNSISTEMA. Banca Sistema acquired an equity investment in EBNSISTEMA through a capital increase of € 1 million which gave the Bank a 50% stake in the Madrid-based company. The aim of the joint venture is to develop the Public Administration factoring business in the Iberian peninsula, with its core business being the purchase of healthcare receivables. At the end of 2023, EBNSISTEMA had originated loans of € 222 million, compared to € 275 million in 2022.

Non-current assets held for sale and disposal groups include the assets of SF Trust Holding, which was put into liquidation in December 2021.

Other assets mainly include "Superbonus 110" tax credits, of which €50.7 million purchased by the Bank to offset its own taxes and € 166 million of “Superbonus 110” tax credits purchased in 2023 to be used for trading, as well as amounts being processed after the end of the period and advance tax payments.

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

Liabilities and equity (€,000)	31.12.2023	31.12.2022	€ Change	% Change
Financial liabilities measured at amortised cost	4,042,105	3,916,974	125,131	3.2%
a) due to banks	644,263	622,865	21,398	3.4%
b) due to customers	3,232,767	3,056,210	176,557	5.8%
c) securities issued	165,075	237,899	(72,824)	-30.6%
Tax liabilities	24,816	17,023	7,793	45.8%
Liabilities associated with disposal groups	37	13	24	>100%
Other liabilities	181,902	166,896	15,006	9.0%
Post-employment benefits	4,709	4,107	602	14.7%
Provisions for risks and charges	37,836	36,492	1,344	3.7%
Valuation reserves	(12,353)	(24,891)	12,538	-50.4%
Reserves	207,767	194,137	13,630	7.0%
Equity instruments	45,500	45,500	-	0.0%
Equity attributable to non-controlling interests	10,633	10,024	609	6.1%
Share capital	9,651	9,651	-	0.0%
Treasury shares (-)	(355)	(559)	204	-36.5%
Profit for the year	16,506	22,034	(5,528)	-25.1%
Total liabilities and equity	**4,572,400**	**4,397,401**	**174,999**	**4.0%**

Wholesale funding, which represents about 22% of the total (45% at 31 December 2022), decreased in absolute terms compared to the end of 2022, following the increase in funding from term deposits.

Due to banks (€,000)	31.12.2023	31.12.2022	€ Change	% Change
Due to Central banks	556,012	537,883	18,129	3.4%
Due to banks	88,251	84,982	3,269	3.8%
Current accounts with other banks	56,251	68,983	(12,732)	-18.5%
Deposits with banks (repurchase agreements)	-	-	-	n.a.
Financing from other banks	32,000	15,999	16,001	>100%
Total	**644,263**	**622,865**	**21,398**	**3.4%**

The item "Due to banks" increased by 3.4%, compared to 31 December 2022, reflecting decrease in interbank funding, while ECB deposits remained stable compared to 31 December 2022.

Due to customers (€,000)	31.12.2023	31.12.2022	€ Change	% Change
Term deposits	2,402,002	1,431,548	970,454	67.8%
Financing (repurchase agreements)	-	865,878	(865,878)	-100.0%
Financing - other	65,154	66,166	(1,012)	-1.5%
Customer current accounts	704,579	639,266	65,313	10.2%
Due to assignors	56,444	48,542	7,902	16.3%
Other payables	4,588	4,810	(222)	-4.6%
Total	**3,232,767**	**3,056,210**	**176,557**	**5.8%**

The item "Due to customers" increased compared to the end of the previous year reflecting a decrease in funding from bank accounts. The period-end amount of term deposits increased from the end of 2022 (+67.8%), reflecting net positive funding (net of interest accrued) of € 941 million; gross deposits from the beginning of the year were € 2,447 million.

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

Bonds issued (€,000)	31.12.2023	31.12.2022	€ Change	% Change
Bond - AT1	45,500	45,500	-	0.0%
Bond - Tier II	-	-	-	n.a.
Bonds - other	165,075	192,399	(27,324)	-14.2%

The value of bonds issued decreased compared to 31 December 2022 due to the repayments of the senior shares of the ABS financed by third-party investors.

Bonds issued at 31 December 2023 are as follows:

- AT1 subordinated loan of € 8 million, with no maturity (perpetual basis) and a variable coupon starting from 19 June 2023, issued on 18 December 2012 and 18 December 2013 (reopening date);

- AT1 subordinated loan of € 37.5 million, with no maturity (perpetual basis) and a fixed coupon until 25 June 2031 at 9% issued on 25 June 2021.

Other bonds include the senior shares of the ABS in the Quinto Sistema Sec. 2019 and BS IVA securitisation subscribed by third-party institutional investors.

All AT1 instruments, based on their main characteristics, are classified under equity item 140 "Equity instruments".

The provision for risks and charges of € 37.8 million includes the provision for possible liabilities attributable to past acquisitions of € 1.1 million, the estimated amount of personnel-related charges mainly for the portion of the bonus for the period, the deferred portion of the bonus accrued in previous years, and the estimates related to the non-compete agreement and the 2022 retention plan, totalling € 5.5 million (the item includes the estimated variable and deferred components, accrued but not paid). The provision also includes an estimate of charges related to possible liabilities to assignors that have yet to be settled and other estimated charges for ongoing lawsuits and legal disputes amounting to € 14.6 million. With reference to the CQ portfolio (Salary- and Pension-Backed Loans), there is also a provision for claims, a provision for the estimated negative effect of possible early repayments on existing portfolios and portfolios sold, as well as repayments related to the Lexitor ruling totalling € 14.7 million.

"Other liabilities" mainly include payments received after the end of the year from the assigned debtors and which were still being allocated and items being processed during the days following year-end, as well as trade payables and tax liabilities.

The reconciliation between the profit for the period and equity of the parent and the figures from the consolidated financial statements is shown below.

(€ .000)	PROFIT (LOSS)	EQUITY
Profit (loss)/equity of the parent	**14,129**	**264,064**
Assumption of value of investments	-	(45,177)
Consolidated profit (loss)/equity	3,069	58,462
Gain (loss) on equity investments	29	-
Adjustment to profit (loss) from discontinued operations	-	-
Equity attributable to the owners of the parent	**17,227**	**277,349**
Equity attributable to non-controlling interests	(721)	(10,633)
Profit (loss)/equity of the Group	**16,506**	**266,716**

CAPITAL ADEQUACY

Provisional information concerning the regulatory capital and capital adequacy of the Banca Sistema Group is shown below.

Own funds (€,000) and capital ratios	31.12.2023	31.12.2022 Fully loaded	31.12.2022 Transitional
Common Equity Tier 1 (CET1)	**184,308**	**164,238**	**174,974**
ADDITIONAL TIER 1	45,500	45,500	45,500
Tier 1 capital (T1)	**229,808**	**209,738**	**220,474**
TIER2	252	194	194
Total Own Funds (TC)	**230,060**	**209,931**	**220,668**
Total risk-weighted assets	**1,427,705**	**1,382,804**	**1,385,244**
of which, credit risk	1,234,050	1,193,991	1,196,431
of which, operational risk	190,464	188,813	188,813
Ratio - CET1	**12.9%**	**11.9%**	**12.6%**
Ratio - T1	**16.1%**	**15.2%**	**15.9%**
Ratio - TCR	**16.1%**	**15.2%**	**15.9%**

Total regulatory own funds were € 231 million at 31 December 2023 and included the profit, net of dividends estimated on the profit for the period which were equal to the amount in the previous year with the pay-out increasing to 37% of the Parent's profit. For comparison purposes, this figure is to be compared with the fully loaded figure, meaning without applying the mitigating measure provided for under Article 468 of the Capital Requirements Regulation (CRR). In this regard, the neutralisation of all or part of the reserve (HTCS) on government bonds was approved by the European Trilogue.

The CET1 ratio improved compared to the fully loaded ratio at 31 December 2022 due to the improvement of the OCI reserve.

Following the communication received from the Bank of Italy on the conclusion of the 2023 Supervisory Review and Evaluation Process (SREP), as from 31 March 2024 Banca Sistema will comply with the following overall consolidated capital requirements:

- CET1 ratio of 9.440%;
- TIER1 ratio of 10.90%;
- Total Capital Ratio of 12.90%.

The above capital requirements correspond to the Overall Capital Requirement (OCR) ratios as defined by supervisory guidance and represent the sum of the Total SREP Capital Requirement ratio – TSCR and the Combined Buffer Requirement (CBR).

The reconciliation of equity and CET1 is provided below:

	30.06.2023	31.12.2022 Fully loaded
Share capital	9,651	9,651
Equity instruments	45,500	45,500
Income-related and share premium reserve	207,767	194,137
Treasury shares (-)	(355)	(559)
Valuation reserves	(12,353)	(24,891)
Profit	16,506	22,034
Equity attributable to the owners of the parent	**266,716**	**245,872**
Dividends distributed and other foreseeable expenses	(5,227)	(5,227)
Equity assuming dividends are distributed to shareholders	**261,489**	**240,645**
Regulatory adjustments	(39,929)	(28,905)
Eligible equity attributable to non-controlling interests	8,248	8,734
Equity instruments not eligible for inclusion in CET1	(45,500)	(45,500)
Common Equity Tier 1 (CET1)	**184,308**	**174,974**

CAPITAL AND SHARES

Capital and ownership structure

The share capital of Banca Sistema is composed of 80,421,052 ordinary shares, for a total paid-in share capital of € 9,650,526.24. All outstanding shares have regular dividend entitlement from 1 January.

Based on evidence from Consob's website shown below, at the end of the financial year the shareholders with stakes of more than 5%, the threshold above which Italian law (art. 120 of the Consolidated Law on Finance) requires disclosure to the investee and Consob, were as follows:

Person at the top of the chain of ownership	Shareholder	No. of shares	% of the ordinary shares	% of the voting capital
Gianluca Garbi	SGBS Srl	18,578,900	23.1%	22.5%
	Garbifin Srl	409,453	0.5%	0.5%
	Fondazione Cassa di Risparmio di Cuneo	4,030,000	5.0%	4.9%
	Fondazione Cassa di Risparmio di Alessandria	5,950,000	7.4%	7.2%
	Fondazione Sicilia	5,950,104	7.4%	7.2%
	Chandler	6,013,000	7.5%	7.3%
	Treasury shares	168,004	0.2%	0.2%
	Market	39,321,591	48.9%	50.2%
TOTAL SHARES		**80,421,052**	**100.0%**	**100.0%**

Stock performance

The shares of Banca Sistema are traded on the Mercato Telematico Azionario - Italian Equities Market (MTA) of the Italian Stock Exchange, STAR segment. The Banca Sistema stock is included in the following Italian Stock Exchange indices:

FTSE Italia All-Share Capped;

FTSE Italia All-Share;

FTSE Italia STAR;

FTSE Italia Banche;

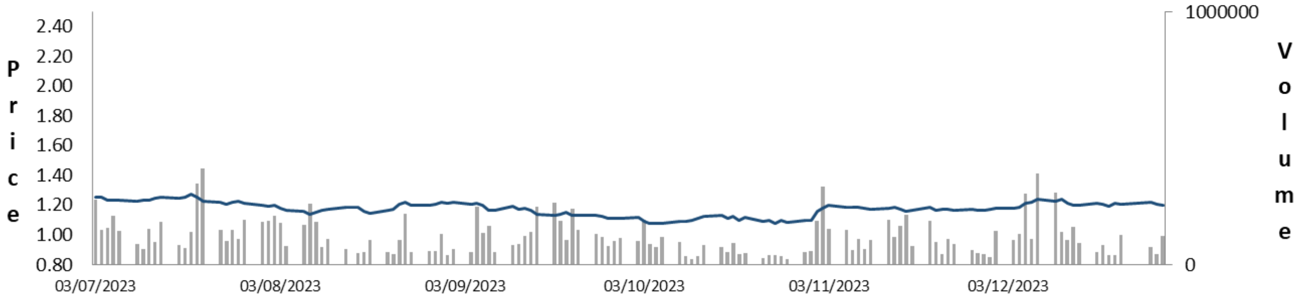
FTSE Italia Finanza;

FTSE Italia Small Cap.

In 2023, the share price of the stock fluctuated in a range between a minimum closing price of € 1.07 and a maximum closing price of € 1.85.

The price change on the last market day of 2023 when compared to the same day of the previous year was a negative 21.6%, or 17.5% when considering the dividend payment.

During 2023, average daily volumes were just over 153,000 shares, broadly in line with those recorded in 2022.



RISK MANAGEMENT AND SUPPORT CONTROL METHODS

With reference to the functioning of the "Risk Management System", the Group has adopted a system based on four leading principles:

- suitable supervision by relevant bank bodies and departments;
- suitable policies and procedures to manage risks (both in terms of credit risk and the granting of loans);
- suitable methods and instruments to identify, monitor and manage risks, with suitable measuring techniques;
- thorough internal controls and independent audit.

The "Risk Management System" is monitored by the Risk Department, which ensures that capital adequacy and the degree of solvency with respect to its business are kept under constant control.

The Risk Department continuously analyses the Group's operations to fully identify the risks the Group is exposed to (risk map).

To reinforce its ability to manage corporate risks, the Group has set up a Risk and ALM Committee, whose mission is to help the Group define strategies, risk policies, and profitability and liquidity targets.

The Risk and ALM Committee continuously monitors relevant risks and any new or potential risks arising from changes in the working environment or Group forward-looking operations.

Pursuant to the eleventh amendment of Bank of Italy Circular no. 285/13, within the framework of the Internal Control System (Part I, Section IV, Chapter 3, Subsection II, Paragraph 5) the Parent entrusted the Internal Control and Risk Management Committee with the task of coordinating the second and third level Control Departments; to that end, the Committee allows the integration and interaction between these Departments, encouraging cooperation, reducing overlaps and supervising operations.

With reference to the risk management framework, the Group adopts an integrated reference framework both to identify its own risk appetite and for the internal process of determining capital adequacy. This system is the Risk Appetite Framework (RAF), designed to make sure that the growth and development aims of the Group are compatible with capital and financial solidity.

The RAF comprises monitoring and alert mechanisms and related processes to take action in order to promptly intervene in the event of discrepancies with defined targets. The framework is subject to annual review based on the strategic guidelines and regulatory changes.

The ICAAP (the Internal Capital Adequacy Assessment Process) and ILAAP (Internal Liquidity Adequacy Assessment Process) allow the Group to conduct ongoing tests of its structure for determining risks and to update the related safeguards included in its RAF.

With regard to protecting against credit risk, along with the well-established second level controls and the periodic monitoring put in place by the Risk Department, functional requirements were implemented to allow the Group to be compliant with the new definition of default introduced starting on 1 January 2021.

Regarding the monitoring of credit risk, in February 2020 the Group, with the goal of attaining greater operating synergies, moved from a functional organisational structure to a divisional structure which aims to maximise the value of each individual line of business, making it easily comparable with its respective specialist peers.

It should also be noted that, in accordance with the obligations imposed by the applicable regulations, each year the Group publishes its report (Pillar 3) on capital adequacy, risk exposure and the general characteristics of the systems for identifying, measuring and managing risks. The report is available on the website www.bancasistema.it in the Investor Relations section.

In order to measure "Pillar 1 risks", the Group has adopted standard methods to calculate the capital requirements for Prudential Regulatory purposes. In order to evaluate "Pillar 2 risks", the Group adopts - where possible - the methods set out in the Regulatory framework or those established by trade associations. If there are no such indications, standard market practices by operators working at a level of complexity and with operations comparable to those of the Group are assessed.

OTHER INFORMATION

REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE

Pursuant to art. 123-bis, paragraph 3 of Legislative Decree no. 58 dated 24 February 1998, a "Report on corporate governance and ownership structure" has been drawn up; the document - published jointly with the draft financial statements as at and for the year ended 31 December 2023 - is available in the "Governance" section of the Banca Sistema website (www.bancasistema.it).

REMUNERATION REPORT

Pursuant to art. 84-quater, paragraph 1 of the Issuers' Regulation implementing Legislative Decree no. 58 dated 24 February 1998, a "Remuneration Report" has been drawn up; the document - published jointly with the draft financial statements as at and for the year ended 31 December 2023 - is available in the "Governance" section of the Banca Sistema website (www.bancasistema.it).

RESEARCH AND DEVELOPMENT ACTIVITIES

No research and development activities were carried out in 2023.

RELATED PARTY TRANSACTIONS

Related party transactions, including the relevant authorisation and disclosure procedures, are governed by the "Procedure governing related party transactions" approved by the Board of Directors and published on the internet site of the Parent, Banca Sistema S.p.A.

Transactions between Group companies and related parties were carried out in the interests of the Bank, including within the scope of ordinary operations; these transactions were carried out in accordance with market conditions and, in any event, based on mutual financial advantage and in compliance with all procedures.

ATYPICAL OR UNUSUAL TRANSACTIONS

During 2023, the Group did not carry out any atypical or unusual transactions, as defined in Consob Communication no. 6064293 of 28 July 2006.

OTHER INFORMATION

On 25 October 2023, ESMA published a disclosure notice ("European common enforcement priorities for 2023 annual financial reports") containing certain topics and recommendations with reference to both the preparation of the financial report and the sustainability report for the year 2023. In particular, for IAS/IFRS financial statements, the priorities for 2023 are related to climate issues and their impact on key financial statement estimates, as well as the impact of the current macroeconomic environment on funding and other financial risks, the fair value measurement process and related disclosures.

With reference to these aspects, during 2023 the activities envisaged in the three-year Plan shared with the Supervisory Body in relation to Climate and Environmental Risks were completed. Among the various activities, a first materiality analysis was carried out for credit, operational and liquidity risks, which showed low relevance, also in view of the nature of the Group's business and the insurance coverage already in place. As a result, no elements have emerged that would require a change in the ECL and impairment assessments. The Bank intends to complete the activities set out in the above three-year Plan, which will be an integral part of the strategic plan currently being defined, and which will include ESG issues.

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

On 24 January 2024, the ordinary shares of the subsidiary Kruso Kapital started trading on the Professional Segment of Euronext Growth Milan, a multilateral trading system organised and managed by Borsa Italiana S.p.A. Based on the offer price of € 1.86 per share, the capitalisation of Kruso Kapital at the start of trading is approximately € 45.7 million. The "free float" as defined in the Euronext Growth Issuers' Regulation is approximately 15.29% of the share capital. As a result of the transaction, Kruso Kapital's share capital increased from the original € 23,162,393 to the current € 24,609,593. The nominal amount (€ 1.00) of the shares remains unchanged. On 7 February 2024, the Board of Directors of Kruso Kapital resolved to apply to Borsa Italiana for the transfer of the ordinary shares issued by Kruso Kapital from trading on the professional segment to the ordinary segment of the Euronext Growth Milan market, if the conditions are met.

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

BUSINESS OUTLOOK AND MAIN RISKS AND UNCERTAINTIES

We expect a gradual and steady increase in the cost of funding again in 2024, compared with previous quarters, as a result of the rise in market rates and also from repositioning to more stable and/or long-term forms of funding.

While the new disbursements of the Factoring Division, Kruso Kapital and the CQ Division will be able to reflect the higher cost of funding attributed to them in a higher yield on loans in the financial statements, the stock of CQ loans, due to a longer maturity, will continue to be negatively impacted by the (fixed rate) yield of loans originated in previous years, which are significantly lower than current market rates. Although the salary- and pension-backed loan (CQ) business is less impacted by the prepayment of portfolios and can benefit from a higher yield on newly originated loans, the relative size of the old portfolio is such that total income from CQ in 2024 is still expected to be negative.

Finally, the process of developing the new Strategic Plan, which will be presented to the financial community in the first half of 2024, is underway.

Milan, 8 March 2024

On behalf of the Board of Directors

The Chairperson

Luitgard Spögler

The CEO

Gianluca Garbi

CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

(Amounts in thousands of Euro)

	Assets	31.12.2023	31.12.2022
10.	Cash and cash equivalents	250,496	126,589
30.	Financial assets measured at fair value through other comprehensive income	576,002	558,384
40.	Financial assets measured at amortised cost	3,396,281	3,530,678
	a) loans and receivables with banks	926	34,917
	b) loans and receivables with customers	3,395,355	3,495,761
50.	Hedging derivatives	-	-
60.	Changes in fair value of portfolio hedged items (+/-)	3,651	-
70.	Equity investments	995	970
90.	Property and equipment	40,659	43,374
100.	Intangible assets	35,449	34,516
	of which:	-	-
	goodwill	33,526	33,526
110.	*Tax assets*	25,211	24,861
	a) current	7,139	2,136
	b) deferred	18,072	22,725
120.	Non-current assets held for sale and disposal groups	64	40
130.	Other assets	243,592	77,989
	Total Assets	**4,572,400**	**4,397,401**

	Liabilities and equity	31.12.2023	31.12.2022
10.	Financial liabilities measured at amortised cost	4,042,105	3,916,974
	a) due to banks	644,263	622,865
	b) due to customers	3,232,767	3,056,210
	c) securities issued	165,075	237,899
60.	Tax liabilities	24,816	17,023
	a) current	456	236
	b) deferred	24,360	16,787
70.	Liabilities associated with disposal groups	37	13
80.	Other liabilities	181,902	166,896
90.	Post-employment benefits	4,709	4,107
100.	Provisions for risks and charges:	37,836	36,492
	a) commitments and guarantees issued	59	24
	c) other provisions for risks and charges	37,777	36,468
120.	Valuation reserves	(12,353)	(24,891)
140.	Equity instruments	45,500	45,500
150.	Reserves	168,667	155,037
160.	Share premium	39,100	39,100
170.	Share capital	9,651	9,651
180.	Treasury shares (-)	(355)	(559)
190.	Equity attributable to non-controlling interests (+/-)	10,633	10,024
200.	Profit for the period/year	16,506	22,034
	Total liabilities and equity	**4,572,400**	**4,397,401**

INCOME STATEMENT

(Amounts in thousands of Euro)

		2023	2022
10.	Interest and similar income	178,434	101,945
	of which: interest income calculated with the effective interest method	167,274	94,099
20.	Interest and similar expense	(111,479)	(16,517)
30.	**Net interest income**	**66,955**	**85,428**
40.	Fee and commission income	36,541	31,581
50.	Fee and commission expense	(16,894)	(14,868)
60.	**Net fee and commission income (expense)**	**19,647**	**16,713**
70.	Dividends and similar income	227	227
80.	Net trading income (expense)	2,772	(1,518)
90.	Net gains (losses) on hedge accounting	5	-
100.	Gain (loss) from sales or repurchases of:	13,925	5,078
	a) financial assets measured at amortised cost	12,608	3,991
	b) financial assets measured at fair value through other comprehensive income	1,317	1,087
120.	**Total income**	**103,531**	**105,928**
130.	Net impairment losses/gains on:	(4,574)	(8,502)
	a) financial assets measured at amortised cost	(4,751)	(8,359)
	b) financial assets measured at fair value through other comprehensive income	177	(143)
140.	Gains/losses from contract amendments without derecognition	(1)	-
150.	**Net financial income (expense)**	**98,956**	**97,426**
190.	Administrative expenses	(64,773)	(57,414)
	a) personnel expense	(29,862)	(26,827)
	b) other administrative expenses	(34,911)	(30,587)
200.	Net accruals to provisions for risks and charges	(3,171)	(4,461)
	a) commitments and guarantees issued	(35)	15
	b) other net accruals	(3,136)	(4,476)
210.	Net impairment losses on property and equipment	(2,683)	(2,684)
220.	Net impairment losses on intangible assets	(598)	(311)
230.	Other operating income (expense)	(2,027)	647
240.	**Operating costs**	**(73,252)**	**(64,223)**
250.	Gains (losses) on equity investments	25	(31)
290.	**Pre-tax profit (loss) from continuing operations**	**25,729**	**33,172**
300.	Income taxes	(8,502)	(10,659)
310.	**Post-tax profit from continuing operations**	**17,227**	**22,513**
320.	Post-tax profit (loss) from discontinued operations	-	(23)
330.	**Profit for the year**	**17,227**	**22,490**
340.	Profit (Loss) for the period attributable to non-controlling interests	(721)	(456)
350.	**Profit for the year attributable to the owners of the parent**	**16,506**	**22,034**

STATEMENT OF COMPREHENSIVE INCOME

(Amounts in thousands of Euro)

		2023	2022
10.	**Profit (loss) for the period**	**16,506**	**22,034**
reddituali al	**Items, net of tax, that will not be reclassified subsequently to profit or loss**	-	-
70.	Defined benefit plans	(185)	399
reddituali al	**Items, net of tax, that will be reclassified subsequently to profit or loss**	**-**	**-**
140.	Financial assets (other than equity instruments) measured at fair value through other comprehensive income	12,723	(22,223)
170.	**Total other comprehensive income (expense), net of income tax**	**12,538**	**(21,824)**
180.	**Comprehensive income (Items 10+170)**	**29,044**	**210**
190.	**Comprehensive income attributable to non-controlling interests**	**-**	**-**
200.	**Comprehensive income attributable to the owners of the parent**	**29,044**	**210**

STATEMENT OF CHANGES IN EQUITY AT 31/12/2023

Amounts in thousands of Euro

	Balance at 31.12.2022	Change in opening balances	Balance at 1.1.2023	Allocation of prior year profit		Changes during the year									Equity attributable to the owners of the parent at 31.12.2023	Equity attributable to non-controlling interests at 31.12.2023
							Transactions on equity									
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Repurchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity investments	Comprehensive income for 2023		
Share capital:																
a) ordinary shares	**9,651**		9,651												**9,651**	
b) other shares																
Share premium	**39,100**		39,100												**39,100**	
Reserves	**155,037**		155,037	16,818		(3,188)									**168,667**	
a) income-related	**153,332**		153,332	16,818		(2,789)									**167,361**	
b) other	**1,705**		1,705			(399)									**1,306**	
Valuation reserves	**(24,891)**		(24,891)											12,538	**(12,353)**	
Equity instruments	**45,500**		45,500												**45,500**	
Treasury shares	**(559)**		(559)					204							**(355)**	
Profit (loss) for the year	**22,034**		22,034	(16,818)	(5,216)									16,506	**16,506**	
Equity attributable to the owners of the parent	**245,872**		**245,872**		**(5,216)**	**(3,188)**		**204**						**29,044**	**266,716**	
Equity attributable to non-controlling interests	**10,024**		**10,024**										**609**			**10,633**

STATEMENT OF CHANGES IN EQUITY AT 31/12/2022

Amounts in thousands of Euro

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

STATEMENT OF CASH FLOWS (INDIRECT METHOD)

Amounts in thousands of Euro

	Amount 2023	2022
A. OPERATING ACTIVITIES		
1. Operations	**46,789**	**42,543**
Profit (loss) for the year (+/-)	16,506	22,034
Gains/losses on financial assets held for trading and other financial assets/liabilities measured at fair value through profit or loss (-/+)		
Gains/losses on hedging activities (-/+)		
Net impairment losses/gains due to credit risk (+/-)	4,751	8,359
Net impairment losses/gains on property and equipment and intangible assets (+/-)	3,281	2,995
Net accruals to provisions for risks and charges and other costs/income (+/-)	3,171	4,461
Taxes, duties and tax assets not yet paid (+/-)	190	(98)
Other adjustments (+/-)	18,890	4,792
2. Cash flows generated by (used for) financial assets	**(19,118)**	**(723,300)**
Financial assets held for trading		
Financial assets designated at fair value through profit or loss		
Other assets mandatorily measured at fair value through profit or loss		
Financial assets measured at fair value through other comprehensive income	(16,220)	(105,725)
Financial assets measured at amortised cost	151,617	(570,229)
Other assets	(154,515)	(47,346)
3. Cash flows generated by (used for) financial liabilities	**97,798**	**642,249**
Financial liabilities measured at amortised cost	81,396	646,196
Financial liabilities held for trading		
Financial liabilities designated at fair value through profit or loss		
Other liabilities	16,402	(3,947)
Net cash flows generated by (used for) operating activities	**125,469**	**(38,508)**
B. INVESTING ACTIVITIES		
1. Cash flows generated by	**-**	**-**
Sales of equity investments		
Dividends from equity investments		
Sales of property and equipment		
Sales of intangible assets		
Sales of business units		
2. Cash flows used in	**(1,765)**	**(4,411)**
Purchases of equity investments		
Purchases of property and equipment	(234)	(942)
Purchases of intangible assets	(1,531)	(2,354)
Purchases of business units		(1,115)
Net cash flows generated by (used in) investing activities	**(1,765)**	**(4,411)**
C. FINANCING ACTIVITIES		
Issues/repurchases of treasury shares	204	(559)
Issues/repurchases of equity instruments		
Dividend and other distributions		(5,768)
Net cash flows generated by (used in) financing activities	**204**	**(6,327)**
NET CASH FLOWS FOR THE PERIOD	**123,908**	**(49,246)**

Cash and cash equivalents at the beginning of the year	**126,589**	**175,835**
Total net cash flows for the year	123,908	(49,246)
Cash and cash equivalents: effect of change in exchange rates		
Cash and cash equivalents at the end of the period	**250,497**	**126,589**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PART A - ACCOUNTING POLICIES

A.1 – GENERAL PART

Section 1 - Statement of compliance with International Financial Reporting Standards

The consolidated financial statements of the Banca Sistema Group at 31 December 2023 were drawn up in accordance with International Financial Reporting Standards - called IFRS - issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and endorsed by the European Commission, as established by EU Regulation no. 1606 of 19 July 2002, adopted in Italy by art. 1 of Legislative Decree no. 38 of 28 February 2005 and considering the Bank of Italy Circular no. 262 of 22 December 2005 as subsequently updated, regarding the forms and rules for drafting the Financial Statements of banks.

In 2023, the following accounting standards or amendments to existing accounting standards came into force:

Document title	Effective date	EU Regulation and date of publication
IFRS 17 - Insurance Contracts (including amendments issued in June 2020)	1 January 2023	(EU) 2021/2036 23 November 2021
Initial application of IFRS 17 and IFRS 9 - Comparative information (Amendment to IFRS 17)	1 January 2023	(EU) 2022/1491 9 September 2022
Definition of Accounting Estimates (Amendments to IAS 8)	1 January 2023	(EU) 2022/357 3 March 2022
Disclosure of Accounting Policies (Amendments to IAS 1)	1 January 2023	(EU) 2022/357 3 March 2022
Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)	1 January 2023	(EU) 2022/1392 12 August 2022
International Tax Reform - Pillar Two Model Rules (Amendments to IAS 12)	1 January 2023	(EU) 2023/2468 9 November 2023

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

At 31 December 2023, the following documents were Endorsed by the European Commission:

Document title	**Effective date**	**EU Regulation and date of publication**
Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)	1 January 2024	(EU) 2023/2579 21 November 2023

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

Documents not yet endorsed by the EU as of 30 November 2023 and which will only be applicable after EU endorsement:

Document title	**Effective date of the IASB document**	**Date of expected endorsement by the EU**
Standards		
IFRS 14 Regulatory deferral accounts	1 January 2016	Endorsement process suspended pending the new financial reporting standard on "rate-regulated activities".
Amendments		
Sale or contribution of assets between an investor and its associate or joint venture (Amendments to IFRS 10 and IAS 28)	Deferred until completion of the IASB project on the equity method	Endorsement process suspended pending the conclusion of the IASB project on the equity method
Classification of liabilities as current or non-current (Amendments to IAS 1) and Non current liabilities with covenants (Amendments to IAS 1)	1 January 2024	Q4 2023
Supplier Finance Arrangements (Amendment to IAS 7 and IFRS 9)	1 January 2024	TBD
Lack of Exchangeability (Amendment to IAS 21)	1 January 2025	TBD

In accordance with art. 5 of Legislative Decree no. 38 of 28 February 2005, if, in exceptional cases, the application of a provision imposed by the IFRS were incompatible with the true and fair representation of the financial position or results of operations, the provision would not apply. The justifications for any exceptions and their influence on the presentation of the financial position and results of operations would be explained in the Notes to the financial statements.

Any profits resulting from the exception would be recognised in a non-distributable reserve if they did not correspond to the recovered amount in the financial statements. However, no exceptions to the IFRS were applied.

Section 2 - General basis of preparation

The financial statements are drawn up with clarity and give a true and fair view of the financial position, profit or loss, cash flows, and changes in equity and comprise the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes to the financial statements.

The financial statements are accompanied by the Directors' Report on the Bank's performance.

If the information required by the IFRS and provisions contained in Circular no. 262 of 22 December 2005 and/or the subsequent updates issued by the Bank of Italy are not sufficient to give a true and fair view that is relevant, reliable, comparable and understandable, the notes to the financial statements provide the additional information required. For the sake of completeness, please note that this financial report also considers the interpretation and supporting documents regarding the application of accounting standards, including those issued in connection with the Covid-19 pandemic, as well as those issued by European regulatory and supervisory bodies and standard setters.

The general principles that underlie the drafting of the financial statements are set out below:

- the measurements are made considering that the bank will continue as a going concern, where it is stated that the Directors have not identified any uncertainties that could cast doubt in this respect;
- costs and income are accounted for on an accruals basis;
- to ensure the comparability of the data and information in the financial statements and the notes to the financial statements, the methods of presentation and classification are kept constant over time unless they are changed to present the data more appropriately;
- each material class of similar items is presented separately in the statement of financial position and income statement; items of a dissimilar nature or function are presented separately unless they are considered immaterial;
- items that have nil balances at year end or for the financial year or for the previous year are not indicated in the statement of financial position or the income statement;
- if an asset or liability comes under several items in the statement of financial position, the notes to the financial statements make reference to the other items under which it is recognised if it is necessary for a better understanding of the financial statements;
- the items are not offset against one another unless it is expressly requested or allowed by an IFRS or an interpretation or the provisions of the aforementioned Circular no. 262 of 22 December 2005 as amended by the Bank of Italy;
- the financial statements are drafted by favouring substance over form and in accordance with the principle of materiality and significance of the information;

- comparative data for the previous financial year are presented for each statement of financial position and income statement item; if the items are not comparable to those of the previous year, they are adapted and the non-comparability and adjustment/or impossibility thereof are indicated and commented on in the notes to the financial statements;
- the layout recommended by the Bank of Italy was used with reference to the information reported in the notes to the financial statements; the tables included in this layout were not presented if they were not applicable to the Group's business.

Within the scope of drawing up the financial statements in accordance with the IFRS, bank management must make assessments, estimates and assumptions that influence the amounts of the assets, liabilities, costs and income recognised during the period.

The use of estimates is essential to preparing the financial statements. In particular, the most significant use of estimates and assumptions in the financial statements can be attributed to:

- the valuation of loans and receivables with customers: the acquisition of performing receivables from companies that supply goods and services represents the Bank's main activity. Estimating the value of these receivables is a complex activity with a high degree of uncertainty and subjectivity. Their value is estimated by using models that include numerous quantitative and qualitative elements. These include the historical data for collections, expected cash flows and the related expected recovery times, the existence of indicators of possible impairment, the valuation of any guarantees, and the impact of risks associated with the sectors in which the Bank's customers operate;
- the valuation of default interest pursuant to Legislative Decree no. 231 of 9 October 2002 on performing receivables acquired without recourse: estimating the recoverable amount of default interest is complex, with a high degree of uncertainty and subjectivity. Internally developed valuation models are used to determine these percentages, which take numerous qualitative and quantitative elements into consideration;
- the estimate related to the possible impairment losses on goodwill and equity investments recognised in the financial statements;
- the quantification and estimate made for recognising liabilities in the provisions for risks and charges, the amount or timing of which are uncertain;
- the recoverability of deferred tax assets;
- post-employment benefits and other employee benefits payable (including obligations under defined benefit plans).

It should be noted that an estimate may be adjusted following a change in the circumstances upon which it was formed, or if there is new information or more experience. Any changes in estimates are applied prospectively and therefore will have an impact on the income statement for the year in which the change takes place.

Pursuant to the provisions of art. 5 of Legislative Decree no. 38 of 28 February 2005, the financial statements use the Euro as the currency for accounting purposes. The financial statements are expressed in thousands of Euro. Unless otherwise stated, the notes to the financial statements are expressed in thousands of Euro. Any discrepancies between the figures shown in the Directors' Report and in the Consolidated Financial Statements and between the tables in the Notes to the Consolidated Financial Statements are due exclusively to rounding.

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

SECTION 3 - SCOPE AND METHODS OF CONSOLIDATION

The consolidated financial statements include the Parent, Banca Sistema S.p.A., and the companies directly or indirectly controlled by or connected with it.

The following statement shows the investments included within the scope of consolidation.

Company Names	Registered office	Type of Relationship (1)	Investment		% of votes available (2)
			Investing company	% held	
Companies					
Subject to full consolidation					
S.F. Trust Holdings Ltd	UK	1	Banca Sistema	100%	100%
Largo Augusto Servizi e Sviluppo S.r.l.	Italy	1	Banca Sistema	100%	100%
Kruso Kapital S.p.A.	Italy	1	Banca Sistema	75%	75%
ProntoPegno Greece	Greece	1	Kruso Kapital	75%	75%
Art-Rite S.r.l.	Italy	1	Kruso Kapital	75%	75%
Consolidated using the equity method					
EBNSISTEMA Finance S.L.	Spain	7	Banca Sistema	50%	50%

Key:
(1) Type of relationship.
1. = majority of voting rights at the ordinary Shareholders' Meeting
2. = a dominant influence in the ordinary Shareholders' Meeting
3. = agreements with other shareholders
4. = other forms of control
5. = unitary management as defined in Art. 26, paragraph 1 of 'Legislative Decree 87/92'
6. = unitary management as defined in Art. 26, paragraph 2 of 'Legislative Decree 87/92'
7. = joint control (2) Available voting rights at the ordinary Shareholders' Meeting, with separate indication of effective and potential rights

The scope of consolidation also includes the following special purpose securitisation vehicles whose receivables are not subject to derecognition and which are consolidated using the full consolidation method:

Quinto Sistema Sec. 2017 S.r.l.

Quinto Sistema Sec. 2019 S.r.l.

BS IVA SPV S.r.l.

Changes in the scope of consolidation

Compared to the situation as at 31 December 2022, the scope of consolidation has not changed.

Full consolidation method

The investments in subsidiaries are consolidated using the full consolidation method. The concept of control goes beyond owning a majority of the percentage of stakes in the share capital of the subsidiary and is defined as the power of determining the management and financial policies of said subsidiary to obtain benefits from its business.

Full consolidation provides for line-by-line aggregation of the statement of financial position and income statement aggregates from the accounts of the subsidiaries. To this end, the following adjustments were made:

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

(b) the portion of equity and profit or loss for the year is shown in a specific caption.

The results of the above adjustments, if positive, are shown - after allocation to the assets or liabilities of the subsidiary - as goodwill in item "130 Intangible Assets" on the date of initial consolidation. The resulting differences, if negative, are recognised in the income statement. Intra-group balances and transactions, including income, costs and dividends, are entirely eliminated. The financial results of a subsidiary acquired during the financial year are included in the consolidated financial statements from the date of acquisition. At the same time, the financial results of a transferred subsidiary are included in the consolidated financial statements up to the date on which the subsidiary is transferred. The accounts used in the preparation of the consolidated financial statements are drafted on the same date. The consolidated financial statements were drafted using consistent accounting standards for similar transactions and events. If a subsidiary uses accounting standards different from those adopted in the consolidated financial statements for similar transactions and events in similar circumstances, adjustments are made to the financial position for consolidation purposes. Detailed information with reference to art. 89 of Directive 2013/36/EU of the European Parliament and Council (CRD IV) is published at the link www.bancasistema.it/pillar3.

Consolidation at equity

Associates are consolidated at equity.

The equity method provides for the initial recognition of the investment at cost and subsequent adjustment based on the relevant share of the investee's equity.

The differences between the value of the equity investment and the equity of the relevant investee are included in the carrying amount of the investee.

In the valuation of the relevant share, any potential voting rights are not taken into consideration.

The relevant share of the annual results of the investee is shown in a specific item of the consolidated income statement.

If there is evidence that an equity investment may be impaired, the recoverable value of said equity investment is estimated by considering the present value of future cash flows that the investment could generate, including the final disposal value of the investment.

Section 4 - Subsequent events

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

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

Section 5 – Other aspects

The consolidated financial statements were approved on 8 March 2024 by the Board of Directors, which authorised their disclosure to the public in accordance with IAS 10.

Audit of the financial statements

The separate and consolidated financial statements for the year ended 31 December 2023 have been audited by the independent auditors BDO Italia S.p.A. in accordance with Legislative Decree No. 39 of 27 January 2010 and in execution of the shareholders' resolution of 18 April 2019, which appointed them for the nine-year period 2019-2027.

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

Financial assets measured at fair value through profit or loss

Classification criteria

Financial assets other than those classified as Financial assets measured at fair value through other comprehensive income and Financial assets measured at amortised cost are classified in this category. In particular, this item includes:

- financial assets held for trading;
- equity instruments, except for the possibility of their being classified in the new category Financial assets measured at fair value through other comprehensive income, excluding the possibility of subsequent reclassification to profit or loss;
- financial assets mandatorily measured at fair value, and which have not met the requirements to be measured at amortised cost;
- financial assets that are not held under a Held to Collect (or "HTC") business model or as part of a mixed business model, whose aim is achieved by collecting the contractual cash flows of financial assets held in the Bank's portfolio or also through their sale, when this is an integral part of the strategy ("Held to Collect and Sell" business model);
- financial assets designated at fair value, i.e. financial assets that are defined as such upon initial recognition and when the conditions apply. For this type of financial assets, upon recognition an entity may irrevocably recognise a financial asset as measured at fair value through profit or loss only if this eliminates or significantly reduces a measurement inconsistency;
- derivative instruments, which shall be recognised as financial assets held for trading if their fair value is positive and as liabilities if their fair value is negative. Positive and negative values may be offset only for transactions executed with the same counterparty if the holder currently holds the right to offset the amounts recognised in the books and it is decided to settle the offset positions on a net basis. Derivatives also include those embedded in complex financial contracts – where the host contract is a financial liability which has been recognised separately.

Except for the equity instruments which cannot be reclassified, financial assets may be reclassified to other categories of financial assets only if the entity changes its own business model for management of the financial assets. In such cases, which are expected to be absolutely infrequent, the financial assets may be reclassified from those measured at fair value through profit or loss to one of the other two categories established by IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at fair value through other comprehensive income). The transfer value is the fair value at the time of the reclassification and the effects of the reclassification apply prospectively from the reclassification date. In this case, the effective interest rate of the reclassified financial asset is determined based on its fair value at the reclassification date and that date is considered as the initial recognition date for the credit risk stage assignment for impairment purposes.

Recognition criteria

Initial recognition of financial assets occurs at the settlement date for debt instruments and equity instruments, at the disbursement date for loans and at the subscription date for derivative contracts.

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

Measurement and recognition criteria for income components

After initial recognition, the financial assets measured at fair value through profit or loss are recognised at fair value. The effects of the application of this measurement criterion are recognised in the income statement. For the determination of the fair value of financial instruments quoted on active markets, market quotations are used. If the market for a financial instrument is not active, standard practice estimation methods and measurement techniques are used which consider all the risk factors correlated to the instruments and that are based on market elements such as: measurement of quoted instruments with the same characteristics, calculation of discounted cash flows, option pricing models, recent comparable transactions, etc.. For equity and derivative instruments that have equity instruments as underlying assets, which are not quoted on an active market, the cost approach is used as the estimate of fair value only on a residual basis and in a small number of circumstances, i.e., when all the measurement methods referred to above cannot be applied, or when there are a wide range of possible measurements of fair value, in which cost represents the most significant estimate.

In particular, this item includes:

- debt instruments held for trading;
- equity instruments held for trading.

For more details on the methods of calculating the fair value please refer to the paragraph below "Criteria for determining the fair value of financial instruments".

Derecognition criteria

Financial assets are derecognised when the contractual rights on the cash flows deriving from the assets expire, or in the case of a transfer, when the same entails the substantial transfer of all risks and rewards related to the financial assets.

Financial assets measured at fair value through other comprehensive income (FVOCI)

Classification criteria

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

- financial assets that are held under a business model whose aim is achieved both through the collection of contractual cash flows and through sale ("Held to Collect and Sell" business model);
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI Test" passed).

This item also includes equity instruments, not held for trading, for which the option was exercised upon initial recognition of their designation at fair value through other comprehensive income.

In particular, this item includes:

- debt instruments that can be attributed to a Held to Collect and Sell business model and that have passed the SPPI test;
- equity interests, that do not qualify as investments in subsidiaries, associates or joint ventures and are not held for trading, for which the option has been exercised of their designation at fair value through other comprehensive income.

Except for the equity instruments which cannot be reclassified, financial assets may be reclassified to other categories of financial assets only if the entity changes its own business model for management of the financial assets.

In such cases, which are expected to be absolutely infrequent, the financial assets may be reclassified from those measured at fair value through other comprehensive income to one of the other two categories established by IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at fair value through profit or loss). The transfer value is the fair value at the time of the reclassification and the effects of the reclassification apply prospectively from the reclassification date. In the event of reclassification from this category to the amortised cost category, the cumulative gain (loss) recognised in the valuation reserve is allocated as an adjustment to the fair value of the financial asset at the reclassification date. In the event of reclassification to the fair value through profit or loss category, the cumulative gain (loss) previously recognised in the valuation reserve is reclassified from equity to profit (loss).

Recognition criteria

Initial recognition of the financial assets is at the date of disbursement, based on their fair value including the transaction costs/income directly attributable to the acquisition of the financial instrument. Costs/income having the previously mentioned characteristics that will be repaid by the debtor or that can be considered as standard internal administrative costs are excluded.

The initial fair value of a financial instrument is usually the cost incurred for its acquisition.

Measurement and recognition criteria for income components.

Following initial recognition, financial assets are measured at their fair value with any gains or losses resulting from a change in the fair value compared to the amortised cost recognised in a specific equity reserve recognised in the statement of comprehensive income up until said financial asset is derecognised or an impairment loss is recognised.

For more details on the methods of calculating the fair value please refer to paragraph 17.3 below "Criteria for determining the fair value of financial instruments".

Equity instruments, for which the choice has been made to classify them in this category, are measured at fair value and the amounts recognised in other comprehensive income cannot be subsequently transferred to profit or loss, not even if they are sold (the so-called OCI exemption). The only component related to these equity instruments that is recognised through profit or loss is their dividends. Fair value is determined on the basis of the criteria already described for Financial assets measured at fair value through profit or loss.

For the equity instruments included in this category, which are not quoted on an active market, the cost approach is used as the estimate of fair value only on a residual basis and in a small number of circumstances, i.e., when all the measurement methods referred to above cannot be applied, or when there are a wide range of possible measurements of fair value, in which cost represents the most significant estimate.

Financial assets measured at fair value through other comprehensive income are subject to the verification of the significant increase in credit risk (impairment) required by IFRS 9, with the consequent recognition through profit or loss of an impairment loss to cover the expected losses.

Derecognition criteria

Financial assets are derecognised when the contractual rights on the cash flows deriving from the assets expire, or in the case of a transfer, when the same entails the substantial transfer of all risks and rewards related to the financial assets.

Financial assets measured at amortised cost

Classification criteria

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

- the financial asset is held under a business model whose objective is achieved through the collection of expected contractual cash flows (Held to Collect business model);
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (“SPPI Test” passed).

In particular, this item includes:

- loans and receivables with banks;
- loans and receivables with customers;
- debt instruments.

Except for the equity instruments which cannot be reclassified, financial assets may be reclassified to other categories of financial assets only if the entity changes its own business model for management of the financial assets. In such cases, which are expected to be absolutely infrequent, the financial assets may be reclassified from the amortised cost category to one of the other two categories established by IFRS 9 (Financial assets measured at fair value through other comprehensive income or Financial assets measured at fair value through profit or loss). The transfer value is the fair value at the time of the reclassification and the effects of the reclassification apply prospectively from the reclassification date. Gains and losses resulting from the difference between the amortised cost of a financial asset and its fair value are recognised through profit or loss in the event of reclassification to Financial assets measured at fair value through profit or loss and under equity, in the specific valuation reserve, in the event of reclassification to Financial assets measured at fair value through other comprehensive income.

Recognition criteria

Initial recognition of a receivable is at the date of disbursement based on its fair value including the costs/income of the transaction directly attributable to the acquisition of the receivable.

Costs/income having the previously mentioned characteristics that will be repaid by the debtor or that can be considered as standard internal administrative costs are excluded.

The initial fair value of a financial instrument is usually equivalent to the amount granted or the cost incurred by the acquisition.

Measurement and recognition criteria for income components

Following initial recognition, loans and receivables with customers are stated at amortised cost, equal to the initial recognition amount reduced/increased by principal repayments, by impairment losses/gains and the amortisation - calculated on the basis of the effective interest rate - of the difference between the amount provided and that repayable at maturity, usually the cost/income directly attributed to the individual loan.

The effective interest rate is the rate that discounts future payments estimated for the expected duration of the loan, in order to obtain the exact carrying amount at the time of initial recognition, which includes both the directly attributable transaction costs/income and all of the fees paid or received between the parties. This accounting method, based on financial logic, enables the economic effect of costs/income to be spread over the expected residual life of the receivable.

The measurement criteria are strictly connected with the stage to which the receivable is assigned, where stage 1 contains performing loans, stage 2 consists of under-performing loans, i.e. loans that have undergone a significant increase in credit risk (“significant deterioration”) since the initial recognition of the instrument, and stage 3 consists of non-performing loans, i.e. the loans that show objective evidence of impairment.

The impairment losses recognised through profit or loss for the performing loans classified in stage 1 are calculated by considering an expected loss at one year, while for the performing loans in stage 2 they are calculated by considering the expected losses over the entire residual contractual lifetime of the asset (Lifetime Expected Loss). The performing financial assets are measured according to probability of default (PD), loss given default (LGD) and exposure at default (EAD) parameters, derived from internal historical series. For impaired assets, the amount of the loss, to be recognised through profit or loss, is established based on individual measurement or determined according to uniform categories and, then, individually allocated to each position, and takes account of forward-looking information and possible alternative recovery scenarios. Impaired assets include financial instruments classified as bad exposures, unlikely-to-pay or past due/overdrawn by over ninety days according to the rules issued by the Bank of Italy, in line with the IFRS and EU Supervisory Regulations. The expected cash flows take into account the expected recovery times and the estimated realisable value of any guarantees. The original effective rate of each asset remains unchanged over time even if the relationship has been restructured with a variation of the contractual interest rate and even if the relationship, in practice, no longer bears contractual interest. If the reasons for impairment are no longer applicable following an event subsequent to the recognition of impairment, impairment gains are recognised in the income statement. The impairment gains may not in any case exceed the amortised cost that the financial instrument would have had in the absence of previous impairment losses. Impairment gains with time value effects are recognised in net interest income.

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

Derecognition criteria

Loans and receivables are derecognised from the financial statements when they are deemed totally unrecoverable or if transferred, when this entails the substantial transfer of all loan-related risks and rewards.

Hedging transactions

The “Hedging derivatives” portfolio consists of derivative instruments used to mitigate the market interest rate risk associated with the loan positions held by the Quinto Sistema Sec. 2019 S.r.l. vehicle.

The Group has elected to continue to apply the hedge accounting requirements of IAS39 to all hedging relationships.

Hedging derivatives are measured at fair value. Specifically, for fair value hedges, the change in fair value of the hedging instrument is recognised in the income statement under item "90. Net hedging income (expense)". Changes in the fair value of the hedged item that are attributable to the risk hedged by the derivative are recognised in the same income statement item as an offset to the change in the carrying amount of the hedged item. The ineffectiveness of the hedge is represented by the difference between the change in the fair value of the hedge instrument and the change in the fair value of the hedged item. If the hedging relationship is terminated for reasons other than the sale of the hedged item, the hedged item returns to being measured according to the measurement criterion set forth in the applicable accounting standard. If the hedged item is sold or redeemed, the portion of the fair value not yet amortised is recognised immediately under item “100. Gain (loss) from sales or repurchases” in the income statement.

If the hedging relationship is terminated for reasons other than the sale of the hedged items, the cumulative revaluation/devaluation recognised in "60. Value adjustment of macro-hedged financial assets (+/-) or "50. Value adjustment of macro-hedged financial liabilities (+/-)" under liabilities, is recognised in the income statement under item "10. Interest and similar income" or "20. Interest and similar expense”, over the remaining life of the hedged financial assets or liabilities. If these are sold or redeemed, the unamortised portion of the fair value is recognised immediately under item “100. Gain (loss) from sales or repurchases” in the income statement.

Equity investments

Classification criteria

This category includes equity investments in subsidiaries, associates, and joint ventures by Banca Sistema.

Recognition criteria

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

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

Measurement criteria

In the consolidated financial statements, equity investments in subsidiaries are consolidated using the full line-by-line method. Equity investments in associates and joint ventures are both measured at equity.

If there is evidence that an equity investment may be impaired, the recoverable value of said equity investment is estimated by considering the present value of future cash flows that the investment could generate, including the final disposal value of the investment.

Should the recoverable value prove lower than the carrying amount, the difference is recognised in the income statement under “250 Gains (losses) on equity investments”. The item also includes any future impairment gains where the reasons for the previous impairment losses no longer apply.

Derecognition criteria

Equity investments are derecognised from the financial statements when the contractual rights to cash flows deriving from the investment are lost or when the investment is transferred, with the substantial transfer of all related risks and rewards. Gains and losses on the sale of equity investments are charged to the income statement under the item “250 Gains (losses) on equity investments”; gains and losses on the sale of equity investments other than those measured at equity are charged to the income statement under the item “280 Gains (losses) on sales of investments”.

Property and equipment

Classification criteria

This item includes assets for permanent use, held to generate income, to be leased, or for administrative purposes, such as land, operating property, investment property, technical installations, furniture and fittings and equipment of any nature and works of art.

They also include leasehold improvements to third party assets if they can be separated from the assets in question. If the above costs do not display functional or usefulness-related autonomy, but future economic benefits are expected from them, they are recognised under "other assets" and are depreciated over the shorter period between that of expected usefulness of the improvements in question and the residual duration of the lease. Depreciation is recognised under "Other operating income (expense)".

Property and equipment also include payments on account for the purchase and renovation of assets not yet part of the production process and therefore not yet subject to depreciation.

"Operating" property and equipment are represented by assets held for the provision of services or for administrative purposes, while property and equipment held for "investment purposes" are those held to collect lease instalments and/or held for capital appreciation.

The item also includes rights of use associated with leased assets and fees for use.

Recognition criteria

Property and equipment are initially recognised at cost, including all costs directly attributable to installation of the asset.

Extraordinary maintenance costs and costs for improvements leading to actual improvement of the asset, or an increase in the future benefits generated by the asset, are attributed to the reference assets, and are depreciated based on their residual useful life.

Under IFRS 16, leases are accounted for in accordance with the right-of-use model, whereby, at the commencement date, the lessee incurs an obligation to make payments to the lessor for the right to use the underlying asset for the term of the lease. When the asset is made available for use by the lessee, the lessee recognises both the liability and the right-of-use asset.

Measurement criteria

Following initial recognition, "operating" property and equipment are recognised at cost, less accumulated depreciation, and any impairment losses, in line with the "cost model" illustrated in paragraph 30 of IAS 16. More specifically, property and equipment are systematically depreciated each year based on their estimated useful life, using the straight-line basis method apart from:

- land, regardless of whether this was purchased separately or was incorporated into the value of the building, which, insofar as it has an indefinite useful life, is not depreciated;
- works of art, which are not depreciated as their useful life cannot be estimated and their value typically appreciates over time;
- investment property which is recognised at fair value in accordance with IAS 40.

For assets acquired during the financial year, depreciation is calculated on a daily basis from the date of entry into use of the asset. For assets transferred and/or disposed of during the financial year, depreciation is calculated on a daily basis until the date of transfer and/or disposal.

At the end of each year, if there is any evidence that property or equipment that is not held for investment purposes may have suffered an impairment loss, a comparison is made between its carrying amount and its recoverable value, equal to the higher between the fair value, net of any costs to sell, and the related value in use of the asset, intended as the present value of future cash flows expected from the asset. Any impairment losses are recognised in the income statement under “net impairment losses on property and equipment”.

If the reasons that led to recognition of the impairment loss cease to apply, an impairment gain is recognised that may not exceed the value that the asset would have had, net of depreciation calculated in the absence of previous impairment losses.

For investment property, which comes within the scope of application of IAS 40, the measurement is made at the market value determined using independent surveys and the changes in fair value are recognised in the income statement under the item “fair value gains (losses) on property, equipment and intangible assets”.

The right-of-use asset, recognised in accordance with IFRS 16, is measured using the cost model under IAS 16 Property, plant and equipment. In this case, the asset is subsequently depreciated and tested for impairment if impairment indicators are present.

Derecognition criteria

Property and equipment is derecognised from the statement of financial position upon disposal thereof or when the asset is permanently withdrawn from use and no future economic benefit is expected from its disposal.

Intangible assets

Classification criteria

This item includes non-monetary assets without physical substance that satisfy the following requirements:

- they can be identified;
- they can be monitored;
- they generate future economic benefits.

In the absence of one of the above characteristics, the expense of acquiring or generating the asset internally is recognised as a cost in the year in which it was incurred.

Intangible assets include software to be used over several years and other identifiable assets generated by legal or contractual rights.

Goodwill is also included under this item, representing the positive difference between the acquisition cost and fair value of the assets and liabilities acquired as part of a business combination. Specifically, an intangible asset is recognised as goodwill when the positive difference between the fair value of the assets and liabilities acquired and the acquisition cost represents the future capacity of the equity investment to generate profit (goodwill). If this difference proves negative (badwill), or if the goodwill offers no justification of the capacity to generate future profit from the assets and liabilities acquired, it is recognised directly in the income statement.

Measurement criteria

Intangible assets are systematically amortised from the time of their input into the production process.

Under IAS 36, goodwill is not amortised, and an impairment test is conducted annually (or whenever there is evidence of impairment). For this purpose, goodwill is allocated to cash-generating units ("CGUs"), in compliance with limits on aggregation which may not be larger than the "business segment" identified for management reporting purposes. The amount of any impairment is determined based on the difference between the carrying amount of the CGU and its recoverable amount, being the higher of the fair value of the cash-generating unit, net of any costs to sell, and its value in use. As stated above, any consequent impairment losses are recognised in the income statement.

Derecognition criteria

An intangible asset is derecognised from the statement of financial position at the time of its disposal and if there are no expected future economic benefits.

Non-current assets held for sale and disposal groups

Non-current assets or groups of assets for which a disposal process has been initiated and whose sale is considered highly probable are classified under "Non-current assets held for sale and disposal groups". These assets are measured at the lower of their carrying amount and their fair value, net of disposal costs, with the exception of certain types of assets (e.g. financial assets falling within the scope of IFRS 9) for which IFRS 5 specifically requires that the measurement criteria of the relevant accounting standard be applied. Income and expenses (net of the tax effect) relating to groups of assets being disposed of or recognised as such during the year, are shown in the income statement as a separate item.

Financial liabilities measured at amortised cost

Classification criteria

This item includes Due to banks, Due to customers and Securities issued.

Recognition criteria

These financial liabilities are initially recognised when the deposits are received or when the debt instruments are issued. Initial recognition is based on the fair value of the liabilities, increased by the costs/income of the transaction directly attributable to the acquisition of the financial instrument.

Costs/income having the previously mentioned characteristics that will be repaid by the creditor or that can be considered as standard internal administrative costs are excluded.

The initial fair value of a financial liability is usually equivalent to the amount collected.

Measurement and recognition criteria for income components

After the initial recognition, the previously mentioned financial liabilities are measured at amortised cost with the effective interest rate method.

Derecognition criteria

The above financial liabilities are derecognised from the statement of financial position when they expire or when they are extinguished. They are derecognised also in the event of repurchase, even temporary, of the previously-issued securities. Any difference between the carrying amount of the extinguished liability and the amount paid is recognised in the income statement, under “Gain (loss) from sales or repurchases of:

financial liabilities". If the Group, subsequent to the repurchase, re-places its own securities on the market, said transaction is considered a new issue and the liability is recognised at the new placement price.

Financial liabilities held for trading

Classification and recognition criteria

In particular, this category of liabilities includes the liabilities originating from technical exposures deriving from security trading activities.

Financial instruments are recognised at the date of their subscription or issue at a value equal to their fair value, without including any transaction costs or income directly attributable to the instruments themselves.

Measurement and recognition criteria for income components

The financial instruments are measured at fair value with recognition of the measurement results in the income statement.

Derecognition criteria

Financial liabilities held for trading are derecognised when the contractual rights on the related cash flows expire or when the financial liability is sold with a substantial transfer of all risks and rewards related to the liabilities.

Financial liabilities designated at fair value through profit or loss

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

Current and deferred taxes

Income taxes, calculated in compliance with prevailing tax regulations, are recognised in the income statement on an accruals basis, in accordance with the recognition in the financial statements of the costs and income that generated them, apart from those referring to the items recognised directly in equity, where the recognition of the tax is made to equity in order to be consistent.

Income taxes are provided for on the basis of a prudential estimate of the current and deferred taxes. More specifically, deferred taxes are determined on the basis of the temporary differences between the carrying amount of assets and liabilities and their tax bases. Deferred tax assets are recognised in the financial statements to the extent that it is probable that they will be recovered based on the Bank's ability to continue to generate positive taxable income.

Deferred tax assets and liabilities are accounted for in the statement of financial position with open balances and without offsetting entries, recognising the former under "Tax assets" and the latter under "Tax liabilities".

With respect to current taxes, at the level of individual taxes, advances paid are offset against the relevant tax charge, indicating the net balance under "current tax assets" or "current tax liabilities" depending on whether it is positive or negative.

Provisions for risks and charges

In line with the requirements of IAS 37, provisions for risks and charges cover liabilities, the amount or timing of which is uncertain, related to current obligations (legal or implicit), owing to a past event for which it is likely that financial resources will be used to fulfil the obligation, on condition that an estimate of the amount required to fulfil said obligation can be made at the reporting date. Where the temporary deferral in sustaining the charge is significant, and therefore the extent of the discounting will be significant, provisions are discounted at current market rates.

The provisions are reviewed at the reporting date of the annual financial statements and the interim financial statements and adjusted to reflect the current best estimate. These are recognised under their own items in the income statement in accordance with a cost classification approach based on the "nature" of the cost. Provisions related to future charges for employed personnel relating to the bonus system appear under "personnel expense". The provisions that refer to risks and charges of a tax nature are reported as "income taxes", whereas the provisions connected to the risk of potential losses not directly chargeable to specific items in the income statement are recognised as "net accruals to provisions for risks and charges".

Other information

Post-employment benefits

According to the IFRIC, the post-employment benefits can be equated with a post-employment benefit of the "defined-benefit plan" type which, based on IAS 19, is to be calculated via actuarial methods. Consequentially, the end of the year measurement of the item in question is made based on the accrued benefits method using the Projected Unit Credit Method.

This method calls for the projection of the future payments based on historical, statistical, and probabilistic analysis, as well as in virtue of the adoption of appropriate demographic fundamentals. It allows the post-employment benefits vested at a certain date to be calculated actuarially, distributing the expense for all the years of estimated remaining employment of the existing workers, and no longer as an expense to be paid if the company ceases its activity on the reporting date.

The actuarial gains and losses, defined as the difference between the carrying amount of the liability and the present value of the obligation at year end, are recognised in equity.

An independent actuary assesses the post-employment benefits in compliance with the method indicated above.

Repurchase agreements

"Repurchase agreements" that oblige the party selling the relevant assets (for example securities) to repurchase them in the future and the "securities lending" transactions where the guarantee is represented by cash, are considered equivalent to swap transactions and, therefore, the amounts received and disbursed appear in the financial statements as payables and receivables. In particular, the previously mentioned "repurchase agreements" and "securities lending" transactions are recognised in the financial statements as payables for the spot price received, while those for investments are recognised as receivables for the spot price paid. Such transactions do not result in changes in the securities portfolio. Consistently, the cost of funds and the income from the investments, consisting of accrued dividends on the securities and of the difference between the spot price and the forward price thereof, are recognised for the accrual period under interest in the income statement.

Other assets and liabilities

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

Treasury shares

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

Recognition of revenues and costs

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

For revenue recognition purposes, the standard requires:

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

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

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

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

Dividends

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

Criteria for determining the fair value of financial instruments

Fair value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants", at a specific measurement date, excluding forced transactions. Underlying the definition of fair value is a presumption that a company is a going concern without any intention or need to liquidate, to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

In the case of financial instruments quoted in active markets, the fair value is determined based on the deal pricing (official price or other equivalent price on the last stock market trading day of the financial year of reference) of the most advantageous market to which the Group has access. For this purpose, a financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

In the absence of an active market, the fair value is determined using measurement techniques generally accepted in financial practice, aimed at establishing what price the financial instrument would have had, on the valuation date, in a free exchange between knowledgeable and willing parties. Such measurement techniques require, in the hierarchical order in which they are presented, the use:

1. of the most recent NAV (Net Asset Value) published by the management investment company for the harmonised funds (UCITS - Undertakings for Collective Investment in Transferable Securities), the Hedge Funds and the SICAVs;
2. of the recent transaction prices observable in the markets;
3. of the price indications deducible from infoproviders (e.g., Bloomberg, Reuters);
4. of the fair value obtained from measurement models (for example, Discounting Cash Flow Analysis, Option Pricing Models) that estimate all the possible factors that influence the fair value of a financial instrument (cost of money, credit exposure, liquidity risk, volatility, foreign exchange rates, prepayment rates, etc.) based on data observable in the market, also with regards to similar instruments on the measurement date. If market data cannot be referenced for one or more risk factors, metrics internally determined on a historical-statistical basis are used. The measurement models are subject to periodic review to guarantee complete and constant reliability;
5. of the price indications provided by the counterparty issuer adjusted if necessary to take into account the counterparty and/or liquidity risk (for example, the price resolved on by the Board of Directors and/or the Shareholders for the shares of unlisted cooperative banks, the unit value communicated by the management investment company for the closed-end funds reserved to institutional investors or for other types of OEICs other than those cited in paragraph 1, the redemption value calculated in compliance with the issue regulation for the insurance contracts);
6. for the equity-linked instruments, where the measurement techniques pursuant to the previous paragraphs are not applicable: i) the value resulting from independent surveys if available; ii) the

value corresponding to the portion of equity held resulting from the company's most recently approved financial statements; iii) the cost, adjusted if necessary to take into account significant reductions in value, where the fair value cannot be reliably determined.

Based on the foregoing considerations and in compliance with the IFRS, the Group classifies the measurements at fair value based on a hierarchy of levels that reflects the significance of the inputs used in the measurements. The following levels are noted:

- Level 1 - prices (without adjustments) reported on an active market: the measurements of the financial instruments quoted on an active market based on quotations that can be understood from the market;
- Level 2 - the measurement is not based on prices of the same financial instrument subject to measurement, but on prices or credit spreads obtained from the official prices of essentially similar instruments in terms of risk factors, by using a given calculation method (pricing model). The use of this approach translates to the search for transactions present on active markets, relating to instruments that, in terms of risk factors, are comparable with the instrument subject to measurement. The calculation methods (pricing models) used in the comparable approach make it possible to reproduce the prices of financial instruments quoted on active markets (model calibration) without including discretionary parameters - i.e. parameters whose value cannot be obtained from the prices of financial instruments present on active markets or cannot be fixed at levels as such to replicate prices present on active markets - which may influence the final valuation price in a decisive manner.
- Level 3 - inputs that are not based on observable market data: the measurements of financial instruments not quoted on an active market, based on measurement techniques that use significant inputs that are not observable on the market, involving the adoption of estimates and assumptions by management (prices supplied by the issuing counterparty, taken from independent surveys, prices corresponding to the fraction of the equity held in the company or obtained using measurement models that do not use market data to estimate significant factors that condition the fair value of the financial instrument). This level includes measurements of financial instruments at cost price.

Business combinations

A business combination is the bringing together of separate entities or businesses into one reporting entity. A business combination may give rise to an investment relationship between the parent (acquirer) and the subsidiary (acquiree). A business combination may also involve the purchase of the net assets, including any goodwill, of another entity rather than the purchase of the equity of the other entity (mergers and contributions). Based on the provisions of IFRS 3, business combinations must be accounted for by applying the purchase method, which comprises the following phases:

- identification of the acquirer;
- measurement of the cost of the business combination;

- allocation, at the acquisition date, of the cost of the business combination to the assets acquired and liabilities and contingent liabilities assumed.

More specifically, the cost of a business combination must be determined as the total fair value, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, in exchange for control of the acquiree, and all costs directly attributable to the business combination.

The acquisition date is the date on which control of the acquiree is effectively obtained. When this is achieved through a single exchange transaction, the date of exchange coincides with the acquisition date.

If the business combination is carried out through several exchange transactions

- the cost of the combination is the aggregate cost of the individual transactions
- the date of exchange is the date of each exchange transaction (i.e. the date that each individual investment is recognised in the financial statements of the acquirer), whereas the acquisition date is the date on which control of the acquiree is obtained.

The cost of a business combination is allocated by recognising the acquiree's identifiable assets, liabilities and contingent liabilities at their fair values at the acquisition date.

The acquiree's identifiable assets, liabilities and contingent liabilities are recognised separately at the acquisition date only if they satisfy the following criteria at that date:

- in the case of an asset other than an intangible asset, it is probable that any associated future economic benefits will flow to the acquirer, and its fair value can be measured reliably;
- in the case of a liability other than a contingent liability, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and its fair value can be measured reliably;
- in the case of an intangible asset or a contingent liability, its fair value can be measured reliably.

The positive difference between the cost of the business combination and the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities must be accounted for as goodwill.

After the initial recognition, the goodwill acquired in a business combination is measured at the relevant cost and is submitted to an impairment test at least once a year.

If the difference is negative, a new measurement is made. This negative difference, if confirmed, is recognised immediately as income in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

A.3 - DISCLOSURE ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

A.3.1 Reclassified financial assets: change in business model, carrying amount and interest income

No financial instruments were transferred between portfolios.

A.3.2 Reclassified financial assets: change in business model, fair value and effects on comprehensive income

No financial assets were reclassified.

A.3.3 Reclassified financial assets: change in business model and effective interest rate

No financial assets held for trading were transferred.

A.4 - FAIR VALUE DISCLOSURE

Qualitative disclosure

A.4.1 Fair value levels 2 and 3: valuation techniques and inputs used

Please refer to the accounting policies.

A.4.2 Processes and sensitivity of measurements

The carrying amount of financial assets and liabilities due within one year has been assumed to be a reasonable approximation of fair value, while for those due beyond one year, the fair value is calculated taking into account both interest rate risk and credit risk.

A.4.3 Fair value hierarchy

The following fair value hierarchy was used in order to prepare the financial statements:

Level 1- Effective market quotes

The valuation is the market price of said financial instrument subject to valuation, obtained on the basis of quotes expressed by an active market.

Level 2 - Comparable Approach

Level 3 - Mark-to-Model Approach

A.4.4 Other Information

The item is not applicable for the Group.

Quantitative disclosure

A.4.5 Fair value hierarchy

A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: breakdown by fair value level.

Financial assets/liabilities measured at fair value	31.12.2023			31.12.2022		
	L1	L 2	L 3	L1	L 2	L 3
1. Financial assets measured at fair value through profit or loss						
a) financial assets held for trading						
b) financial assets designated at fair value through profit or loss						
c) other financial assets mandatorily measured at fair value through profit or loss						
2. Financial assets measured at fair value through other comprehensive income	571,002		5,000	553,384		5,000
3. Hedging derivatives						
4. Property and equipment						
5. Intangible assets						
Total	**571,002**		**5,000**	**553,384**		**5,000**
1. Financial liabilities held for trading						
2. Financial liabilities designated at fair value through profit or loss						
3. Hedging derivatives		3,646				
Total		**3,646**				

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

A.4.5.4 Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: breakdown by fair value level

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis	31.12.2023				31.12.2022			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets measured at amortised cost	3,396,281	55,705		3,340,576	3,530,678	672,384		2,862,559
2. Investment property								
3. Non-current assets held for sale and disposal groups								
Total	**3,396,281**	**55,705**		**3,340,576**	**3,530,678**	**672,384**		**2,862,559**
1. Financial liabilities measured at amortised cost	4,042,105			4,042,105	3,916,974			3,916,974
2. Liabilities associated with disposal groups								
Total	**4,042,105**			**4,042,105**	**3,916,974**			**3,916,974**

Key:

CA = carrying amount

L1 = Level 1

L2 = Level 2

L3 = Level 3

A.5 DISCLOSURE CONCERNING "DAY ONE PROFIT/LOSS"

Nothing to report.

PART B - INFORMATION ON THE STATEMENT OF FINANCIAL POSITION

ASSETS

Section 1 - Cash and cash equivalents – Item 10

1.1 Cash and cash equivalents: breakdown

	31.12.2023	31.12.2022
a) Cash	1,586	1,667
b) current accounts and demand deposits with Central Banks	199,773	66,133
c) Current and deposit accounts with banks	49,137	58,789
Total	**250,496**	**126,589**

Section 3 - Financial assets measured at fair value through other comprehensive income - Item 30

3.1 Financial assets measured at fair value through other comprehensive income: breakdown by product

	31.12.2023			31.12.2022		
	L1	L2	L3	L1	L2	L3
1. Debt instruments	**570,729**			**553,046**		
1.1 Structured instruments						
1.2 Other debt instruments	570,729			553,046		
2. Equity instruments	**273**		**5,000**	**338**		**5,000**
3. Financing						
Total	**571,002**		**5,000**	**553,384**		**5,000**

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

3.2 Financial assets measured at fair value through other comprehensive income: breakdown by debtor/issuer

	31.12.2023	31.12.2022
1. Debt instruments	**570,729**	**553,046**
a) Central Banks		
b) General governments	570,729	553,046
c) Banks		
d) Other financial corporations		
of which: insurance companies		
e) Non-financial corporations		
2. Equity instruments	**5,273**	**5,338**
a) Banks	5,000	5,000
b) Other issuers:	273	338
- other financial corporations	273	338
of which: insurance companies		
- non-financial corporations		
- other		
4. Financing		
a) Central Banks		
b) General governments		
c) Banks		
d) Other financial corporations		
of which: insurance companies		
e) Non-financial corporations		
f) Households		
Total	**576,002**	**558,384**

3.3 Financial assets measured at fair value through other comprehensive income: gross amount and total impairment losses

	Gross amount					Total impairment losses				Overall partial write-offs (*)
	First stage	of which instruments with low credit risk	Second stage	Third stage	Purchased or originated credit-impaired	First stage	Second stage	Third stage	Purchased or originated credit-impaired	
Debt securities	570,874	570,874				145				
Financing										
Total 31.12.2023	**570,874**	**570,874**				**145**				
Total 31.12.2022	**553,368**	**553,368**				**322**				

Section 4 - Financial assets measured at amortised cost - Item 40

4.1 Financial assets measured at amortised cost: breakdown by product of the loans and receivables with banks

	31.12.2023						31.12.2022					
	Carrying amount			Fair value			Carrying amount			Fair value		
	First and second stage	Third stage	of which: purchased or originated credit-impaired	L1	L2	L3	First and second stage	Third stage	of which: purchased or originated credit-impaired	L1	L2	L3
A. Loans and receivables with Central Banks	**4**					**4**	**17,617**					**17,617**
1. Term deposits				X	X	X				X	X	X
2. Minimum reserve				X	X	X	16,308			X	X	X
3. Reverse repurchase agreements				X	X	X				X	X	X
4. Other	4			X	X	X	1,309			X	X	X
B. Loans and receivables with banks	**921**	**1**				**791**	**17,289**	**11**				**17,300**
1. Financing	**921**	**1**				**791**	**17,289**	**11**				**17,300**
1.1 Current accounts and demand deposits				X	X	X				X	X	X
1.2. Term deposits				X	X	X	15,000			X	X	X
1.3. Other financing:	921	1		X	X	X	2,289	11		X	X	X
- Reverse repurchase agreements				X	X	X				X	X	X
- Finance leases				X	X	X				X	X	X
- Other	921	1		X	X	X	2,289	11		X	X	X
2. Debt instruments												
2.1 Structured instruments												
2.2 Other debt instruments												
Total	**925**	**1**				**795**	**34,906**	**11**				**34,917**

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

4.2 Financial assets measured at amortised cost: breakdown by product of the loans and receivables with customers

	31.12.2023						31.12.2022					
	Carrying amount			Fair value			Carrying amount			Fair value		
	First and second stage	Third stage	Purchased or originated credit-impaired	L1	L2	L3	First and second stage	Third stage	Purchased or originated credit-impaired	L1	L2	L3
Financing	**3,102,498**	**231,665**	**87**			**3,454,340**	**2,591,634**	**223,005**	**84**			**2,916,532**
1.1. Current accounts	551	45		X	X	X	319	153		X	X	X
1.2. Reverse repurchase agreements				X	X	X				X	X	X
1.3. Loans	263,917	23,349		X	X	X	195,790	1,966		X	X	X
1.4. Credit cards, personal loans and salary- and pension-backed	767,070	13,714		X	X	X	899,411	15,411		X	X	X
1.5. Finance leases				X	X	X				X	X	X
1.6. Factoring	1,618,022	180,916	87	X	X	X	1,083,395	190,501	84	X	X	X
1.7. Other financing	452,938	13,641		X	X	X	412,719	14,974		X	X	X
Debt instruments	**61,105**			**55,705**	**1,608**		**681,038**			**672,384**		
1.1. Structured instruments												
1.2. Other debt instruments	61,105			55,705	1,608		681,038			672,384		
Total	**3,163,603**	**231,665**	**87**	**55,705**	**1,608**	**3,454,340**	**3,272,672**	**223,005**	**84**	**672,384**		**2,916,532**

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

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

	31.12.2023			31.12.2022		
	First and second stage	Third stage	Purchased or originated credit-impaired	First and second stage	Third stage	Purchased or originated credit-impaired
1. Debt securities	61,105			681,032		
a) General governments	61,105			681,032		
b) Other financial corporations						
of which: insurance companies						
c) Non-financial corporations						
2. Financing to:	3,102,497	231,666	87	2,591,640	223,005	84
a) General governments	1,608,826	161,822	87	1,024,613	172,132	84
b) Other financial corporations	9,736	2,083		78,653	2,225	
of which: insurance companies	105	2,082		457,290	2,223	
c) Non-financial corporations	565,133	52,255		457,290	31,264	
d) Households	918,802	15,506		1,031,084	17,384	
Total	**3,163,602**	**231,666**	**87**	**3,272,672**	**223,005**	**84**

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

	Gross amount					Total impairment losses				Overall partial write-offs (*)
	First stage		Second stage	Third stage	Purchased or originated credit-impaired	First stage	Second stage	Third stage	Purchased or originated credit-impaired	
		of which instruments with low credit risk								
Debt securities	61,125	61,125				20				
Financing	3,018,772	1,525,472	90,908	297,027	88	5,564	695	65,360		
Total 31.12.2023	**3,079,897**	**1,586,597**	**90,908**	**297,027**	**88**	**5,584**	**695**	**65,360**	**-**	**-**
Total 31.12.2022	**3,201,639**	**1,635,040**	**112,795**	**284,744**	**84**	**4,863**	**1,993**	**61,728**		

4.4a Loans measured at amortised cost subject to Covid-19 support measures: gross amount and total impairment losses

	Gross amount					Total impairment losses				Overall partial write-offs (*)
	First stage		Second stage	Third stage	Purchased or originated credit-impaired	First stage	Second stage	Third stage	Purchased or originated credit-impaired	
		of which instruments with low credit risk								
1. Forborne loans in compliance with the EBA Guidelines										
2. Loans subject to existing moratoria no longer in compliance with the EBA Guidelines and not considered forborne										
3. Loans subject to other forbearance measures										
4. New loans	86,031			21,458		241		428		
Total 31.12.2023	86,031			21,458		241		428		
Total 31.12.2022	151,034		2,537	761		364	1,273	48		

Section 6 – Changes in fair value of portfolio hedged items – item 60

6.1 Changes in fair value of portfolio hedged items: detail by hedged portfolios

Fair value change of hedged assets / Amount	31.12.2023	31.12.2022
1. Positive fair value change	3,651	
1.1 of specific portfolios:		
a) financial assets measured at amortised cost		
b) financial assets measured at fair value through other comprehensive income		
1.2 overall	3,651	
2. Negative fair value change		
2.1 of specific portfolios:		
a) financial assets measured at amortised cost		
b) financial assets measured at fair value through other comprehensive income		
2.2 overall		
Total	**3,651**	

Section 7 - Equity investments - item 70

7.1 Equity investments: information on investment relationships

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

7.2 Not significant equity investments: book value

	Book value 31.12.2023	Bokk value 31.12.2022
B. Joint ventures		
EBNSistema Finance Sl	995	970

7.3 Significant equity investments: accounting information

	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total income	Net interest income	Net impairment gains and losses on property and equipment/intangible assets	Pre-tax profit (loss) from continuing operations	Post-tax profit (loss) from continuing operations	Post-tax profit (loss) from discontinued operations	Profit (loss) for the year	Other comprehensive income (expense), net of income tax	Comprehensive income (expense)
ılled companies														
Holdings Ltd														
sto Servizi e Sviluppo S.r.l.			35,832	20,441	394	2,316	(211)	(943)	258	196		196		196
al S.p.A.	5,944	121,350	38,761	112,559	9,889	22,708	7,455	(1,397)	5,259	3,582		3,582		3,577
ıo Greece	178	94	1,292	1,190	865	32	(20)	(263)	(653)	(653)		(653)		(653)
l.	587		462	65	681	927		(25)	(40)	(44)		(44)		(44)

7.4 Non-significant equity investments: accounting information

	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total income	Net interest income	Net impairment gains and losses on property and equipment/intangible assets	Pre-tax profit (loss) from continuing operations	Post-tax profit (loss) from continuing operations	Post-tax profit (loss) from discontinued operations	Profit (loss) for the year	Other comprehensive income (expense), net of income tax	Comprehensive income (expense)
es														
MA FINANCE S.L.	7,661	66	29		5,758	756	601		66	50		50		50

7.5 Equity investments: changes

	31.12.2023	31.12.2022
A. Opening balance	**970**	**1,002**
B. Increases	**25**	
B.1 Purchases		
B.2 Impairment gains		
B.3 Revaluations		
B.4 Other increases	25	
C. Decreases		**32**
C.1 Sales		
C.2 Impairment losses		
C.3 Write-offs		
C.4 Other decreases		32
D. Closing balance	**995**	**970**
E. Total revaluations		
F. Total impairment losses		

The increase relates to the pro-quota result for year of EBN Sistema Finance.

Section 9 – Property and equipment – Item 90

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

	31.12.2023	31.12.2022
1 Owned	**36,252**	**37,217**
a) land	10,897	10,897
b) buildings	23,707	24,512
c) furniture	611	576
d) electronic equipment	1,037	1,232
e) other	-	-
2 Right-of-use assets acquired under finance lease	**4,407**	**6,157**
a) land	-	-
b) buildings	2,212	4,254
c) furniture	-	-
d) electronic equipment	-	-
e) other	2,195	1,903
Total	**40,659**	**43,374**
of which: obtained from the enforcement of guarantees received	-	-

Property and equipment are recognised in the financial statements in accordance with the general acquisition cost criteria, including the related charges and any other expenses incurred to place the assets in conditions useful for the Bank, in addition to indirect costs for the portion reasonably attributable to assets that refer to the costs incurred, as at the end of the year.

Depreciation rates:

- Office furniture: 12%
- Furnishings: 15%
- Electronic machinery and miscellaneous equipment: 20%
- Assets less than Euro 516: 100%

9.6 Operating assets: changes

	Land	Buildings	Furniture	Electronic equipment	Other	Total
A. Gross opening balances			**161,072**	**50,568**	**2,823,370**	**3,035,010**
A.1 Total net impairment losses						-
A.2 Net opening balances	**-**	**-**	**161,072**	**50,568**	**2,823,370**	**3,035,010**
B. Increases:						
B.1 Purchases						-
B.2 Capitalised improvement costs						-
B.3 Impairment gains						-
B.4 Fair value gains recognised in						-
a) equity						-
b) profit or loss						-
B.5 Exchange rate gains						-
B.6 Transfers from investment property			X	X	X	-
B.7 Other increases						-
B.8 Business combination transactions						-
C. Decreases:						
C.1 Sales						-
C.2 Depreciation						-
C.3 Impairment losses recognised in						-
a) equity						-
b) profit or loss						-
C.4 Fair value losses recognised in						-
a) equity						-
b) profit or loss						-
C.5 Exchange rate losses						-
C.6 Transfers to:						-
a) investment property			X	X	X	-
b) non-current assets held for sale and disposal groups						-
C.7 Other decreases						-
C.8 Business combination transactions						-
D. Net closing balance	**-**	**-**	**161,072**	**50,568**	**2,823,370**	**3,035,010**
D.1 Total net impairment losses	-	-	-	-	-	-
D.2 Gross closing balance	**-**	**-**	**161,072**	**50,568**	**2,823,370**	**3,035,010**
E. Measurement at cost						-

Section 10 – Intangible assets – Item 100

10.1 Intangible assets: breakdown by type of asset

	31.12.2023		31.12.2022	
	Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life
A.1 Goodwill		**33,526**	**x**	**33,526**
A.2 Other intangible assets	**1,924**		**990**	
of which software	440		456	
A.2.1 Assets measured at cost:	1,924		990	
a) Internally developed assets	150		161	
b) Other	1,774		829	
A.2.2 Assets measured at fair value:				
a) Internally developed assets				
b) Other				
Total	**1,924**	**33,526**	**990**	**33,526**

The other intangible assets are recognised at purchase cost including related costs, and are systematically amortised over a period of 5 years. The item mainly refers to software.

Intangible assets refer to goodwill of € 33.5 million, broken down as follows:

- the goodwill originating from the merger of the former subsidiary Solvi S.r.l. which took place in 2013 amounting to € 1.8 million;
- the goodwill generated by the acquisition of Atlantide S.p.A. on 3 April 2019 amounting to € 2.1 million;
- the goodwill amounting to € 28.4 million arising from the acquisition of the former Intesa Sanpaolo collateralised lending business unit completed on 13 July 2020;
- provisional goodwill of € 1.2 million, resulting from the acquisition of ArtRite which was completed on 2 November 2022.

Goodwill impairment tests were conducted by referring to the respective “Values in use" which are based on an estimate of expected cash flows for the period 2024-2026, using the excess capital method of the Dividend Discount Model. Regarding the first explicit year, the 2023 budgets were used, while for the following years it was based on estimated inertial growth. The CGU identified for the goodwill of the former Solvi and Atlantide is the Bank, while Kruso Kapital and Art-Rite respectively as a whole have been identified for the goodwill of the former Intesa Sanpaolo business unit.

The main parameters used for estimation purposes were as follows:

	Banca Sistema and Kruso Kapital CGU	**Art-Rite CGU**
Risk Free Rate	4.38%	4.38%
Equity Risk Premium	5.6%	5.6%
Beta	1.25	1.07
Cost of equity	11.4%	10.39%
Growth rate “g”	1.9%	1.9%

The estimated values in use obtained based on the parameters used and the growth assumptions are, for all goodwill amounts, higher than the respective equity amounts at 31 December 2023. Furthermore, considering that the value in use was determined via estimates and assumptions that may introduce elements of uncertainty, sensitivity analyses - as required by IFRS - were performed with the purpose of verifying the variations of the results previously obtained as a function of the basic assumptions and parameters.

In particular, the quantitative exercise was completed by a stress test of the parameters related to the growth rate and the discount rate of the expected cash flows (quantified in an isolated or simultaneous movement of 25 bps), that confirmed the absence of impairment indicators, confirming a value in use greater than the carrying amount of goodwill in the financial statements.

Considering all the above, the conditions necessary to recognise an impairment loss on the goodwill carrying amounts in the financial statements at 31 December 2023 do not exist.

10.2 Intangible assets: changes

	Goodwill	Other intangible assets: internally developed		Other intangible assets: other		Total
		FIN	INDEF	FIN	INDEF	
A. Opening balance	**33,526**			**4,678**		**38,204**
A.1 Total net impairment losses				3,688		3,688
A.2 Net opening balances	**33,526**	**-**	**-**	**990**	**-**	**34,516**
B. Increases				**2,130**		**598**
B.1 Purchases				1,532		
B.2 Increases in internally developed assets	X					
B.3 Impairment gains	X					
B.4 Fair value gains recognised in:						
- equity	X					
- profit or loss	X					
B.5 Exchange rate gains						
B.6 Other increases						
B.7 Business combination transactions				598		598
C. Decreases				**598**		**598**
C.1 Sales						
C.2 Impairment losses				598		598
- Amortisation	X			598		598
- Impairment losses:						
- equity	X					
- profit or loss						
C.3 Fair value losses recognised in:						
- equity	X					
- profit or loss	X					
C.4 Transfers to disposal groups						
C.5 Exchange rate losses						
C.6 Other decreases						
C.7 Business combination transactions				-		-
D. Net closing balance	**33,526**	**-**	**-**	**7,768**	**-**	**41,294**
D.1 Total net impairment losses	-	-	-	598	-	598
E. Gross closing balance	**33,526**			**8,366**		**41,892**
F. Measurement at cost	**33,526**			**1,924**		**35,450**

Key

Fin: finite useful life

Indef: indefinite useful life

Section 11 – Tax assets and tax liabilities – Item 110 of assets and Item 60 of liabilities

Below is the breakdown of the current tax assets and current tax liabilities

	31.12.2023	31.12.2022
Current tax assets	**8,772**	**11,055**
IRES prepayments	6,197	8,321
IRAP prepayments	2,338	2,470
Other	237	264
Current tax liabilities	**(2,090)**	**(9,155)**
Provision for IRES	859	(5,931)
Provision for IRAP	(2,394)	(2,520)
Provision for substitute tax	(555)	(704)
Total	**6,682**	**1,900**

11.1 Deferred tax assets: breakdown

	31.12.2023	31.12.2022
Deferred tax assets through profit or loss:	**9,973**	**9,980**
Impairment losses on loans	**1,163**	**1,733**
Non-recurring transactions	315	348
Other	8,495	7,899
Deferred tax assets through equity:	**8,098**	**12,745**
Non-recurring transactions	180	200
HTCS securities	6,109	12,483
Other	1,809	62
Total	**18,072**	**22,725**

11.2 Deferred tax liabilities: breakdown

	31.12.2023	31.12.2022
Deferred tax liabilities through profit or loss:	**24,361**	**16,787**
Uncollected default interest income	21,526	15,493
Other	2,834	1,294
Deferred tax liabilities through equity:	**-**	**-**
HTCS securities		
Total	**24,361**	**16,787**

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

	31.12.2023	31.12.2022
1. Opening balance	**9,980**	**9,799**
2. Increases	**3,185**	**3,307**
2.1 Deferred tax assets recognised in the year	3,185	3,283
a) related to previous years		
b) due to changes in accounting policies		
c) impairment gains		
d) other	3,185	3,283
e) business combination transactions		
2.2 New taxes or tax rate increases		
2.3 Other increases		24
3. Decreases	**3,194**	**3,126**
3.1 Deferred tax assets derecognised in the year	3,194	3,126
a) reversals		
b) impairment due to non-recoverability		
c) changes in accounting policies		
d) other	3,194	3,126
3.2 Tax rate reductions		
3.3 Other decreases		
a) conversion into tax assets pursuant to Law 214/2011		
b) other		
4. Closing balance	**9,971**	**9,980**

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

	31.12.2023	31.12.2022
1. Opening balance	**2,281**	**2,596**
2. Increases		
3. Decreases	**623**	**315**
3.1 Reversals		
3.2 Conversions into tax assets	-	-
a) arising on loss for the year		
b) arising on tax losses		
3.3 Other decreases	623	315
4. Closing balance	**1,658**	**2,281**

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

	31.12.2023	31.12.2022
1. Opening balance	**16,787**	**14,944**
2. Increases	**7,573**	**1,843**
2.1 Deferred tax liabilities recognised in the year	7,573	1,843
a) related to previous years		
b) due to changes in accounting policies		
c) other	7,573	1,843
2.2 New taxes or tax rate increases		
2.3 Other increases		
3. Decreases	**-**	**-**
3.1 Deferred tax liabilities derecognised in the year	-	-
a) reversals		
b) due to changes in accounting policies		
c) other		
3.2 Tax rate reductions		
3.3 Other decreases		
4. Closing balance	**24,360**	**16,787**

11.6 Change in deferred tax assets (through equity)

	31.12.2023	31.12.2022
1. Opening balance	**12,745**	**1,771**
2. Increases	**7,865**	**12,483**
2.1 Deferred tax assets recognised in the year	7,865	12,483
a) related to previous years		
b) due to changes in accounting policies		
c) other	7,865	12,483
2.2 New taxes or tax rate increases		
2.3 Other increases		
3. Decreases	**12,512**	**1,507**
3.1 Deferred tax assets derecognised in the year	12,512	1,461
a) reversals		
b) impairment due to non-recoverability		
c) due to changes in accounting policies		
d) other	12,512	1,461
3.2 Tax rate reductions		
3.3 Other decreases		46
4. Closing balance	**8,099**	**12,747**

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

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

	31.12.2023	31.12.2022
A. Non-current assets held for sale		
Total A		
B. Discontinued operations		
B.3 Financial assets measured at amortised cost	64	40
B.7 Other assets		
Total B	**64**	**40**
of which measured at cost		1
of which Fair value level 1	64	40
C. Liabilities associated with non current assets held for sale		
Total C		
D. Liabilities associated with discontinued operations		
D.5 Other	37	13
Total D	**37**	**13**
of which measured at cost	37	13

Section 13 - Other assets - Item 130

13.1 Other assets: breakdown

	31.12.2023	31.12.2022
Ecobonus 110% tax assets	216,765	54,914
Tax advances	7,352	7,562
Work in progress	5,127	4,749
Prepayments not related to a specific item	7,785	4,730
Trade receivables	1,439	878
Adavance to third parties	1,335	1,413
Other	914	920
Leasehold improvements	2,689	2,631
Security deposits	187	192
Total	**243,593**	**77,989**

LIABILITIES

Section 1 - Financial liabilities measured at amortised cost - Item 10

1.1 Financial liabilities measured at amortised cost: breakdown by product of due to banks

	31.12.2023				31.12.2022			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Due to Central banks	**556,012**	**X**	**X**	**X**	**537,883**	**X**	**X**	**X**
2. Due to banks	**88,251**	**X**	**X**	**X**	**84,983**	**X**	**X**	**X**
2.1 Current accounts and demand deposits	1,476	X	X	X	2,336	X	X	X
2.2 Term deposits	78,342	X	X	X	65,084	X	X	X
2.3 Financing	8,433	X	X	X		X	X	X
2.3.1 Repurchase agreements		X	X	X		X	X	X
2.3.2 Other	8,433	X	X	X		X	X	X
2.4 Commitments to repurchase own equity instruments		X	X	X		X	X	X
2.5 Lease liabilities		X	X	X		X	X	X
2.6 Other payables		X	X	X	936	X	X	X
Total	**644,263**			**644,263**	**622,866**			**622,866**

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

1.2 Financial liabilities measured at amortised cost: breakdown by product of due to customers

	31.12.2023				31.12.2022			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	704,579	X	X	X	639,184	X	X	X
2. Term deposits	2,401,941	X	X	X	1,431,435	X	X	X
3. Financing	120,625	X	X	X	978,636	X	X	X
3.1 Repurchase agreements		X	X	X	865,878	X	X	X
3.2 Other	120,625	X	X	X	112,758	X	X	X
4. Commitments to repurchase own equity instruments		X	X	X		X	X	X
5. Lease liabilities		X	X	X		X	X	X
6. Other payables	5,622	X	X	X	6,955	X	X	X
Total	**3,232,767**			**3,232,767**	**3,056,210**			**3,056,210**

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

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

	31.12.2023				31.12.2022			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. bonds	**165,075**			**165,075**	**237,899**			**237,899**
1.1 structured								
1.2 other	165,075			165,075	237,899			237,899
2. other securities								
2.1 structured								
2.2 other								
Total	**165,075**			**165,075**	**237,899**			**237,899**

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

The item includes subordinated securities relating to the senior shares of the ABS in the Quinto Sistema Sec. 2019 and BS IVA securitisations subscribed by third-party institutional investors.

SECTION 4 - HEDGING DERIVATIVES

4.1 Hedging derivatives: breakdown by type of hedge and level

	Fair value 31.12.2023			NV 31.12.2023	Fair value 31.12.2022			NV 31.12.2022
	L1	L2	L3		L1	L2	L3	
		3646						
A) Financial derivateves		**3,646**						
1) Fair value		**3,646**						
2) Cash flows								
3) Foreign investments								
B. Credit derivatives								
1) Fair value								
2) Cash flows								
Total		**3,646**						

4.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge

	Fair value							Cash flows		
	Specific						Generic	Specific	Generic	Foreign investments
	debt securities and interest rates	equities and stock indices	foreign exchange rates and gold	credit risk	commodities	Others				
1. Financial assets available for sale					X	X	X		X	X
2. Loans		X			X	X	X		X	X
3. Portfolio	X	X	X	X	X	X	3,646	X		X
4. Other transactions							X		X	
Total assets							**3,646**			
1. Financial liabilities		X					X		X	X
2. Portfolio	X	X	X	X	X	X		X		X
Total liabilities										
1. Forecast transactions	X	X	X	X	X	X	X		X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	X		X		

Section 6 – Tax liabilities – Item 60

The breakdown as well as the change in the deferred tax liabilities were illustrated in Part B Section 11 of assets in these notes to the financial statements.

Section 8 - Other Liabilities - Item 80

8.1 Other liabilities: breakdown

	31.12.2023	31.12.2022
Payments received in the reconciliation phase	110,583	103,512
Accrued expenses	20,273	18,814
Work in progress	25,525	19,311
Trade payables	8,620	7,482
Tax liabilities with the Tax Authority and other tax authorities	10,893	9,194
Finance lease liabilities	4,117	5,776
Due to employees	820	1,868
Pension repayments	1,071	939
Total	**181,902**	**166,896**

Section 9 - Post-employment benefits - Item 90

9.1 Post-employment benefits: changes

	31.12.2023	31.12.2022
A. Opening balance	**4,107**	**4,311**
B. Increases	**303**	**1,127**
B.1 Accruals	258	1,121
B.2 Other increases	45	
B.3 Business combination transactions		6
C. Decreases	**414**	**1,331**
C.1 Payments	224	297
C.2 Other decreases	190	1,034
D. Closing balance	**3,996**	**4,107**

9.2 Other Information

The actuarial amount of post-employment benefits was calculated by an external actuary, who issued an appraisal.

The other decreases refer to the actuarial gain accounted for during the year. The payments made refer to post-employment benefits paid during the year.

The technical valuations were conducted on the basis of the assumptions described in the following table:

Annual discount rate	3.17%
Annual inflation rate	2.00%

Annual post-employment benefits increase rate 3.00%

Annual real salary increase rate 3.17%

The discount rate used for determining the present value of the obligation was calculated, pursuant to IAS 19.83, from the Iboxx Corporate AA index with 10+ duration during the valuation month. To this end, a choice was made to select the yield with a duration comparable to the duration of the set of workers subject to valuation.

SECTION 10 – Provisions for risks and charges - Item 100

10.1 Provisions for risks and charges: breakdown

	31.12.2023	31.12.2022
1. Provisions for credit risk related to commitments and financial guarantees issued	59	24
2. Provisions for other commitments and other guarantees issued	-	-
3. Internal pension funds	-	-
4. Other provisions for risks and charges	37,777	36,468
4.1 legal and tax disputes	15,718	12,818
4.2 personnel expense	5,475	5,411
4.3 other	16,584	18,239
Total	**37,836**	**36,492**

10.2 Provisions for risks and charges: changes

	Provisions for other commitments and other guarantees issued	Pension funds	Other provisions for risks and charges	Total
A. Opening balance	**24**	**-**	**36,468**	**36,492**
B. Increases	**35**	**-**	**11,761**	**11,796**
B.1 Accruals			10,863	10,863
B.2 Discounting				-
B.3 Changes due to discount rate changes				-
B.4 Other increases	35		898	933
C. Decreases	**-**	**-**	**10,452**	**10,452**
C.1 Utilisations	-	-	10,297	10,297
C.2 Changes due to discount rate changes	-	-	-	-
C.3 Other decreases	-	-	155	155
D. Closing balance	**59**	**-**	**37,777**	**37,836**

10.3 Provisions for credit risk related to commitments and financial guarantees issued

	Provisions for credit risk related to commitments and financial guarantees issued			
	First stage	Second stage	Third stage	Total
Commitments to disburse funds				-
Financial guarantees issued	59,157			59,157
Total	**59,157**	**-**	**-**	**59,157**

10.5 Internal defined benefit pension funds

Nothing to report.

10.6 Provisions for risks and charges - other provisions

	31.12.2023	31.12.2022
Legal and tax disputes	15,718	12,818
Personnel expense	5,475	5,411
Other	16,584	18,239
Total	**37,777**	**36,468**

SECTION 13 – Equity attributable to the owners of the Parent– Items 120, 130, 140, 150, 160, 170 and 180

13.1 "Share capital" and "Treasury shares": breakdown

The share capital of Banca Sistema is composed of 80,421,052 ordinary shares, for a total paid-in share capital of € 9,650,526.24. All outstanding shares have regular dividend entitlement from 1 January.

Based on evidence from Consob's website shown below, at the end of the financial year the shareholders with stakes of more than 5%, the threshold above which Italian law (art. 120 of the Consolidated Law on Finance) requires disclosure to the investee and Consob, were as follows:

Person at the top of the chain of ownership	Shareholder	No. of shares	% of the ordinary shares	% of the voting capital
Gianluca Garbi	SGBS Srl	18.578.900	23,1%	22,5%
	Garbifin Srl	409.453	0,5%	0,5%
	Fondazione Cassa di Risparmio di Cuneo	4.030.000	5,0%	4,9%
	Fondazione Cassa di Risparmio di Alessandria	5.950.000	7,4%	7,2%
	Fondazione Sicilia	5.950.104	7,4%	7,2%
	Chandler	6.013.000	7,5%	7,3%
	Treasury shares	168.004	0,2%	0,2%
	Market	39.321.591	48,9%	50,2%
TOTAL SHARES		**80.421.052**	**100,0%**	**100,0%**

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

	Amount 31.12.2023	Amount 31.12.2022
1. Share capital	9,651	9,651
2. Share premium	39,100	39,100
3. Reserves	168,667	155,037
4. Equity instruments	45,500	45,500
5. (Treasury shares)	(355)	(559)
6. Valuation reserves	(12,353)	(24,891)
7. Equity attributable to non-controlling interests	10,633	10,024
8. Profit	16,506	22,034
Total	**277,349**	**255,896**

The Parent, Banca Sistema, holds a total of 168,004 treasury shares corresponding to 0.209% of the share capital valued at € 355 thousand.

13.2 Share capital - Parent's number of shares: changes

	Ordinary	Other
A. Opening balance	**80,140,133**	**-**
- fully paid-in		-
- not fully paid-in	-	-
A.1 Treasury shares (-)		-
A.2 Outstanding shares: opening balance	**80,140,133**	**-**
B. Increases	**112,915**	**-**
B.1 New issues	-	
- against consideration:	-	
- business combination transactions	-	
- conversion of bonds	-	
- exercise of warrants	-	
- other	-	
- bond issues:	-	
- to employees	-	
- to directors		
- other		
B.2 Sale of treasury shares	112,915	
B.3 Other increases		
C. Decreases	**-**	
C.1 Cancellation		
C.2 Repurchase of treasury shares		
C.3 Disposal of equity investments		
C.4 Other decreases		
D. Outstanding shares: closing balance	**80,253,048**	**-**
D.1 Treasury shares (+)		
D.2 Closing balance	-	
- fully paid-in		
- not fully paid-in		

13.4 Income-related reserves: other information

In compliance with art. 2427(7 bis) of the Italian Civil Code, below is the detail of the equity items revealing the origin and possibility of use and distributability.

	Valore al 31.12.2023	Possible use	Available portion
A) Share capital	9,651		
B) Equity-related reserves:	39,100		
Share premium reserve	39,100	A,B,C	
Reserve to provide for losses		-	
C) Income-related reserves:	157,194		
Legal reserve	1,930	B	
Valuation reserve	(12,353)	-	
Negative goodwill	1,774	A,B,C	
Retained earnings	165,457	A,B,C	
Reserve for treasury shares	386		
Reserve for future capital increase			
D) Other reserves	(880)		
E) Equity instruments	45,500		
F) Treasury shares	(355)		
Total	**250,210**		
Profit for the year	16,506		
Total equity	**266,716**		
Undistributable portion			
Distributable portion			

Key:

A: for share capital increase

B: to cover losses

C: for distribution to shareholders

13.5 Equity instruments: breakdown and changes

	Issuer	Type of issue	Coupon	Maturity date	Nominal amount	IFRS amount
Tier 1 Capital	Banca Sistema S.p.A.	Tier 1 subordinated loans with mixed rate: ISIN IT0004881444	From 18 June 2023, 6-month Euribor +5% variable rate	Perpetual	8,000	8,018
Tier 1 Capital	Banca Sistema S.p.A.	Subordinated ordinary loans (Tier 1): ISIN IT0005450876	Fixed rate at 9% until 25 June 2031	Perpetual	37,500	37,558
Total					**45,500**	**45,576**

Therefore, the characteristics of bonds issued at 31 December 2023, which given their predominant characteristics are classified under equity instruments in item 140 of equity, are as follows:

- AT1 subordinated loan of € 8 million, with no maturity (perpetual basis) and a variable coupon starting from 19 June 2023, issued on 18 December 2012 and 18 December 2013 (reopening date);
- AT1 subordinated loan of € 37.5 million, with no maturity (perpetual basis) and a fixed coupon until 25 June 2031 at 9% issued on 25 June 2021.

Section 14 - Equity attributable to non-controlling interests - Item 190

14.1 Breakdown of item 210 "Equity attributable to non-controlling interests"

	31.12.2023	31.12.2022
Equity investments in consolidated companies with significant non-controlling interests		
1. Kruso Kapital S.p.A.	10,901	10,084
2. ProntoPegno Greece	(254)	(91)
3. Art-Rite S.r.l.	(45)	-
4. Quinto Sistema 2019 S.r.l.	12	12
5. Quinto Sistema 2017 S.r.l.	9	9
6. BS IVA S.r.l.	10	10
Total	**10,633**	**10,024**

Other information

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

	Nominal amount of commitments and financial guarantees issued					
	First stage	Second stage	Third stage	Purchased or originated credit-impaired	31.12.2023	31.12.2022
Commitments to disburse funds	**913,081**		**38,444**		**951,526**	**950,932**
a) Central Banks						
b) General governments	493,573		22,722		516,295	282,952
c) Banks						
d) Other financial corporations	254,651				254,651	450,899
e) Non-financial corporations	164,112		15,714		179,827	216,342
f) Households	745		8		753	739
Financial guarantees issued	**26,880**		**3,269**		**30,149**	**9,707**
a) Central Banks						
b) General governments	60				60	60
c) Banks	2,446				2,446	2,446
d) Other financial corporations	9,162				9,162	122
e) Non-financial corporations	15,170		3,269		18,439	7,027
f) Households	42				42	52

3. Assets pledged as collateral for liabilities and commitments

	Amount	
	31.12.2023	31.12.2022
1. Financial assets measured at fair value through profit or loss		
2. Financial assets measured at fair value through other comprehensive income		553,046
3. Financial assets measured at amortised cost	203,032	540,472
4. Property and equipment		
of which: Property and equipment included among inventories		

5. Management and trading on behalf of third parties

Type of services	Amount
1. Execution of orders on behalf of customers	
a) purchases	
1. settled	
2. unsettled	
b) sales	
1. settled	
2. unsettled	
2. Individual asset management	
3. Securities custody and administration	**1,112,845**
a) third-party securities held as part of depositary bank services (excluding asset management)	
1. securities issued by the reporting entity	
2. other securities	
b) third-party securities on deposit (excluding asset management): other	49,956
1. securities issued by the reporting entity	3,769
2. other securities	46,187
c) third-party securities deposited with third parties	49,956
d) securities owned by the bank deposited with third parties	1,062,889
4. Other transactions	

PART C - INFORMATION ON THE INCOME STATEMENT

Section 1 – Interest - Items 10 and 20

1.1 Interest and similar income: breakdown

Items/Technical forms	Debt instruments	Financing	Other transactions	2023	2022
1. Financial assets measured at fair value through profit or loss:	194	19		213	94
1.1 Financial assets held for trading	104	19		123	17
1.2 Financial assets designated at fair value through profit or loss					
1.3 Other financial assets mandatorily measured at fair value through profit or loss	90			90	77
2. Financial assets measured at fair value through other comprehensive income	1,670		X	1,670	723
3. Financial assets measured at amortised cost:	22,576	149,980		172,557	98,915
3.1 Loans and receivables with banks		15,215	X	15,215	363
3.2 Loans and receivables with customers	22,576	134,765	X	157,342	98,552
4. Hedging derivatives	X	X	188	188	
5. Other assets	X	X	3,806	3,806	2
6. Financial liabilities	X	X	X		2,212
Total	**24,440**	**149,999**	**3,994**	**178,434**	**101,946**
of which: interest income on impaired assets					
of which: interest income on finance leases	X		X		

The total contribution of the Factoring Division to interest income was € 111 million, equal to 78% of the entire loans and receivables portfolio, to which the commission component associated with the factoring business and the revenue generated by the assignment of receivables from the factoring portfolio need to be added.

Subsequent to their recognition, factoring receivables are measured at amortised cost, based on the present value of the estimated cash flows of the principal, or for all receivables whose recovery strategy involves legal action, based on the present value of the cash flows, in addition to the principal, of the default interest component that will accrue up to the expected date of collection on amounts considered recoverable. As a matter of prudence, given the limited amount of historical data available, the recovery percentages used for territorial entities and the public sector (statistical series starting from 2008) are based on a confidence interval of the twentieth percentile, while for ASL - local health authorities (statistical series starting from 2005) a confidence interval of the fifth percentile is used. The estimated recovery percentages and expected collection dates are updated based on annual analyses in light of the progressive consolidation of the historical data series, which provide increasingly solid and robust estimates. In the third quarter of the current financial year, the expected rates of recovery of default interest on factoring, based on the statistical evidence that benefits from the progressive consolidation of the historical data series, were increased, as have the related collection times used. The combined update of these estimates led to an increase in interest income of € 1.2 million (positive and equal to € 1.6 million at 31 December 2022). This effect is a consequence of the fact that the historical series over the last few years have settled nearer to the average collection percentages and have stabilised in terms of the number of positions. As a result, the expected recovery percentage calculated by the statistical model is now quite stable and does not fluctuate significantly. Furthermore, following the increases in the policy rates (ECB) in 2022, which led to an increase in the "Legislative Decree No. 231 of 9 October 2002" rate (implementing decree of the European legislation on late payments) from 8% to 10.5% between 01/01/2023 and 30/06/2023, to 12% between 01/07/2023 and 31/12/2023, and to 12.5% from 01/01/2024, the expected recovery value increased by € 6.4 million. Lastly, the Bank decided to start including the € 40 component of compensation claims pursuant to Article 6 of Legislative Decree 231/02, in the calculation of cash flows when accounting for loans under the amortised cost method, in the same way as default interest, with an impact of € 3.7 million.

1.3 Interest and similar expense: breakdown

Items/Technical forms	Liabilities	Securities	Other transactions	2023	2022
1. Financial liabilities measured at amortised cost	104,240	7,239		111,479	16,476
1.1 Due to Central banks	18,129	X		18,129	
1.2 Due to banks	7,228	X		7,228	677
1.3 Due to customers	78,883	X		78,883	13,558
1.4 Securities issued	X	7,239		7,239	2,241
2. Financial liabilities held for trading					
3. Financial liabilities designated at fair value through profit or loss					
4. Other liabilities and provisions	X	X			37
5. Hedging derivatives	X	X			
6. Financial assets	X	X	X		5
Total	**104,240**	**7,239**		**111,479**	**16,518**
of which: interest expense related to lease liabilities		X	X		

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

2.1 Fee and commission income: breakdown

	2023	2022
a) Financial instruments	144	137
1. Placement of securities	85	86
1.1 Underwritten and/or on a firm commitment basis	85	86
1.2 Without a firm commitment basis		
2. Order collection and transmission, and execution of orders on behalf of customers	46	40
2.1 Order collection and transmission for one or more financial instruments	46	40
2.2 Execution of orders on behalf of customers		
3. Other fees associated with activities related to financial instruments	13	11
of which: dealing on own account		
of which: individual asset management	13	11
b) Corporate Finance		
c) Investment advisory activities		
d) Clearing and settlement		
e) Custody and administration		
f) Central administrative services for collective asset management		
g) Fiduciary activities		
h) Payment services	109	141
1. Current accounts	35	74
2. Credit cards		
3. Debit and other payment cards	27	22
4. Bank transfers and other payment orders		
5. Other fees related to payment services	47	45
i) Distribution of third party services	1,439	2
2. Insurance products	11	2
j) Structured finance		
k) Servicing of securitisations		
l) Commitments to disburse funds		
m) Financial guarantees issued	127	37
n) Financing transactions	23,880	11,996
o) Foreign currency transactions		
p) Commodities		
q) Other fee and commission income	10,841	19,269
Total	**36,540**	**31,582**

Item q) Other fee and commission income is detailed in the following table and consists of fees and commissions arising from collateral-backed loans, origination fees on salary- and pension-backed loan (CQ) products, as well as fees and commissions from servicing of third-party factoring transactions.

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

Channels/Amounts	31.12.2023	31.12.2022
a) at its branches:	**109**	**99**
1. asset management	13	11
2. placement of securities	85	86
3. third-party services and products	11	2
b) off-premises:		
1. asset management		
2. placement of securities		
3. third-party services and products		
c) other distribution channels:		
1. asset management		
2. placement of securities		
3. third-party services and products		

2.3 Fee and commission expense: breakdown

Services/Amounts	2023	2022
a) Financial instruments	71	72
of which: trading in financial instruments	71	72
of which: placement of financial instruments		
of which: individual asset management		
- Proprietary		
- Delegated to third parties		
b) Clearing and settlement	49	
c) Custody and administration		
d) Collection and payment services	250	302
of which: credit cards, debit cards and other payment cards		216
e) Servicing of securitisations		
f) Commitments to receive funds		
g) Financial guarantees received	1,575	1,032
of which: credit derivatives		
h) Off-premises distribution of securities, products and services	14,830	13,383
i) Foreign currency transactions		
j) Other fee and commission expense	119	79
Total	**16,894**	**14,868**

Section 3 – Dividends and similar income – item 70

3.1 Dividends and similar income: breakdown

Items/Income	2023		2022	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading				
B. Other financial assets mandatorily measured at fair value through profit or loss				
C. Financial assets measured at fair value through other comprehensive income	227		227	
D. Equity investments				
Total	**227**		**227**	

Section 4 – Net trading income (expense) – Item 80

4.1 Net trading income (expense): breakdown

	Gains (A)	Trading income (B)	Losses (C)	Trading losses (D)	Net trading income (expense) [(A+B) - (C+D)]
1. Financial assets held for trading	**1,654**	**1,456**		**(338)**	**2,772**
1.1 Debt instruments				(338)	(338)
1.2 Equity instruments					
1.3 OEIC units					
1.4 Financing					
1.5 Other	1,654	1,456			3,110
2. Financial liabilities held for trading					
2.1 Debt instruments					
2.2 Payables					
2.3 Other					
3. Other financial assets and liabilities: exchange rate gains (losses)	X	X	X	X	
4. Derivatives					
4.1 Financial derivatives:					
- On debt instruments and interest rates					
- On equity instruments and equity indexes					
- On currencies and gold	X	X	X	X	
- Other					
4.2 Credit derivatives					
of which: natural hedges connected to the fair value option	X	X	X	X	
Total	**1,654**	**1,456**		**(338)**	**2,772**

Section 6 - Gain from sales or repurchases - Item 100

6.1 Gain from sales or repurchases: breakdown

	2023			2022		
	Gain	Loss	Net gain	Gain	Loss	Net gain
A. Financial assets						
1. Financial assets measured at amortised cost:	12,608		12,608	3,990		3,990
1.1 Loans and receivables with banks						
1.2 Loans and receivables with customers	12,608		12,608	3,990		3,990
2. Financial assets measured at fair value through other comprehensive income	1,318		1,318	3,292	(2,205)	1,087
2.1 Debt instruments	1,318		1,318	3,292	(2,205)	1,087
2.4 Financing						
Total assets (A)	**13,926**		**13,926**	**7,282**	**(2,205)**	**5,077**
B. Financial liabilities measured at amortised cost						
1. Due to banks						
2. Due to customers						
3. Securities issued						
Total liabilities						

Section 8 - Net impairment losses/gains due to credit risk - Item 130

8.1 Net impairment losses due to credit risk related to financial assets measured at amortised cost: breakdown

	Impairment losses (1)						Impairment gains (2)				2023	2022
	First stage	Second stage	Third stage		Purchased or originated credit-impaired		First stage	Second stage	Third stage	Purchased or originated credit-impaired		
			Write-offs	Other	Write-offs	Other						
A. Loans and receivables with banks	**(23)**										**(23)**	**46**
- financing	(23)										(23)	46
- debt instruments											-	
B. Loans and receivables with customers:	**(363)**		**(32)**	**(5,397)**			**890**			**175**	**(4,727)**	**(8,405)**
- financing	(363)		(32)	(5,397)			890			175	(4,727)	(8,110)
- debt instruments											-	(295)
C. Total	**(386)**		**(32)**	**(5,397)**			**890**			**175**	**(4,750)**	**(8,359)**

8.1a Net impairment losses due to credit risk related to loans measured at amortised cost subject to Covid-19 support measures: breakdown

	Net impairment losses						2023	2022
	First stage	Second stage	Third stage		Purchased or originated			
			write-offs	Other	write-offs	Other		
1. Forborne loans in compliance with the EBA Guidelines								(46)
2. Loans subject to existing moratoria no longer in compliance with the EBA Guidelines and not considered forborne								
3. Loans subject to other forbearance measures								
4. New loans	(37)	1		382			346	(19)
Total	**(37)**	**1**		**382**			**346**	**(65)**

8.2 Net impairment losses due to credit risk related to financial assets measured at fair value through other comprehensive income: breakdown

	Impairment losses (1)						Impairment gains (2)					
	First stage	Second stage	Third stage		Purchased or originated credit-impaired		First stage	Second stage	Third stage	Purchased or originated credit-impaired	2023	2022
			Write-offs	Other	Write-offs	Other						
A. Debt instruments							**177**				**(177)**	**(143)**
B. Financing												
- To customers											-	
- To banks											-	
Total							**177**				**(177)**	**(143)**

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

9.1 Gains (losses) from contract amendments: breakdown

Voci/Valori	2023	2022
9.1 Gains (losses) from contract amendments: breakdown	(1)	-

Section 12 – Administrative expenses – Item 190

12.1 Personnel expense: breakdown

	2023	2022
1) Employees	27,854	24,853
a) wages and salaries	16,987	16,551
b) social security charges	4,718	4,464
c) post-employment benefits		
d) pension costs		
e) accrual for post-employment benefits	1,199	1,082
f) accrual for pension and similar provisions:	-	-
- defined contribution plans		
- defined benefit plans		
g) payments to external supplementary pension funds:	346	301
- defined contribution plans	346	301
- defined benefit plans		
h) costs of share-based payment plans		
i) other employee benefits	4,604	2,455
2) Other personnel	438	488
3) Directors and statutory auditors	1,570	1,486
4) Retired personnel		
5) Recovery of costs for employees of the Bank seconded to other entities	(46)	
6) Reimbursement of costs for employees of other entities seconded to the Bank	46	
Total	**29,862**	**26,827**

12.2 Average number of employees by category

Employees

a) Senior managers	25
b) Middle managers (Q4 – Q3)	65
c) Remaining employees	200

12.5 Other administrative expenses: breakdown

Other administrative expenses	2023	2022
Consultancy	7,051	5,822
IT expenses	7,275	5,908
Servicing and collection activities	1,972	2,206
Indirect taxes and duties	3,252	3,591
Insurance	1,256	1,342
Other	1,052	973
Expenses related to management of the SPVs	590	764
Outsourcing and consultancy expenses	725	396
Car hire and related fees	763	691
Advertising and communications	2,785	1,430
Expenses related to property management and logistics	2,641	2,785
Personnel-related expenses	93	71
Entertainment and expense reimbursement	733	671
Infoprovider expenses	871	624
Membership fees	343	321
Audit fees	382	411
Telephone and postage expenses	527	478
Stationery and printing	96	183
Total operating expenses	**32,407**	**28,667**
Resolution Fund	1,568	1,920
Extraordinary non recurring expenses	936	-
Total	**34,911**	**30,587**

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

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

	2023	2022
Net accruals for commitments and guarantees	(35)	15
Total	**(35)**	**15**

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

	2023	2022
Provisions for risks and charges - other provisions and risks	(3,136)	(4,476)
Release of provisions for risks and charges		
Total	**(3,136)**	**(4,476)**

Section 14 – Net impairment losses on property and equipment – Item 210

14.1 Net impairment losses on property and equipment: breakdown

	Depreciation (a)	Impairment losses (b)	Impairment gains (c)	Carrying amount (a + b - c)
A. Property and equipment				
1. Operating assets	2,683			2,683
- owned	1,214			1,214
- right-of-use assets acquired under a lease	1,469			1,469
2. Investment property				
- owned				-
- right-of-use assets acquired under a lease				-
3. Inventories				
Total	**2,683**			**2,683**

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

15.1 Net impairment losses on intangible assets: breakdown

	Depreciation (a)	Impairment losses (b)	Impairment gains (c)	Net gain Carrying amount (a + b - c)
A. Intangible assets				
of which: software				
A.1 Owned	598			598
- Developed internally				
- Other	598			
A.2 Right-of-use assets acquired under a l				
Total	**598**			**598**

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

16.1 Other operating expense: breakdown

	2023	2022
Amortisation of leasehold improvements	(646)	(456)
Other operating expense	(4,665)	(2,676)
Total	**(5,311)**	**(3,132)**

16.2 Other operating income: breakdown

	2023	2022
Recoveries of expenses on current accounts and deposits for sundry taxes	969	1,099
Recoveries of sundry expenses	59	23
Other income	2,256	2,657
Total	**3,284**	**3,779**

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

17.1 Gains (losses) on equity investments: breakdown

	2023	2022
A. Income	**25**	
1. Revaluations		
2. Gains on sale		
3. Impairment gains		
4. Other income	25	
B. Expense		**(31)**
1. Write-offs		
2. Impairment losses		
3. Losses on sale		
4. Other expense		(31)
Net gain	**25**	**(31)**

Section 21 – Income taxes – Item 300

21.1 Income taxes: breakdown

	2023	2022
1. Current taxes (-)	(894)	(8,569)
2. Changes in current taxes of previous years (+/-)		
3. Decrease in current taxes for the year (+)		
3bis. Decrease in current taxes for the year due to tax assets pursuant to Law no. 214/2011 (+)		
4. Changes in deferred tax assets (+/-)	(35)	(247)
5. Changes in deferred tax liabilities (+/-)	(7,573)	(1,843)
6. Tax expense for the year (-) (-1+/-2+3+/-4+/-5)	(8,502)	(10,659)

21.2 Reconciliation between theoretical and effective tax expense

IRES (CORPORATE INCOME TAX)	Taxable income	IRES (CORPORATE INCOME TAX)	%
Theoretical IRES expense	**26,109**	**(7,180)**	**27.50%**
Permanent increases	985	(271)	1.04%
Temporary increases	10,280	(2,827)	10.83%
Permanent decreases	(8,795)	2,419	-9.26%
Temporary decreases	(33,465)	9,203	-35.25%
Effective IRES expense	**(4,887)**	**1,344**	**-5.15%**
IRAP (REGIONAL BUSINESS TAX)	**-**	**-**	**0.00%**
Theoretical IRAP expense	26,109	(1,454)	5.57%
Permanent increases	79,774	(4,443)	17.02%
Temporary increases	6,932	(386)	1.48%
Permanent decreases	(73,191)	4,077	-15.61%
Temporary decreases	(1,652)	92	-0.35%
Effective IRAP expense	**37,972**	**(2,115)**	**8.10%**
- Other tax expense	-	(7,668)	29.37%
Total effective IRES and IRAP expense	**-**	**(8,439)**	**32.32%**

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

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

	2023	2022
1. Income		
2. Expense		(23)
3. Result of the measurement of the group of assets and associated liabilities		
4. Gains (losses) on sales		
5. Taxes and duties		
Gain (loss)	**-**	**(23)**

Section 23 - Profit (loss) attributable to non-controlling interests - Item 340

	2023	2022
Equity investments in consolidated companies with significant non-controlling	**721**	**456**
1.Kruso Kapital S.p.A.	896	581
2. ProntoPegno Greece	(163)	(91)
3.Art-Rite Srl	(11)	(34)
Other investments	-	-
Total	**721**	**456**

Section 24 - Other Information

Nothing to report.

Section 25 – Earnings per share

Earnings per share (EPS)	2023	2022
Profit for the year (thousands of Euro)	16,506	22,034
Average number of outstanding shares	80,216,544	80,113,775
Basic earnings per share (basic EPS) (in Euro)	0.206	0.275
Diluted earnings per share (diluted EPS) (in Euro)	0.206	0.275

EPS is calculated by dividing the profit attributable to holders of ordinary shares of Banca Sistema (numerator) by the weighted average number of ordinary shares (denominator) outstanding during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PART D – OTHER COMPREHENSIVE INCOME

BREAKDOWN OF COMPREHENSIVE INCOME

		31.12.2023	31.12.2022
10.	**Profit (loss) for the year**	**16,506**	**22,034**
	Items, net of tax, that will not be reclassified subsequently to profit or loss	**-**	**-**
20.	Equity instruments designated at fair value through other comprehensive income:	-	-
30.	Financial liabilities designated at fair value through profit or loss (changes in own credit rating):	-	-
40.	Hedging of equity instruments designated at fair value through other comprehensive income:	-	-
50.	Property and equipment		
60.	Intangible assets		
70.	Defined benefit plans	(185)	399
80.	Non-current assets held for sale		
90.	Share of valuation reserves of equity-accounted investments		
100.	Income taxes on items that will not be reclassified subsequently to profit or loss		
	Items, net of tax, that will be reclassified subsequently to profit or loss	-	-
110.	Hedges of foreign investments:	-	-
120.	Exchange rate gains (losses):	-	-
130.	Cash flow hedges:	-	-
140.	Hedging instruments (non-designated elements):	-	-
150.	Financial assets (other than equity instruments) measured at fair value through other comprehensive income:	12,723	(22,223)
	a) fair value gains (losses)	12,900	(23,461)
	b) reclassification to profit or loss	-	-
	- impairment losses due to credit risk	(177)	142
	- gains/losses on sales	-	1,096
	c) other changes	-	-
160.	Non-current assets held for sale and disposal groups:	-	-
170.	Share of valuation reserves of equity-accounted investments:	-	-
180.	Income taxes on items that will be reclassified subsequently to profit or loss		
190.	**Total other comprehensive income (expense)**	**12,538**	**(21,824)**
200.	**Comprehensive income (expense) (10+190)**	**29,044**	**210**

PART E - INFORMATION CONCERNING RISKS AND RELATED HEDGING POLICIES

SECTION 1 – CONSOLIDATION RISKS

Quantitative disclosure

A. Credit quality

A.1 Impaired and unimpaired loans: carrying amounts, impairment losses, performance and business breakdown

A.1.1 Breakdown of financial assets by portfolio and by credit quality (carrying amounts)

	Bad exposures	Unlikely to pay	Non-performing past due exposures	Performing past due exposures	Other performing exposures	Total
1. Financial assets measured at amortised cost	124,647	44,091	63,017	359,465	2,805,061	3,396,281
2. Financial assets measured at fair value through other comprehensive income					570,728	570,728
3. Financial assets designated at fair value through profit or loss						
4. Other financial assets mandatorily measured at fair value through profit or loss						
5. Financial assets held for sale						
Total 31.12.2023	**124,647**	**44,091**	**63,017**	**359,465**	**3,375,789**	**3,967,009**
Total 31.12.2022	**123,290**	**19,248**	**80,562**	**317,982**	**3,542,641**	**4,083,723**

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

	Non-performing				Performing			Total (carrying amount)
	Gross amount	Total impairment losses	Net exposure	overall partial write-offs (*)	Gross amount	Total impairment losses	Net exposure	
1. Financial assets measured at amortised cost	297,116	65,360	231,756		3,170,450	33,385	3,164,525	3,396,281
2. Financial assets measured at fair value through other comprehensive income					570,873	145	570,728	570,728
3. Financial assets designated at fair value through profit or loss								
4. Other financial assets mandatorily measured at fair value through profit or loss								
5. Financial assets held for sale								
Total 31.12.2023	**297,116**	**65,360**	**231,756**		**3,741,323**	**33,530**	**3,735,253**	**3,967,009**
Total 31.12.2022	**284,829**	**61,728**	**223,101**		**3,867,800**	**7,178**	**3,860,622**	**4,083,723**

B. Disclosure of structured entities (other than securitisation companies)

B.1 Consolidated structured entities

No such items existed at the reporting date.

B.2. Unconsolidated structured entities

No such items existed at the reporting date.

B.2.1. Prudentially consolidated structured entities

No such items existed at the reporting date.

B.2.2. Other structured entities

No such items existed at the reporting date.

SECTION 2 – PRUDENTIAL CONSOLIDATION RISKS

1.1 Credit risk

Qualitative disclosure

1. General aspects

In order to manage the significant risks to which it is or could be exposed, the Banca Sistema Group has set up a risk management system that reflects the characteristics, size and complexity of its operations.

In particular, this system hinges on four core principles:

- suitable supervision by relevant bank bodies and departments;
- satisfactory risk management policies and procedures;
- suitable methods and instruments to identify, monitor and manage risks, with suitable measuring techniques; thorough internal controls and independent reviews.

In order to reinforce its ability to manage corporate risks, the Bank established the Risk and ALM Committee - a committee independent of the Board of Directors, which supports the CEO in defining strategies, risk policies and profitability targets.

The Risk Committee continuously monitors the relevant risks and any new or potential risks arising from changes in the working environment or forward-looking operations.

With reference to the new regulation in matters of the operation of the internal control system, in accordance with the principle of collaboration between the control functions, the Internal Control and Risk Management Committee (a Board committee) was assigned the role of coordinating all the control functions.

The Risk Department of the Parent is responsible for the guidance, coordination and management of the Group's risks.

The methods used to measure, assess and aggregate risks are approved by the Board of Directors, based on proposals from the Risk Department, subject to approval by the Risk Committee. In order to measure "Pillar 1 risks", the Group has adopted standard methods to calculate the capital requirements for Prudential Regulatory purposes.

In order to evaluate non-measurable "Pillar 2 risks", the Group adopts - where possible - the methods stipulated under Supervisory regulations or those established by trade associations. If there are no such indications, standard market practices by operators working at a level of complexity and with operations comparable to those of the Bank are assessed.

With reference to the provisions in matters of regulatory supervision (15th update of circular no. 263 - New prudential supervisory provisions for banks), a series of obligations on risk management and control, including the Risk Appetite Framework (RAF) and the regulatory instructions defined by the Basel Committee were introduced. The Bank has tied the strategic objectives to the RAF. The key ratios and the respective levels were assessed and any revisions needed were made while defining the bank's annual objectives.

In particular, the RAF was designed with key objectives to verify that over time, the business grows and develops observing capital strength and liquidity obligations, implementing monitoring and alert mechanisms and related series of actions that allow prompt intervention in case of significant discrepancies.

The structure of the RAF is based on specific indicators called Key Risk Indicators (KRI) which measure the Group's solvency in the following areas:

- Share capital;
- Liquidity;
- Quality of the loans and receivables portfolio;
- Profitability;
- Other specific risks the Group is exposed to.

Target levels, which are adjusted according to the expected development of the business in the Plan and/or the Budget reviews, the level I thresholds, defined as “warning” thresholds, that trigger discussion at Risk Committee level and subsequent communication to the Board of Directors and the level II thresholds, that require direct discussion in the Board of Directors’ meeting to determine the actions to be taken are associated with the various key indicators.

The level I and II thresholds are defined with scenarios of potential stress with respect to the plan's objectives and on dimensions having a clear impact for the Group.

Starting from 1 January 2014, the Group used an integrated reference framework both to identify its own risk appetite and for the internal process entailing the determination of the capital adequacy (Internal Capital Adequacy Assessment Process - ICAAP). Starting in 2017, it also implemented the Internal Liquidity Adequacy Assessment Process (ILAAP).

As concerns this matter, the Bank fulfils the public disclosure requirements with the issuing of Circular no. 285 of 17 December 2013 “Prudential supervisory provisions for banks” in which the Bank of Italy transposed Directive 2013/36/EU (CRD IV) of 26 June 2013. This regulation, together with that contained in Regulation (EU) no. 575/2013 (“CRR”) incorporates the standards defined by the Basel Committee on Banking Supervision (“Basel III”).

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

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

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

The prudential supervisory provisions provide for the banks the possibility to determine the weighting coefficients for the calculation of the capital requirement with respect to credit exposure within the standardised approach based on the creditworthiness ratings issued by External Credit Assessment Institutions (ECAI) of the Bank of Italy.

As at 31 December 2023, the Group uses the appraisal issued by the ECAI "DBRS", for the exposures to Central Authorities, Territorial Entities and Public Sector Institutions, whereas, as concerns the valuations related to the regulatory business and other parties segment, it uses the agencies "Fitch Ratings" and Standard & Poor's.

The identification of a reference ECAI does not represent in any way, in subject matter or in purposes, an assessment on the merit of the opinions made by the ECAI or a support of the methodologies used, for which the External Credit Assessment Institutions remain solely responsible.

The assessments issued by the rating agencies do not exhaust the creditworthiness assessment process that the Group performs with regard to its customers; rather they represent a further contribution to define the information framework regarding the credit quality of the customer.

The satisfactory appraisal of the borrower's creditworthiness, with regards to capital and income, and of the correct remuneration of the risk, are made based on documentation acquired by the Group; the information acquired from the Bank of Italy Central Credit Register and from other infoproviders, both when decisions are made and during the subsequent monitoring, complete the informational framework.

For Banca Sistema, credit risk is one of the Group's main components of overall exposure; the loans and receivables portfolio predominantly consists of National Institutions of the Public Administration, such as local health authorities/Hospitals, Territorial entities (Regions, Provinces and Municipalities) and Ministries that, by definition, entail a very limited default risk.

The main components of Banca Sistema Group's operations that generate credit risk are:

- Factoring activities (with and without recourse);
- Medium-term corporate loans (with guarantee from SACE or the National Guarantee Fund - FNG with guarantee from EIF);
- Acquisition without recourse of salary-/pension-backed/directly originated loans;
- Collateralised Lending (mainly secured by gold).

2. Credit Risk Management Policies

2.1 Organisational aspects

The Group's organisational model provides that the preliminary credit assessment procedure be performed carefully in accordance with the decision-making powers reserved to the decision-making bodies.

In order to maintain the high credit quality of its loans and receivables portfolio, the Bank, following the divisionalisation process, has set up separate Credit Committees for the two Factoring and CQ Divisions, within which decisions may be taken up to pre-defined credit mandates, while a CEO Credit Committee has been set up for transactions that exceed the powers of the individual Divisions up to the limits delegated by the Board of Directors to the Chief Executive Officer. At the same time, the Credit Coordination Committee was introduced, which makes it possible to ensure consistency in the granting of credit and close monitoring of individual positions. Level II activities relating to risk control are centralised in the Parent's Risk Department which also coordinates with the Compliance, Anti-Money Laundering and Risk Department of the Kruso Kapital subsidiary for risk-related activities.

In light of the above, the analyses conducted for the granting of credit are carried out by the Bank's Underwriting Departments, which report to their respective Divisions. For the Factoring Division, the Department performs assessments focused on the separate analysis and extension of credit to counterparties (assignor and debtor) and on managing the related financial transactions. This takes place in all normal phases of the credit process, summarised as follows:

- "analysis and assessment": the gathering of quantitative and qualitative information from the counterparties under examination and within the system allows an opinion of the party's reliability to be obtained and is helpful in quantifying the proposed line of credit;
- "deliberation and formalisation": once the proposal has been deliberated upon, the contractual documentation to be signed by the counterparty is prepared;
- "monitoring the relationship": the continuous control of the counterparties benefiting from the credit allows any anomalies to be identified and consequentially prompt intervention.

Credit risk is mainly generated as a direct result of the definitive acquisition of credit from the customer company versus the insolvency of the assigned debtor. In particular, the credit risk generated by the factoring portfolio essentially consists of public entities.

With regard to each credit acquired, Banca Sistema performs, via the Out-of-Court Collection and Legal Collection Departments, both of which report to the Credit Department of the Factoring Division, activities described further on in order to verify the credit status, and whether or not there are any impediments to the payment of the invoices to be assigned, and the date scheduled for the payment thereof.

Specifically, the structure endeavours:

- to verify that each credit is certain, liquid and collectable, i.e. there are no disputes or complaints and that there is no further request for clarification or information with regard to said credit and should there be any, that said requests are promptly satisfied;
- to verify that the debtor has received and recognised in its system the related deed of assignment, i.e. it is aware that the credit has been assigned to Banca Sistema;
- to verify that the debtor, where provided for by the assignment agreement and by the purchase offer, has formalised its acceptance of the assignment of the related credit or has not rejected it in accordance with law;
- to verify that the debtor has received all the documentation required to proceed with the payment (copy of invoice, orders, bills, transportation documents, etc.) and that it has recognised the corresponding debt in its system (existence of the credit);
- to verify c/o the local and/or regional institutions: the existence of specific allocations, available cash;
- to verify the payment status of the credits via meetings c/o the Public Administrations and/or debtor agencies, telephone contacts, emails, etc. in order to facilitate the ascertainment and the removal of any obstacles that could delay and/or impede payment.

With regard to the SME Loans product, beginning in February 2017, it was decided to exit this segment of the market as well as the run-off of prior exposures in the portfolio. On this basis, credit risk is associated with the inability of the two counterparties involved in the loan to honour their financial commitments, i.e.:

- the debtor (SME);
- the Guarantee Fund (the Government of Italy).

The type of loan follows the usual operating process concerning the preliminary assessment, the disbursement and the monitoring of the credit.

In particular, two separate due-diligence procedures are performed on this type of loan (one by the Bank and the other by Mediocredito Centrale, so-called MCC) on the borrower of funds.

The debtor's insolvency risk is mitigated by direct (i.e. that referring to an individual exposure), explicit, unconditional and irrevocable guarantee by the Guarantee Fund, the sole Manager of which is MCC.

As regards the CQ Division, this activity is carried out through the direct origination of loans mainly through agents/brokers or through the acquisition of salary-/pension-backed loan portfolios. The credit risk is associated with the inability of the three counterparties involved in the loan process to honour their financial commitments, i.e.:

- the employer (ATC) / debtor
- the assigning finance company or bank (only in the case of receivable purchases)
- the insurance company

The insolvency risk of the employer (ATC) / debtor is generated in the following cases:

- default of employer (e.g.: bankruptcy);
- the debtor losing his job (e.g.: resignation/ dismissal of the debtor) or reduction of remuneration (e.g.: redundancy fund);
- death of the debtor;
- over-indebtedness resolution procedure/debtor restructuring plan.

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

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

The Bank is subject to the insolvency risk of the insurance company in the event that a claim is made upon a loan. In order to mitigate this risk, the Bank requires that the outstanding loans and receivables portfolio be insured by several insurance companies observing the following terms:

- any new insurance company proposed by the assignors must be approved by the Bank's CEO Credit Committee;
- an individual company with no rating or with rating lower than Investment Grade may insure a maximum of 30% of the cases;
- an individual company of Investment Grade may insure a maximum of 40% of the cases.

The employer insolvency risk is generated for portfolio purchases if a case is retroceded back to the employee, which must therefore, repay the credit to the Bank. The Framework Agreement signed with the employer provides for the possibility of returning the credit in the cases of fraud on the part of the employer/debtor or in any case, of non-observance, on the part of the employer, of the criteria underwritten in the Framework Agreement.

As concerns the financial instruments held on its own account, the Bank performs security purchase transactions regarding Italian government debt, which are allocated based on the investment strategy, to the HTC, HTCS and HTS portfolios.

With reference to the aforementioned transactions the Bank identified and selected specific IT applications to manage and monitor the treasury limits on the securities portfolio and to set up the second level controls.

The Treasury Department, operating within the limits allowed by the Board of Directors, conducts said transactions.

2.2 Management, measurement and control systems

The Group sets effective Credit Risk Management as a strategic objective via instruments and processes integrated to ensure a correct credit management in all phases (processing, disbursement, monitoring and management, intervening on loans with credit quality problems).

By involving the various central structures of Banca Sistema and through the specialisation of the resources and the segregation of duties at each decision-making level, it seeks to guarantee a high degree of efficiency and standardisation in overseeing credit risk and monitoring the individual positions.

With specific reference to the monitoring of credit activities, the Bank, via the collection meetings, assesses and inspects the loans and receivables portfolio based upon the guidelines defined within the “collection policy”. The framework related to the above credit risk ex-post monitoring sets the objective of promptly identifying any anomalies and/or discontinuities and evaluating the persistence of risk profiles, in line with the strategic indications provided.

Regarding the credit risk of the bond portfolio, in 2023 the purchase of Italian government bonds classified as financial assets available for sale (formerly "Available for Sale" now HTCS) continued along with the purchase of government bonds classified as assets to be held to maturity (HTC). Said financial assets, which in virtue of their classification fall within the perimeter of the “banking book” although outside of the bank’s traditional investment activity, are sources of credit risk. This risk consists in the issuer’s inability to redeem, upon maturity, all or part of the bonds subscribed.

Furthermore, the formation of a portfolio of highly liquid assets is also expedient for anticipating the trend of the prudential regulations in relation to the governance and management of liquidity risk.

As concerns counterparty risk, Banca Sistema's operations call for reverse repurchase and repurchase agreements being that Italian government securities are the predominant underlying instrument and the Compensation and Guarantee Fund is the counterparty.

At 31 December 2023, there were no repurchase agreements in place with the Compensation and Guarantee Fund.

In the last quarter of 2023, the Banca Sistema Group purchased tax credits from "Eco-Sisma bonus 110%" for trading purposes, which also generated counterparty risk.

2.3 Methods for measuring expected losses

The general approach defined by IFRS 9 for estimating impairment is based on a process aimed at giving evidence of the deterioration of a financial instrument's credit quality from the date of initial recognition to the reporting date. The regulatory guidance on assigning loans and receivables to the various stages under the Standard ("staging" or "stage allocation") calls for the identification of significant changes in credit risk based on the changes in a counterparty's creditworthiness since initial recognition, the expected life of the financial asset and other forward-looking information that may affect credit risk.

Consistently with the provisions of IFRS 9, performing loans are therefore divided into two categories:

- Stage 1: this bucket contains assets that do not show signs of significant deterioration in credit quality. For this stage the expected one-year credit loss is calculated on a collective basis;
- Stage 2: this bucket contains assets that show signs of significant deterioration in credit quality from the date of initial recognition to the reporting date. The expected loss for this bucket must be calculated on a lifetime basis, i.e. over the entire duration of the instrument, on a collective basis.

2.4 Credit Risk mitigation techniques

It should be noted that, at the reporting date, the Bank did not implement any hedging of the loans and receivables portfolio.

As concerns credit and counterparty risk on the securities portfolio and on the repurchase agreements, risk mitigation is pursued by a careful management of the operational autonomy, establishing limits in terms of both responsibility and consistency and composition of the portfolio by type of securities.

3. Non-performing exposures

The Banca Sistema Group defined its credit quality policy based on the provisions in the Bank of Italy Circular no. 272 (Accounts matrix), the main definitions of which are provided on the following pages.

The Supervisory Provisions for Banks assign to intermediaries specific obligations concerning the monitoring and classification of loans: "The obligations of the operating units in the monitoring phase of the loan granted must be deducible from the internal regulation. In particular, the terms and methods of action must be set in the event of anomalies. The criteria for measurement, management and classification of irregular loans, as well as the related responsible units, must be set through a resolution by the Board of Directors in which the methods for connecting these criteria with those required for the supervisory reports are indicated. The Board of Directors must be regularly informed on the performance of the irregular loans and the related recovery procedures".

According to the definitions in the above-mentioned Bank of Italy Circular, "non-performing" financial assets are defined as those that lie within the "bad exposures", "unlikely to pay" or "past due and/or overdrawn exposures" categories.

Exposures whose anomalous situation is attributable to factors related to "country risk" are not included in "non-performing" financial assets.

In particular, the following definitions apply:

Bad exposures

On- and off-statement of financial position exposures (loans, securities, derivatives, etc.) owed by a party in state of insolvency (even if not judicially ascertained) or in broadly similar situations, regardless of any loss forecast formulated by the Group (cf. art. 5 bankruptcy law). The definition therefore applies regardless of the existence of any collateral or personal guarantee provided as protection against the exposures.

This class also includes:

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

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

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

Unlikely to pay

The classification in this category is first and foremost based on the Bank's judgement regarding the unlikelihood that, without having to resort to actions such as enforcing the guarantees, the debtor will completely (with regard to principal and/or interest) fulfil its credit obligations. This assessment is made independently of whether any sums (or instalments) are past due and not paid. It is therefore unnecessary to wait for explicit symptoms of irregularity (non-repayment) if there are elements that entail a situation of default risk on the part of the debtor (e.g. a crisis in the industrial sector in which the debtor operates). The set of on- and off-statement of financial position exposures to the same debtor in the above conditions is named "unlikely to pay", unless the conditions for classifying the debtor under bad exposures exist. The exposures to retail parties may be classified in the unlikely to pay category at the level of the individual transaction, provided that the Bank has assessed that the conditions for classifying the set of exposures to the same debtor in that category do not exist.

Past due and/or overdrawn exposures

These are understood to be the on-statement of financial position exposures at carrying amount and off-statement of financial position exposures (loans, securities, derivatives, etc.), other than those classified as bad exposures and unlikely to pay, that, on the reference date of the report, are past due or overdrawn.

Past due and/or overdrawn exposures can also be determined by referring to the individual debtor or the individual transaction.

Starting from 1 January 2021, the Banca Sistema Group applies the rules envisaged by the introduction of the new definition of default by applying the EBA Guidelines.

a) Individual debtor approach

The overall exposure to a debtor shall be recognised as past due and/or overdrawn, in accordance with Delegated Regulation (EU) No 171/2018 of the European Commission of 19 October 2017, if, at the date of the report, the amount of principal, interest or fees outstanding at the due date exceeds both of the following thresholds: a) absolute limit of € 100 for retail exposures and of € 500 for non-retail exposures; b) relative limit of 1% as determined by the ratio of the total past due and/or overdrawn amount to the total amount of all credit exposures to the same debtor.

The thresholds must be exceeded continuously, in other words for 90 consecutive days except for certain types of commercial exposures to central authorities, local authorities and public sector entities for which the provisions of paragraphs 25 and 26 of the Guidelines apply. The provisions set out in paragraphs 16 to 20 of the Guidelines apply when calculating the number of past due days. The provisions set out in paragraph 23(d) and paragraphs 27 to 32 of the Guidelines apply to factoring transactions. For exposures involving instalments, the rules set out in article 1193 of the Italian Civil Code apply to the allocation of payments to individual instalments that are past due, unless otherwise specifically agreed in the contract. Where credit exposures are required to be broken down by past due range, the number of past due days is counted from the date when the first default occurs for each exposure, regardless of whether the thresholds are exceeded. If a debtor has several exposures that are past due and/or overdrawn by more than 90 days, these exposures shall be reported separately in the corresponding past due ranges.

b) Individual transaction approach

Past due and/or overdrawn exposures to retail parties may be determined at the level of the individual transaction. Whether an individual transaction approach or an individual debtor approach is chosen shall reflect internal risk management practices. An exposure that is past due or overdrawn shall be recognised as past due and/or overdrawn, in accordance with Delegated Regulation (EU) No 171/2018 of the European Commission of 19 October 2017, if, at the date of the report, it exceeds both of the following thresholds: a) absolute limit of € 100; b) relative limit of 1% as determined by the ratio of the total amount past due or overdrawn to the total amount of the entire credit exposure. The thresholds must be exceeded continuously, in other words for 90 consecutive days. If the entire amount of an on-statement of financial position credit exposure that is past due and/or overdrawn for more than 90 days is equal to or greater than 20% of the total on-statement of financial position credit exposures to the same debtor, the total on- and off-statement of financial position credit exposures to that debtor must be considered past due and/or overdrawn (the so-called “pulling effect”). The numerator and denominator are calculated using the carrying amount for securities and the on-statement of financial position credit exposure for other credit positions.

In the calculation of the capital requirement for the credit and counterparty risk, Banca Sistema uses the standardised approach. This envisages that the exposures that lie within the portfolios related to "Central Authorities and Central Banks", "Territorial entities", and "Public sector institutions" and "Businesses", must apply the notion of past due and/or overdrawn exposures at the level of the debtor party.

Forborne exposures

Forborne exposures are defined as exposures that fall into the category "Non-performing exposures with forbearance measures" and "Forborne performing exposures" as defined by the Implementing Technical Standards (ITS).

A forbearance measure represents a concession towards a debtor which faces or is about to face difficulties in fulfilling its financial obligations ("financial difficulties"); a "concession" indicates one of the following actions:

- an amendment of the previous terms and conditions of a contract which the debtor is considered unable to fulfil due to its financial difficulties, that would not have been granted if the debtor was not in financial difficulty;
- a total or partial refinancing of a problem loan that would not have been granted if the debtor was not in financial difficulty.

Non-performing exposures with forbearance measures: individual on-statement of financial position exposures and revocable and irrevocable commitments to disburse funds that meet the definition of "Non-performing exposures with forbearance measures" in Annex V, Part 2, paragraph 262 of the ITS. Such exposures shall be classified as bad exposures, unlikely to pay or past due and/or overdrawn exposures, as appropriate, and shall not form a separate category of impaired assets.

The qualitative and quantitative criteria set out in paragraphs 49 to 55 of the EBA Guidelines for a distressed restructuring must also be considered when classifying forborne exposures among non-performing exposures.

Forborne performing exposures: this category includes other credit exposures that fall within the category of "forborne performing exposures" as defined in the ITS.

3.1 Management strategies and policies

The current regulatory framework requires impaired financial assets to be classified according to their criticality. More specifically, there are three categories: "bad exposures", "unlikely to pay" and "past due and/or overdrawn exposures".

- Bad exposures: exposures owed by a party in state of insolvency (even if not judicially ascertained) or in broadly similar situations, regardless of the loss forecasts formulated by the institution.

- Unlikely to pay: exposures for which the institution considers it unlikely that the debtor will fully meet its obligations without having to resort to actions such as the enforcement of guarantees, regardless of whether there are any past due and/or overdrawn amounts.

- Past due and/or overdrawn exposures: exposures, other than those classified as bad exposures or unlikely to pay, which have been continuously past due and/or overdrawn for more than 90 days.

Forborne exposures, which refer to exposures that are subject to renegotiation and/or refinancing due to the customer's financial difficulties (whether evident or developing), are also classified. These exposures may constitute a subset of non-performing loans (non-performing exposures with forbearance measures) and performing loans (forborne performing exposures). The management of these exposures, in compliance with the regulatory provisions regarding timing and classification methods, is supported by specific work processes and IT tools.

The Group has a policy that establishes criteria and methods for recognising impairment losses by standardising the rules that, depending on the type of non-performing loan and its original technical form, define the methods and processes used to determine expected losses. The management of non-performing exposures is assigned to the Credit Departments of the Divisions, which are responsible for identifying strategies for maximising collection on individual positions and establishing the impairment losses to be recognised for those positions through a formalised process.

The expected loss reflects a number of elements derived from various internal and external assessments of the financial condition of the main debtor and any guarantors. Expected losses are continuously monitored and compared to the changes in each position. The Risk Department oversees the collection of non-performing loans.

In order to maximise collections, the relevant departments identify the best strategy for managing non-performing exposures, which, based on the subjective characteristics of the individual counterparty/exposure and internal policies, may include amending the contractual terms (forbearance), establishing the methods for loan collection, or assigning the credit to third parties (either for individual exposures or for a group of positions with similar characteristics).

3.2 Write-offs

Non-performing exposures for which collection is not possible (whether in full or in part) are written off from the accounting records in compliance with the policies in force at the time and subject to approval by the Group's Board of Directors.

3.3 Purchased or originated credit-impaired financial assets

In accordance with “IFRS 9 - Financial Instruments”, in some cases a financial asset is considered impaired at initial recognition because the credit risk is very high, and in the case of a purchase, it is acquired at a significant discount (compared to the original disbursement value). If the financial assets in question, based on the application of the classification drivers (i.e. SPPI test and business model), are classified among assets measured at amortised cost or at fair value through other comprehensive income, they are classified as "Purchased or Originated Credit-Impaired" (in short "POCI") and are subject to specific treatment. More specifically, impairment losses equal to the lifetime expected credit loss (ECL) are recognised from the date of initial recognition over the asset’s entire life. In light of the above, POCI financial assets are initially recognised in stage 3, although they may be subsequently reclassified to performing loans, in which case an expected loss equal to the lifetime ECL (stage 2) will continue to be recognised. A POCI financial asset is therefore classified as such in the expected credit loss (ECL) reporting and calculation processes.

4. Financial assets subject to commercial renegotiation and forborne exposures

In the event the debtor is experiencing financial difficulties, the contractual terms of the exposures may be amended in favour of the debtor in order to make repayment financially sustainable. Depending on the subjective characteristics of the exposure and the reasons behind the debtor's financial difficulties, the amendments may be short term (temporary suspension of the payment of the principal of a loan or extension of a maturity) or long term (extension of the duration of a loan, adjustment of the interest rate) and result in the exposure (both performing and non-performing) being classified as “forborne”. “Forborne” exposures are subject to specific provisions for classification in accordance with EBA ITS 2013-35, as transposed in the Group's credit policies. If the forbearance measures are applied to performing exposures, these are included in the group of stage 2 exposures. All exposures classified as “forborne” are included in specific monitoring processes by the relevant departments.

Quantitative disclosure

A. Credit quality

A.1 Impaired and unimpaired loans: carrying amounts, impairment losses, performance and business breakdown

A.1.1 Prudential consolidation - Breakdown of financial assets by past due range (carrying amounts)

	First stage			Second stage			Third stage			Purchased or originated credit-impaired		
	From 1 day to 30 days	From more than 30 days to 90 days	More than 90 days	Up to 30 days	From more than 30 days to 90 days	More than 90 days	Up to 30 days	From more than 30 days to 90 days	More than 90 days	Up to 30 days	From more than 30 days to 90 days	More than 90 days
1. Financial assets measured at amortised cost	21,827	34,618	300,326	553	150	1,991	370	1,211	195,531			87
2. Financial assets measured at fair value through other comprehensive income												
3. Financial assets held for sale												
Total 31.12.2023	**21,827**	**34,618**	**300,326**	**553**	**150**	**1,991**	**370**	**1,211**	**195,531**			**87**
Total 31.12.2022	**15,236**	**19,315**	**282,726**	**87**	**226**	**393**	**728**	**2,362**	**175,476**			**84**

A.1.2 Prudential consolidation - Financial assets, commitments to disburse funds and financial guarantees issued: changes in impaired positions and accruals to provisions

	Total impairment losses																							Overall accruals to provisions on commitments to disburse funds and financial guarantees issued				Total
	Assets included in the first stage						Assets included in the second stage						Assets included in the third stage						Purchased or originated credit-impaired financial assets									
	Demand loans and receivables with banks and Central Banks Financial assets measured at amortised cost	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual impairment losses	of which: collective impairment losses	Demand loans and receivables with banks and Central Banks Financial assets measured at amortised cost	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual impairment losses	of which: collective impairment losses	Demand loans and receivables with banks and Central Banks Financial assets measured at amortised cost	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual impairment losses	of which: collective impairment losses	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual impairment losses	of which: collective impairment losses	First stage	Second stage	Third stage	Purchased or originated credit-impaired commitments to disburse funds and financial guarantees issued	
Opening total impairment losses	**3**	**4,863**	**321**			**5,188**		**1,993**				**1,993**		**61,728**			**61,728**							**24**				**68,933**
Increases in purchased or originated financial assets		2,181				2,327		86				86		227			227							34				2,674
Derecognition other than write-offs		1,753				2,075		221				221		1,049			1,049											3,345
Net impairment losses/gains due to credit risk (+/-)	23	317				340		(1,163)				(1,163)		4,454			4,454							1				3,632
Contract amendments without derecognition																												
Changes in estimation method																												
Write-offs not recognised directly through profit or loss																												
Other changes																												
Closing total impairment losses		**5,608**	**321**			**5,780**		**695**				**695**		**65,360**			**65,360**							**59**				**71,894**
Recoveries from collection on financial assets that have been written																												
Write-offs recognised directly through profit or loss																												

A.1.3 Prudential consolidation - Financial assets, commitments to disburse funds and financial guarantees issued: transfers between different credit risk stages (gross amount and nominal amount)

	Gross amount / Nominal amount					
	Transfers between the first and second stage		Transfers between the second and third stage		Transfers between the first and third stage	
	From the first to the second stage	From the second to the first stage	From the second to the third stage	From the third to the second stage	From the first to the third stage	From the third to the first stage
1. Financial assets measured at amortised cost	25,488	9,799	6,387	2,475	50,191	20,172
2. Financial assets measured at fair value through other comprehensive income						
3. Financial assets held for sale						
4. Commitments to disburse funds and financial guarantees issued						14,478
Total 31.12.2023	**25,488**	**9,799**	**6,387**	**2,475**	**50,191**	**34,650**
Total 31.12.2022	**49,559**	**4,270**	**2,988**	**251**	**38,986**	**49,304**

A.1.3a Loans subject to Covid-19 support measures: transfers between different credit risk stages (gross amount and nominal amount)

	Transfers between the first and second stage		Transfers between the second and third stage		Transfers between the first and third stage	
	From the first to the second stage	From the second to the first stage	From the second to the third stage	From the third to the second stage	From the first to the third stage	From the third to the first stage
A. Loans measured at amortised cost		**511**			**21,458**	
A.1 forborne in compliance with the EBA Guidelines						
A.2 subject to existing moratoria no longer in compliance with the EBA Guidelines and not considered forborne						
A.3 subject to other forbearance measures						
A.4 new loans		511			21,458	
B. Loans measured at fair value through other comprehensive income						
B.1 forborne in compliance with the EBA Guidelines						
B.2 subject to existing moratoria no longer in compliance with the EBA Guidelines and not considered forborne						
B.3 subject to other forbearance measures						
B.4 new loans						
Totale 31.12.2023		**511**			**21,458**	
Totale 31.12.2022					**608**	

A.1.4 Prudential consolidation - On- and off-statement of financial position loans and receivables with banks: gross amounts and carrying amounts

	Gross amount					Total impairment and allowances					Net exposure	Overall partial write-offs *
		First stage	Second stage	Third stage	Purchased or originated credit-impaired		First stage	Second stage	Third stage	Purchased or originated credit-impaired		
A. ON-STATEMENT OF FINANCIAL POSITION LOANS AND RECEIVABLES												
A.1 ON DEMAND	**248,910**	**248,910**				**26**	**26**				**248,884**	
a) Non-performing		**X**					**X**					
b) Performing	**248,910**	**248,910**		**X**		**26**	**26**		**X**		**248,884**	
A.2 OTHER	**929**	**928**		**1**		**3**	**3**				**926**	
a) Bad exposures		X					X					
- of which: forborne exposures		X					X					
b) Unlikely to pay		X					X					
- of which: forborne exposures		X					X					
c) Non-performing past due exposures	1	X		1			X				1	
- of which: forborne exposures		X					X					
d) Performing past due exposures	6	6		X					X		6	
- of which: forborne exposures				X					X			
e) Other performing exposures	922	922		X		3	3		X		919	
- of which: forborne exposures				X					X			
TOTAL A	**249,839**	**249,838**		**1**		**29**	**29**				**249,810**	
B. OFF-STATEMENT OF FINANCIAL POSITIO												
a) Non-performing		X					X					
b) Performing	2,446	2,446		X					X		2,446	
TOTAL B	**2,446**	**2,446**									**2,446**	
TOTAL (A+B)	**252,285**	**252,284**		**1**		**29**	**29**				**252,256**	

A.1.5 Prudential consolidation - On- and off-statement of financial position loans and receivables with customers: gross amounts and carrying amounts

	Gross amount					Total impairment and allowances					Net exposure	Overall partial write-offs *
		First stage	Second stage	Third stage	Purchased or originated credit-		First stage	Second stage	Third stage	Purchased or originated credit-		
A. ON-STATEMENT OF FINANCIAL POSITION LOANS AND RECEIVABLES												
a) Bad exposures	173,766	X		173,679	87	49,119			49,119		124,647	
- of which: forborne exposures		X										
b) Unlikely to pay	59,172	X		59,172		15,080			15,080		44,091	
- of which: forborne exposures		X										
c) Non-performing past due exposures	64,177	X		64,177		1,161			1,161		63,016	
- of which: forborne exposures		X										
d) Performing past due exposures	361,530	358,801	2,729	X		2,071	2,036	35	X		359,459	
- of which: forborne exposures				X					X			
e) Other performing exposures	3,379,248	3,291,070	88,179	X		4,377	3,717	660	X		3,374,871	
- of which: forborne exposures				X					X			
TOTAL A	**4,037,893**	**3,649,871**	**90,908**	**297,028**	**87**	**71,808**	**5,753**	**695**	**65,360**		**3,966,084**	
B. OFF-STATEMENT OF FINANCIAL POSITIO												
a) Non-performing	41,713	X		41,713			X				41,713	
b) Performing	937,516	937,516		X		59	59		X		937,457	
TOTAL B	**979,229**	**937,516**		**41,713**		**59**	**59**				**979,170**	
TOTAL (A+B)	**5,017,122**	**4,587,387**	**90,908**	**338,741**	**87**	**71,867**	**5,812**	**695**	**65,360**		**4,945,254**	

A.1.6 Prudential consolidation - On-statement of financial position loans and receivables with banks: gross non-performing exposures

	Bad exposures	Unlikely to pay	Non-performing past due
A. Opening gross balance			**11**
- of which: positions transferred but not derecognised			1
B. Increases			**1**
B.1 transfers from performing loans			
B.2 transfers from purchased or originated credit-impaired financial assets			
B.3 transfers from other categories of non-performing exposures of which no			
B.4 contract amendments without derecognition			
B.5 other increases			1
C. Decreases			**11**
C.1 transfers to performing loans			
C.2 write-offs			
C.3 collections			11
C.4 gains on sales			
C.5 losses on sales			
C.6 transfers to other categories of non-performing exposures			
C.7 contract amendments without derecognition			
C.8 other decreases			
D. Closing gross balance			**1**
- of which: positions transferred but not derecognised			

A.1.6bis Prudential consolidation – On-statement of financial position loans and receivables with banks: breakdown of gross forborne exposures by credit quality

No positions to report.

A.1.7 Prudential consolidation - On-statement of financial position loans and receivables with customers: gross non-performing exposures

	Bad exposures	Unlikely to pay	Non-performing past due
A. Opening gross balance	**170,368**	**32,999**	**81,449**
- of which: positions transferred but not derecognised	29	3,022	9,362
B. Increases	**11,270**	**110,137**	**43,286**
B.1 transfers from performing loans	7,393	58,154	22,682
B.2 transfers from purchased or originated credit-impaired financial assets			
B.3 transfers from other categories of non-performing exposures	2,456	136	45
B.4 contract amendments without derecognition			
B.5 other increases	1,421	51,847	20,559
C. Decreases	**7,871**	**83,965**	**60,558**
C.1 transfers to performing loans	5,617	96	15,560
C.2 write-offs	139		
C.3 collections	2,093	83,760	42,492
C.4 gains on sales			
C.5 losses on sales			
C.6 transfers to other categories of non-performing exposures	22	109	2,506
C.7 contract amendments without derecognition			
C.8 other decreases			
D. Closing gross balance	**173,767**	**59,171**	**64,177**
- of which: positions transferred but not derecognised	3	1,045	1,652

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

	Gross amount					Total impairment and allowances					Net exposure	Overall partial write-offs *
		First stage	Second stage	Third stage	Purchased or originated credit-impaired		First stage	Second stage	Third stage	Purchased or originated credit-impaired		
A. BAD LOANS												
a) Forborne in compliance with the EBA Guidelines												
b) Subject to moratoria no longer in compliance with the EBA Guidelines and not considered forborne												
c) Subject to other forbearance measures												
d) New loans												
B. UNLIKELY-TO-PAY LOANS	**21,458**			**21,458**					**428**		**21,030**	
a) Forborne in compliance with the EBA Guidelines												
b) Subject to moratoria no longer in compliance with the EBA Guidelines and not considered forborne												
c) Subject to other forbearance measures												
d) New loans	21,458			21,458					428		21,030	
C) IMPAIRED PAST DUE LOANS												
a) Forborne in compliance with the EBA Guidelines												
b) Subject to moratoria no longer in compliance with the EBA Guidelines and not considered forborne												
c) Subject to other forbearance measures												
d) New loans												
D) PERFORMING LOANS												
a) Forborne in compliance with the EBA Guidelines												
b) Subject to moratoria no longer in compliance with the EBA Guidelines and not considered forborne												
c) Subject to other forbearance measures												
d) New loans												
E) OTHER PERFORMING LOANS	**86,542**	**86,031**	**511**				**241**	**1**			**86,300**	
a) Forborne in compliance with the EBA Guidelines												
b) Subject to moratoria no longer in compliance with the EBA Guidelines and not considered forborne												
c) Subject to other forbearance measures												
d) New loans	86,542	86,031	511				241	1			86,300	
TOTAL (A+B+C+D+E)	**108,000**	**86,031**	**511**	**21,458**			**241**	**1**	**428**		**107,330**	

A.1.7bis Prudential consolidation – On-statement of financial position loans and receivables with customers: breakdown of gross forborne exposures by credit quality

	Non-performing exposures with forbearance measures	Other forborne exposures
A. Opening gross balance	**3,470**	**206**
- of which: positions transferred but not derecognised		
B. Increases		
B.1 transfers from performing exposures without forbearance measures		
B.2 transfers from forborne performing exposures		X
B.3 transfers from non-performing exposures with forbearance measures	X	
B.4 transfers from non-performing exposures without forbearance measures		
B.5 other increases		
C. Decreases	**2,670**	**63**
C.1 transfers to performing exposures without forbearance measures	X	
C.2 transfers to forborne performing exposures		X
C.3 transfers to non-performing exposures with forbearance measures	X	
C.4 write-offs		
C.5 collections		63
C.6 gains on sales		
C.7 losses on sales		
C.8 other decreases	2,670	
D. Closing gross balance	**800**	**143**
- of which: positions transferred but not derecognised		

A.1.8 Prudential consolidation - On-statement of financial position non-performing loans and receivables with banks: changes in impaired positions

No positions to report.

A.1.9 Prudential consolidation - On-statement of financial position non-performing loans and receivables with customers: changes in impaired positions

	Bad exposures		Unlikely to pay		Non-performing past due exposures	
	Total	**of which: forborne exposures**	**Total**	**of which: forborne exposures**	**Total**	**of which: forborne exposures**
A. Opening total impairment losses	**47,080**	**48**	**13,751**	**175**	**899**	**34**
- of which: positions transferred but not derecognised			413		11	
B. Increases	**2,837**		**2,525**		**522**	
B.1 impairment losses on purchased or originated credit-impaired financial assets		X		X		X
B.2 other impairment losses	2,810		2,451		499	
B.3 losses on sales						
B.4 transfers from other categories of non-performing exposures	23		15			
B.5 contract amendments without derecognition						
B.6 other increases	4		59		23	
C. Decreases	**798**		**1,196**		**269**	**32**
C.1 impairment gains	558		340		12	
C.2 impairment gains due to collections	72		814		160	
C.3 gains on sales						
C.4 write-offs						
C.5 transfers to other categories of non-performing exposures			26		21	32
C.6 contract amendments without derecognition						
C.7 other decreases	168		16		76	
D. Closing total impairment losses	**49,119**	**48**	**15,080**	**175**	**1,152**	**2**
- of which: positions transferred but not derecognised			557		8	

A.2 Classification of the exposures based on external and internal rating

A.2.1 Prudential consolidation - Breakdown of financial assets, commitments to disburse funds and financial guarantees issued by external rating class (gross amounts)

The risk categories for the external rating indicated in this table refer to the creditworthiness classes of the debtors/guarantors pursuant to prudential requirements.

The Bank uses the standardised approach in accordance with the risk mapping of the rating agencies:

- "DBRS Ratings Limited", for exposures to: central authorities and central banks; supervised brokers; public sector institutions; territorial entities;
- "Fitch Ratings" and Standard & Poor's, for exposures to companies and other parties.

Exposures	External rating class						Without rating	Total
	class 1	class 2	class 3	class 4	class 5	class 6		
A. Financial assets measured at amortised cost							**3,406,824**	**3,406,824**
- First stage							3,018,799	3,018,799
- Second stage							90,908	90,908
- Third stage							297,029	297,029
- Purchased or originated credit-impaired							88	88
B. Financial assets measured at fair value through other comprehensive income								
- First stage								
- Second stage								
- Third stage								
- Purchased or originated credit-impaired								
C. Financial assets held for sale								
- First stage								
- Second stage								
- Third stage								
- Purchased or originated credit-impaired								
Total (A+B+C)							**3,406,824**	**3,406,824**
D. Commitments to disburse funds and financial guarantees issued							**981,675**	**981,675**
- First stage							939,962	939,962
- Second stage								
- Third stage							41,713	41,713
- Purchased or originated credit-impaired								
Total D							**981,675**	**981,675**
Total (A + B + C + D)							**4,388,499**	**4,388,499**

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

of which long-term rating

Creditworthiness class	Risk weighting factors: Central governments and central banks	Public sector institutions	Multilateral development banks and exposures to territorial entities and supervised brokers	Companies and other parties	ECAI: DBRS Ratings Limited
1	0%	20%	20%	20%	
					AAA, AA
2	20%	50%	50%	50%	A
3	50%	100%	50%	100%	BBB
4	100%	100%	100%	100%	BB
5	100%	100%	100%	150%	B
6	150%	150%	150%	150%	CCC, CC, C, D

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

Creditworthiness class	Risk weighting factors	ECAI
1	20%	R-1 H, R-1 M
2	50%	R-1
3	100%	R-2; R-3
4	150%	R-4, R-5, D

"**Fitch Ratings**", for exposures to companies and other parties.

of which long-term rating

Creditworthiness class	Risk weighting factors: Central governments and central banks	Public sector institutions	Multilateral development banks and exposures to territorial entities and supervised brokers	Companies and other parties	ECAI: DBRS Ratings Limited
1	0%	20%	20%	20%	AAA, AA
2	20%	50%	50%	50%	A
3	50%	100%	50%	100%	BBB
4	100%	100%	100%	100%	BB
5	100%	100%	100%	150%	B
6	150%	150%	150%	150%	CCC, CC, C, RD, D

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

Creditworthiness class	Risk weighting factors	ECAI
1	20%	F1+
2	50%	F1
3	100%	F2, F3
from 4 to 6	150%	B, C, RD, D

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

of which long-term rating

Creditworthiness class	Risk weighting factors				ECAI
	Central governments and central banks	Supervised brokers, public sector institutions and territorial entities	Multilateral development banks	Companies and other parties	
1	0%	20%	20%	20%	AAA, AA
2	20%	50%	50%	50%	A
3	50%	50%	50%	100%	BBB
4	100%	100%	100%	100%	BB
5	100%	100%	100%	150%	B
6	150%	150%	150%	150%	CCC, CC, C, RD, D

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

Creditworthiness class	Risk weighting factors	ECAI DBRS Ratings Limited
1	20%	A-1+
2	50%	A-1
3	100%	A-2, A-3
from 4 to 6	150%	B, C, R, SD/D

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

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

No positions to report.

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

	Gross amount	Net exposure	Collateral (1)				Personal guarantees (2)									Total (1)+(2)
							Credit derivatives					Endorsement credits				
								Other derivatives								
			Mortgaged estate	Properties under finance lease	Securities	Other collateral	CLN	Central Counterparties	Banks	Other financial corporations	Other	General governments	Banks	Other financial corporations	Other	
1. Guaranteed on-statement of financial position loans:	**1,169,417**	**1,158,569**	**2,232**		**88**	**779,752**						**249,161**	**18,844**	**53,066**	**13,622**	**1,116,765**
1.1 fully guaranteed	912,813	906,386	2,232		88	779,752						59,005	600	53,066	11,643	906,386
- of which non-performing	19,321	14,652				13,714						33		7	898	14,652
1.2 partially guaranteed	256,604	252,183										190,156	18,244		1,979	210,379
- of which non-performing	27,023	23,352										20,427				20,427
2. Guaranteed off-statement of financial position loans:	**13,866**	**13,866**			**28**	**3,367**							**33**	**8,150**	**1,646**	**13,224**
2.1 fully guaranteed	13,191	13,191			28	3,367								8,150	1,646	13,191
- of which non-performing	3,669	3,669				3,269									400	3,669
2.2 partially guaranteed	675	675											33			33
- of which non-performing																

B. Breakdown and concentration of credit exposures

B.1 Prudential consolidation - Breakdown by business segment of on- and off-statement of financial position loans and receivables with customers

	General governments		Financial corporations		Financial corporations (of which: insurance companies)		Non-financial corporations		Households	
	Net exposure	Total impairment	Net exposure	Total impairment	Net exposure	Total impairment	Net exposure	Total impairment	Net exposure	Total impairment
A. On-statement of financial position loans and receivables										
A.1 Bad exposures	122,154	15,558					2,461	32,737	32	824
- of which: forborne exposures										
A.2 Unlikely to pay	161	531					40,348	10,993	3,581	3,557
- of which: forborne exposures										
A.3 Non-performing past due exposures	39,597	64	2,083	8	2,082	8	9,446	923	11,893	165
- of which: forborne exposures										
A.4 Performing exposures	2,240,662	2,842	10,042	109	105		564,921	2,029	918,707	1,468
- of which: forborne exposures										
Total (A)	**2,402,574**	**18,995**	**12,125**	**117**	**2,187**	**8**	**617,176**	**46,682**	**934,213**	**6,014**
B. Off-statement of financial position loans and receivables										
B.1 Non-performing exposures	22,722						18,983		8	
B.2 Performing exposures	493,634		263,813				179,223	59	787	
Total (B)	**516,356**		**263,813**				**198,206**	**59**	**795**	
Total (A+B) 31.12.2023	**2,918,930**	**18,995**	**275,938**	**117**	**2,187**	**8**	**815,382**	**46,741**	**935,008**	**6,014**
Total (A+B) 31.12.2022	**2,713,918**	**18,318**	**531,945**	**37**	**2,479**	**7**	**711,901**	**44,262**	**1,049,214**	**6,307**

B.2 Prudential consolidation - Breakdown by geographical segment of on- and off-statement of financial position loans and receivables with customers

	Italy		Other European countries		America		Asia		Rest of the world	
	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment
A. On-statement of financial position loans and receivables										
A.1 Bad exposures	124,647	49,039		80						
A.2 Unlikely to pay	44,091	15,080								
A.3 Non-performing past due exposure	62,965	1,157	51	4						
A.4 Performing exposures	3,576,605	6,177	154,870	260	2,753	11	106			
Total (A)	**3,808,308**	**71,453**	**154,921**	**344**	**2,753**	**11**	**106**			
B. Off-statement of financial position loans and receivables										
B.1 Non-performing exposures	41,713									
B.2 Performing exposures	906,099	50	29,252				2,106	9		
Total (B)	**947,812**	**50**	**29,252**				**2,106**	**9**		
Total (A+B) 31.12.2023	**4,756,120**	**71,503**	**184,173**	**344**	**2,753**	**11**	**2,212**	**9**		
Total (A+B) 31.12.2022	**4,810,875**	**68,611**	**189,690**	**289**	**3,836**	**15**	**2,578**	**10**		

B.3 Prudential consolidation - Breakdown by geographical segment of on- and off-statement of financial position loans and receivables with banks

	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Total impairment losses	Net exposure	Total impairment losses	Net exposure	Total impairment losses	Net exposure	Total impairment losses	Net exposure	Total impairment losses
A. On-statement of financial position loans and receivables										
A.1 Bad exposures										
A.2 Unlikely to pay										
A.3 Non-performing past due exposure	1									
A.4 Performing exposures	248,720	30	1,088							
Total (A)	**248,721**	**30**	**1,088**							
B. Off-statement of financial position lo										
B.1 Non-performing exposures										
B.2 Performing exposures	(303)	1								
Total (B)	**(303)**	**1**								
Total (A+B) 31.12.2023	**248,418**	**31**	**1,088**							
Total (A+B) 31.12.2022	**162,242**	**9**	**41**							

B.4 Large exposures

As at 31 December 2023, the large exposures of the Group are as follows:

a) Carrying amount € 2,598,045 thousand

b) Weighted amount € 393,189 thousand

c) No. of positions 27.

D. Transfers

A. Financial assets transferred and not derecognised

Qualitative disclosure

The financial assets transferred and not derecognised refer to Italian government securities used for repurchase agreements. Said financial assets are classified in the financial statements among the available-for-sale financial assets, while the repurchase agreement loan is predominantly presented in due to customers. As a last resort the financial assets transferred and not derecognised comprise trade receivables used for loan transactions in the ECB (Abaco).

Quantitative disclosure

D.1. Prudential consolidation – Financial assets transferred and recognised in full, and associated financial liabilities: carrying amount

	Financial assets transferred and recognised in full				Associated financial liabilities		
	Carrying amount	of which: subject to securitisation transactions	of which: subject to a sales contract with repurchase agreement	of which: non-performing	Carrying amount	of which: subject to securitisation transactions	of which: subject to a sales contract with repurchase agreement
A. Financial assets held for trading				**X**			
1. Debt securities				X			
2. Equity instruments				X			
3. Financing				X			
4. Derivatives				X			
B. Other financial assets mandatorily measured at fair value through profit or loss							
1. Debt securities							
2. Equity instruments				X			
3. Financing							
C. Financial assets designated at fair value through profit or loss							
1. Debt securities							
2. Financing							
D. Financial assets measured at fair value through other comprehensive income							
1. Debt securities							
2. Equity instruments				X			
3. Financing							
E. Financial assets measured at amortised cost	**287,095**	**287,095**		**2,135**	**179,479**	**179,479**	
1. Debt securities							
2. Financing	287,095	287,095		2,135	179,479	179,479	
Total 31.12.2023	**287,095**	**287,095**		**2,135**	**179,479**	**179,479**	
Total 31.12.2022	**1,131,747**	**247,185**	**884,562**	**2,731**	**979,478**	**113,560**	**865,918**

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

1.2. Market risks

The existing limit system defines a careful and balanced management of the operational autonomy, establishing limits in terms of portfolio amounts and composition by type of security.

With regard to market risk, in the last quarter the Banca Sistema Group purchased tax credits from "Eco-Sisma bonus 110%" for trading purposes.

1.2.1 Interest rate risk and price risk - regulatory trading book

Qualitative disclosure

No positions to report.

1.2.2 Interest rate risk and price risk - Banking Book

Qualitative disclosure

A. General aspects, management procedures and methods of measuring the interest rate risk and the price risk

Interest rate risk is defined as the risk that the financial assets/liabilities increase/decrease because of movements contrary to the interest rate curve. The Bank identified the sources that generate interest rate risk with reference to the credit processes and to the Bank’s funding.

In order to assess the interest rate risk of the banking book, the Bank, in accordance with the supervisory rules, determined the interest rate risk of the banking book in terms of potential changes in economic value (EVE) and change in net interest income (NII). To do so, the Bank used the simplified methodologies proposed respectively in Annexes C and C-bis of Circular No. 285/2013 Title III, Chapter 1.

In greater detail, the process of estimating the exposure to interest rate risk of the banking book provided by the simplified method is organised in the following phases:

- Determination of material currencies. In particular, "relevant currencies" are always those that represent more than 5% of total banking book assets or liabilities, where the sum of the assets or liabilities included in the calculation is less than 90% of total non-trading book financial assets (excluding tangible fixed assets) or liabilities; positions below the 5% threshold must also be included in the valuation. For the purposes of the methodology for calculating exposure to interest rate risk, the positions denominated in “material currencies” are considered individually, while the positions in “non-material currencies” are aggregated for the equivalent amount in Euro; As a result, offsetting of amounts expressed in different currencies is only permitted for "non-relevant currencies";
- Classification of the assets and liabilities in time buckets. 19 time buckets are defined. The fixed-rate assets and liabilities are classified based on their residual maturity, while those at floating rates based on the interest rate renegotiation date. Specific classification rules are prescribed for specific assets and liabilities. With regard to the “bucketisation" of retail current

accounts, a model was implemented that takes into account the behavioural component of customers. With specific reference to “Conto Deposito” funding, the bank has organised it into buckets (“bucketisation”), considering the possibility of withdrawal. It should be noted that at the reporting date, a new model for allocating retail segment demand deposits and prepayments of salary- and pension-backed loans was implemented that considers customer behaviour.

- Within each time bucket, the asset and liability positions are multiplied by the weights derived from the product of a hypothetical change in rates and an approximation of the modified duration for each individual bucket.
- Within each time bucket, the asset positions are offset against the liability positions, so as to obtain a net position.
- Aggregation in the various currencies. The absolute values of the exposures regarding the individual “material currencies” and the aggregate of the “non-material currencies” are summed together, obtaining an amount that represents the change of the economic value of the Bank based on the assumed rate trends.

With reference to the Bank's financial assets, the main sources that generate interest rate risk are loans and receivables with customers and the bond securities portfolio. As concerns the financial liabilities, relevant instead are the customer deposits and savings activities via current accounts, the deposit account, and funding on the interbank market.

Given the foregoing submissions, it should be noted that:

- the interest rates applied to the factoring customers are at a fixed rate and can also be modified unilaterally by the Bank (in compliance with regulations in force and existing contracts);
- the average financial term of the bond securities portfolio is approximately 1.4 years;
- salary- and pension-backed loans are usually stipulated at a fixed rate and are the component most exposed to rising interest-rate risk. As a result, asset swap hedges were put in place in 2023;
- the REPO deposits c/o the Central Bank are of short duration (the maximum maturity is equal to 3 months);
- the customers’ deposits on the deposit account product are at a fixed rate for the entire duration of the constraint, which can be unilaterally renegotiated by the Bank (in compliance with regulations in force and existing contracts);
- the REPO and reverse REPO agreements are generally of short duration, without prejudice to different funding needs.

The Bank continuously monitors the main assets and liabilities subject to interest rate risk; furthermore, hedging instruments were used as at the reporting date.

To estimate the impact on the expected net interest income, as mentioned above, the Bank adopts the simplified method set out in Annex C-bis of Circular 285/2013, based on a "Gap Analysis" approach. Starting with the grouping of all rate-sensitive positions by repricing time buckets, the change in net interest income, for each bucket, is obtained by multiplying the net position subject to repricing by the assumed shock rate and the duration over which interest accrues at the new rate.

Quantitative disclosure

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

EURO

	on demand	up to 3 months	from more than 3 months up to 6 months	from more than 6 months up to 1 year	from more than 1 year up to 5 years	from more than 5 years up to 10 years	more than 10 years	open term
1. Assets	**2,053,329**	**195,087,407**	**59,200**	**83,500**	**73,109,540**	**361,284**	**1,316**	
1.1 Debt instruments	4				306,256			
- with early repayment option								
- other	4				306,256			
1.2 Financing to banks	243,752	14						
1.3 Financing to customers	1,809,573	195,087,393	59,200	83,500	72,803,284	361,284	1,316	
- current accounts	104,207	73,692						
- other financing	1,705,366	195,013,701	59,200	83,500	72,803,284	361,284	1,316	
- with early repayment option	138,082	298,453	28,437	82,957	427,240	237,222	1,316	
- other	1,567,284	194,715,248	30,763	543	72,376,044	124,062		
2. Liabilities	**1,055,176**	**544,200**	**282,656**	**1,406,658**	**767,813**	**50,410**		
2.1 Due to customers	1,039,149	460,080	282,656	915,418	767,813	50,410		
- current accounts	791,130	448,706	273,837	889,424	703,255	43,948		
- other payables	248,019	11,374	8,819	25,994	64,558	6,462		
- with early repayment option								
- other	248,019	11,374	8,819	25,994	64,558	6,462		
2.2 Due to banks	16,027	84,120		491,240				
- current accounts	238							
- other payables	15,789	84,120		491,240				
2.3 Debt instruments								
2.4 Other liabilities								
3. Financial derivatives		**30,259**	**43**	**1,571**	**27,117**	**1,503**	**24**	
3.1 With underlying security								
- Options								
- Other derivatives								
3.2 Without underlying security		181,789	43	1,571	178,647	1,503	24	
- Options		30,259	43	1,571	27,117	1,503	24	
+ long positions			43	1,571	27,117	1,503	24	
+ short positions		30,259						
- Other derivatives								
4. Other off-statement of financial position transactions	**51,658**	**51,658**						
+ long positions		51,658						
+ short positions	51,658							

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

OTHER CURRENCIES

	on demand	up to 3 months	from more than 3 months up to 6 months	from more than 6 months up to 1 year	from more than 1 year up to 5 years	from more than 5 years up to 10 years	more than 10 years	open term
1. Assets	**4,355**							
1.1 Debt instruments								
- with early repayment option								
- other								
1.2 Financing to banks	4,355							
1.3 Financing to customers								
- current accounts								
- other financing								
- with early repayment option								
- other								
2. Liabilities	**4,346**							
2.1 Due to customers	4,346							
- current accounts	4,346							
- other payables								
- with early repayment option								
- other								
2.2 Due to banks								
- current accounts								
- other payables								
2.3 Debt instruments								
- with early repayment option								
- other								
2.4 Other liabilities								
- with early repayment option								
- other								
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ long positions								
+ short positions								
- Other derivatives								
+ long positions								
+ short positions								
3.2 Without underlying security								
- Options								
+ long positions								
+ short positions								
- Other derivatives								
+ long positions								
+ short positions								
4. Other off-statement of financial position transactions								
+ long positions								
+ short positions								

1.2.3 Currency risk

Qualitative disclosure

A. General aspects, management processes and methods of measuring the currency risk

All items are in Euro, except for the security in the HTCS portfolio. The currency risk is limited due to the size of the investment.

Quantitative disclosure

1. Breakdown of assets, liabilities and derivatives by currency of denomination

	Currencies					
	US Dollars	UK Pounds	Yen	Canadian Dollars	Swiss Francs	Other currencies
A. Financial assets	**4,346**	**2**		**1**	**1**	**5**
A.1 Debt instruments						
A.2 Equity instruments						
A.3 Financing to banks	4,346	2		1	1	5
A.4 Financing to customers						
A.5 Other financial assets						
B. Other assets						
C. Financial liabilities	**4,346**					
C.1 Due to banks						
C.2 Due to customers	4,346					
C.3 Debt instruments						
C.4 Other financial liabilities						
D. Other liabilities						
E. Financial derivatives						
- Options						
+ long positions						
+ short positions						
- Other derivatives						
+ long positions						
+ short positions						
Total assets	**4,346**	**2**		**1**	**1**	**5**
Total liabilities	**4,346**					
Difference (+/-)		**2**		**1**	**1**	**5**

1.3 Derivatives and hedging policies

1.3.1 Derivatives held for trading

A. Financial derivatives

No amount was recognised for this item at the reporting date.

B. Credit derivatives

No amount was recognised for this item at the reporting date.

1.3.2 Hedge Accounting

Qualitative disclosure

The Group exercised the option under IFRS 9 to continue to apply the rules under IAS 39 in full for existing hedges.

A. Fair value hedges

The hedging activities implemented by the Banca Sistema Group are intended to protect the banking book from changes in the fair value of loans caused by movements in the interest rate curve (interest rate risk). The Group maintains a generic hedge (macro fair value hedge) on the segregated fixed-rate CQ loans and receivables portfolio within the QS2019 vehicle. The derivative instrument used is plain vanilla interest rate swap (IRS).

B. Cash flow hedging

At the date of these financial statements, no such hedges are in place.

C. Hedges of foreign investments

At the date of these financial statements, no such hedges are in place.

D. Hedging Instruments

The ineffectiveness of the hedge is recognised for the purpose of determining the effect on the income statement and assessing whether hedge accounting rules can continue to be applied.

E. Hedged items

The items hedged are fixed-rate loans.

With regard to the existing macro hedge, the hedged loan portfolio is an open one, meaning that 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 macro hedges on fixed-rate loans is periodically verified on the basis of specific prospective and retrospective tests aimed at demonstrating that the portfolio subject to possible hedging contains an amount of assets whose sensitivity profile and changes in fair value due to interest rate risk mirror those of the derivatives used for the hedge.

Quantitative disclosure

A. Hedging derivatives

A.1 Hedging derivatives: end-of-period notional values

Underlying asset/Type of derivative	Total 31.12.2023				Total 31.12.2022			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central Counterparties	Without central counterparties			Central Counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Debt securities and interest rates		**151,530**						
a) Options								
b) Swaps		151,530						
c) Forwards								
d) Futures								
e) Others								
Equities and stock indices								
a) Options								
b) Swaps								
c) Forwards								
d) Futures								
e) Other								
Foreign exchange rates and gold								
a) Options								
b) Swaps								
c) Forwards								
d) Futures								
e) Other								
Commodities								
Other								
Total		**151,530**						

A.2 Hedging derivatives: gross positive and negative fair value - breakdown by product

Type of derivative	Total 31.12.2023				Total 31.12.2022				Change in value used to calculate hedge effectiveness	
	Over the counter			Organised markets	Over the counter			Organised markets		
	Central Counterparties	Without central counterparties			Central Counterparties	Without central counterparties				
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements		Total 31.12.2023	Total 31.12.2022
Positive fair value										
a) Options										
b) Interest rate swap										
c) Cross currency swap										
d) Equity swap										
e) Forwards										
f) Futures										
g) Other										
Total										
Negative fair value										
a) Options										
b) Interest rate swap		**(3,646)**								
c) Cross currency swap										
d) Equity swap										
e) Forwards										
f) Futures										
g) Other										
Total		**(3,646)**								

A.3 OTC hedging derivatives: notional values, gross positive and negative fair values by counterparty

Underlying asset	Central counterparties	Banks	Other financial companies	Other counterparties
Contracts not included under netting				
1) Debt securities and interest rates				
2) Equities and stock indices				
3) Foreign exchange rates and gold				
4) Commodities				
5) Other				
Contracts included under netting agreements				
1) Debt securities and interest rates				
notional amount		151.530		
positive fair value				
negative fair value		3.646		
2) Equities and stock indices				
3) Foreign exchange rates and gold				
4) Commodities				
5) Other				

A.4 Residual life of OTC hedging derivatives: notional values

Underlying/Residual maturity	Up to 1 year	Between 1 and 5 years	Over 5 year	Total
A.1 Financial derivatives on debt securities and interest rates		151.530		151.530
A.2 Financial derivatives on equities and stock indices				
A.3 Financial derivatives on foreign exchange rates and gold				
A.4 Financial derivatives on commodities				
A.5 Other financial derivatives				
Total 31.12.2023		**151.530**		**151.530**
Total 31.12.2022				

B. Hedging credit derivatives

No amount was recognised for this item at the reporting date.

C. Non-derivative hedging instruments

No amount was recognised for this item at the reporting date.

D. Hedged instruments

D.1 Fair value hedges

	Microhedges: book value	Micro-hedges – net positions: book value of assets and liabilities (prior to netting)	Micro-hedges			Macrohedges: book value
			Cumulative fair value changes (hedged instrument)	Termination of hedging: residual cumulative fair value changes	Changes in value used to assess hedge ineffectiveness	
A. Assets						
1. Financial assets designated at fair value through other comprehensive income – hedging of:						
1.1 Debt securities and interest rates						X
1.2 Equities and stock indices						X
1.3 Foreign exchange rates and gold						X
1.4 Loans						X
1.5 Other						X
2. Financial assets measured at amortised cost - hedging of:						184.471
1.1 Debt securities and interest rates						X
1.2 Equities and stock indices						X
1.3 Foreign exchange rates and gold						X
1.4 Loans						X
1.5 Other						X
Total 31.12.2023						
Total 31.12.2022						
B. Liabilities						
1. Financial liabilities measured at amortised cost - hedging of:						
1.1 Debt securities and interest rates						X
1.2 Foreign exchange rates and gold						X
1.3 Other						X
Total 31.12.2023						
Total 31.12.2022						

D.2 Cash flow hedge and hedge of foreign investments

No amount was recognised for this item at the reporting date.

E. Effects of hedging transactions on equity

No amount was recognised for this item at the reporting date.

1.4 Liquidity risk

Qualitative disclosure

A. General aspects, management processes and methods of measuring the liquidity risk

Liquidity risk is represented by the possibility that the Group is unable to maintain its payment commitments due to the inability to procure funds or to the inability to sell assets on the market to manage the financial imbalance. It is also represented by the inability to procure adequate new financial resources, in terms of amount and cost, with respect to operational need/advisability, that forces the Group to slow or stop the development of activity, or to incur excessive funding costs to deal with its commitments, with significant negative impacts on the profitability of its activity.

The financial sources are represented by capital, funding from customers, the funds procured on the domestic and international interbank market as well from the Eurosystem.

To monitor the effects of the intervention strategies and to limit the liquidity risk, the Group identified a specific section dedicated to monitoring the liquidity risk in the Risk Appetite Framework (RAF).

Furthermore, in order to promptly detect and manage any difficulties in procuring the funds necessary to conduct its activity, every year, Banca Sistema, consistent with the prudential supervisory provisions, updates its liquidity policy and Contingency Funding Plan, i.e. the set of specific intervention strategies in case of liquidity stress, establishing procedures to procure funds in the event of an emergency.

This set of strategies is of fundamental importance to attenuate liquidity risk.

The aforesaid policy defines, in terms of liquidity risk, the objectives, the processes and the intervention strategies in case of liquidity stress, the organisational structures responsible for implementing the interventions, the risk indicators, the relevant calculation method and warning thresholds, and procedures to procure the funding sources that can be used in case of emergency.

In 2023, the Bank continued to pursue a particularly prudent financial policy aimed at funding stability.

To date, the financial resources available are satisfactory for the current and forward-looking volumes of activity. The Bank is continuously active ensuring a coherent business development, always in line with the composition of its financial resources.

In particular, Banca Sistema, prudentially, has constantly maintained a high quantity of securities and readily liquid assets to cover all of the deposits and savings products. Moreover, the Bank uses as source of funding the ABS securities of the securitisation transactions, whose SPVs were established solely for funding purposes. In the case of self-securitisations, the receivables assigned to the SPV remain entirely recognised in the Bank's financial statements. Details of the ABS securities of the existing securitisations are provided below.

At 31 December 2023, the characteristics of the securities of the Quinto Sistema Sec. 2017 transaction were as follows.

Quinto Sistema Sec. 2017	ISIN	Amount outstanding at 31.12.2023	Rating (DBRS/Moody's)	Interest Rate	Maturity
Class A (senior)	IT0005246811	239.780	AA-low/ Aa3	0,40%	2034
Class B1 (mezzanine)	IT0005246837	50.400	A / A2	0,50%	2034
Class B2 (sub-mezzanine)	IT0005246845	26.354	n.a.	0,50%	2034
Class C (junior)	IT0005246852	2.520	n.a.	0,50%	2034
		319.055			

The transaction is held entirely by Banca Sistema, which uses the senior securities in bilateral ECB and repo transactions under the GMRA framework, and the class B1 security in repo transactions under the GMRA framework.

At 31 December 2023, the characteristics of the securities of the Quinto Sistema Sec. 2019 transaction were as follows.

Quinto Sistema Sec. 2019	ISIN	Amount outstanding at 31.12.2023	Rating (DBRS/Moody's)	Interest Rate	Maturity
Class A (senior)	IT0005382996	132.137	Not Rated	Euribor1M+1,30%	2038
Class B (mezzanine)	IT0005383002	19.400	Not Rated	0,50%	2038
Class C (junior)	IT0005383010	34.500	Not Rated	0,50%	2038
		186.037			

The senior security is held by a third party for funding purposes.
At 31 December 2023, the characteristics of the securities of the BS IVA SPV transaction were as follows.

BS IVA SPV	ISIN	Amount outstanding at 31.12.2023	Rating	Interest Rate	Maturity
Class A Notes (senior)	IT0005218802	32.152	n.a.	Euribor3M+1,00%	2038
Class B Notes (junior)	IT0005218810	12.792	n.a.	0,50%	2038
		44.944			

Quantitative disclosure

1. Breakdown of financial assets and liabilities by remaining contractual term

EURO

	on demand	from more than 1 day up to 7 days	from more than 7 days up to 15 days	from more than 15 days up to 1 month	from more than 1 month up to 3 months	from more than 3 months up to 6 months	from more than 6 months up to 1 year	from more than 1 year up to 5 years	More than 5 years	Open term
Assets	**1,866,352**	**4,295**	**7,049**	**33,024**	**188,095**	**144,634**	**581,577**	**907,848**	**330,270**	
A.1 Government securities			409		316	805	346,530	301,994		
A.2 Other debt instruments				306		306	613			
A.3 OEIC units										
A.4 Financing	1,866,352	4,295	6,640	32,718	187,779	143,523	234,434	605,854	330,270	
- banks	43,978			14						
- customers	1,822,374	4,295	6,640	32,704	187,779	143,523	234,434	605,854	330,270	
Liabilities	**916,725**	**75,015**	**49,857**	**98,332**	**299,929**	**296,924**	**1,453,624**	**767,813**	**50,410**	
B.1 Deposits and current accounts	765,613	64,846	49,857	98,295	249,642	287,046	935,411	703,255	43,948	
- banks										
- customers	765,613	64,846	49,857	98,295	249,642	287,046	935,411	703,255	43,948	
B.2 Debt instruments										
B.3 Other liabilities	151,112	10,169		37	50,287	9,878	518,213	64,558	6,462	
Off-statement of financial position transactions	**567,025**						**56,691**	**10,074**		
C.1 Financial derivatives with exchange of principal										
- long positions										
- short positions										
C.2 Financial derivatives without exchange of principal										
- long positions										
- short positions										
C.3 Deposits and financing to be received										
- long positions										
- short positions										
C.4 Commitments to disburse funds	555,552						51,308			
- long positions	251,947						51,308			
- short positions	303,605									
C.5 Financial guarantees issued	11,473						5,383	10,074		
C.6 Financial guarantees received										
C.7 Credit derivatives with exchange of principal										
- long positions										
- short positions										
C.8 Credit derivatives without exchange of principal										
- long positions										
- short positions										

1. Breakdown of financial assets and liabilities by remaining contractual term

OTHER CURRENCIES

	on demand	from more than 1 day up to 7 days	from more than 7 days up to 15 days	from more than 15 days up to 1 month	from more than 1 month up to 3 months	from more than 3 months up to 6 months	from more than 6 months up to 1 year	from more than 1 year up to 5 years	More than 5 years	Open term
Assets	**4,376**									
A.1 Government securities										
A.2 Other debt instruments										
A.3 OEIC units										
A.4 Financing	4,376									
- banks	4,376									
- customers										
Liabilities	**4,346**									
B.1 Deposits and current accounts	4,346									
- banks										
- customers	4,346									
B.2 Debt instruments										
B.3 Other liabilities										
Off-statement of financial position transactions										
C.1 Financial derivatives with exchange of principal										
C.2 Financial derivatives without exchange of principal										
C.3 Deposits and financing to be received										
C.4 Commitments to disburse funds										
C.5 Financial guarantees issued										
C.6 Financial guarantees received										
C.7 Credit derivatives with exchange of principal										
C.8 Credit derivatives without exchange of principal										

The positions shown relate solely to the US dollar.

With reference to the financial assets subject to “self-securitisation”, at the end of 2023, Banca Sistema has three securitisation transactions in place.

1.5 Operational risks

Qualitative disclosure

Operational risk is the risk of loss arising from inadequate or non-functioning internal processes, human resources or systems, or from external events. This type of risk includes - among other things - the ensuing losses from fraud, human errors, business disruption, unavailability of systems, breach of contract, and natural catastrophes. Operational risk, therefore, refers to other types of events that, under present conditions, would not be individually relevant if not analysed jointly and quantified for the entire risk category.

A. General aspects, management processes and methods of measuring operational risk

In order to calculate the internal capital generated by the operational risk, the Group adopts the Basic Indicator Approach, which provides for the application of a regulatory coefficient (equal to 15%) to the three-year average of the relevant indicator defined in Article 316 of Regulation (EU) no. 575/2013 of 26 June 2013. The above-said indicator is given by the sum (with sign) of the following elements:

- interest and similar income;
- interest and similar expense;
- income on shares, quotas and other variable/fixed yield securities;
- income for commissions/fees;
- expense for commissions/fees;
- profit (loss) from financial transactions;
- other operating income.

Consistent with that provided for by the relevant legislation, the indicator is calculated gross of provisions and operating costs; also excluded from computation are:

- profits and losses on the sale of securities not included in the trading portfolio;
- income deriving from non-recurring or irregular items;
- income deriving from insurance.

As of 2014, the Bank measured the operational risk events via a qualitative performance indicator (IROR - Internal Risk Operational Ratio) defined within the operational risk management and control process (ORF - Operational Risk Framework). This calculation method allows a score to be defined between 1 and 5, inclusive (where 1 indicates a low risk level and 5 indicates a high risk level) for each event that generates an operational risk.

The Bank assesses and measures the level of the identified risk by also considering the controls and the mitigating actions implemented. This method requires a first assessment of the possible associated risks in terms of probability and impact ("Gross risk level") and a subsequent analysis of the existing controls (qualitative assessment on the effectiveness and efficiency of the controls) which could reduce the gross risk, based on which the specific risk levels ("Residual risk") are determined. Finally, the residual risks are mapped on a predefined scoring grid, useful for the subsequent calculation of IROR via appropriate aggregation of the scores defined for the individual operational procedure.

Moreover, the Bank assesses the operational risk associated with the introduction of new products, activities, processes and relevant systems mitigating the onset of the operational risk via a preliminary evaluation of the risk profile.

The Bank places strong emphasis on possible ICT risks. The Information and Communication Technology (ICT) risk is the risk of incurring financial, reputational and market losses in relation to the use of information and communication technology. In the supplemented representation of the business risks, this type of risk is considered, in accordance with the specific aspects, among operational, reputational and strategic risks.

The Bank monitors the ICT risks based on the continuous information flows between the departments concerned defined in its IT security policies.

In order to conduct consistent and complete analyses with respect to the activities performed by the Bank's other control departments, the results of the compliance risks audits conducted by the Compliance and Anti-Money Laundering Department were shared internally with the Internal Control and Risk Management Committee, as well as with the CEO. The Internal Audit Department also monitors the Bank's operations and processes to ensure they are properly carried out and assesses the overall effectiveness and efficiency of the internal control system put in place to oversee activities that are exposed to risks.

Finally, as an additional protection against operational risk, the Bank:

- provides for insurance coverage on the operational risks deriving from actions of third parties or caused to third parties. In order to select the insurance coverage, the Bank initiated specific assessment activities, with the support of a primary market broker, to identify the best offers in terms of price/conditions proposed by several insurance undertakings;
- provided for appropriate contractual riders to cover damages caused by infrastructure and service suppliers;
- has planned an update of the Business Continuity Plan;
- provides for tools to counter cyber attacks via e-mail (phishing);
- provides for the simulation of phishing attacks to assess the ability of users to respond;
- has planned a periodic update of the IT security policy.

PART F - INFORMATION ON EQUITY

Section 1 - Equity

A. Qualitative disclosure

The objectives pursued in the Group’s equity management are inspired by the prudential supervisory provisions, and are oriented towards maintaining adequate levels of capitalisation to take on risks typical to credit positions.

The income allocation policy aims to strengthen the Group's capital with special emphasis on common equity, to the prudent distribution of the operating results, and to guaranteeing a correct balance of the financial position.

B. Quantitative disclosure

B.1 Equity: breakdown

	Prudential consolidation	Insurance companies	Other companies	Consolidated adjustments	Total
1. Share capital	9,651		250	(250)	9,651
2. Share premium	39,100				39,100
3. Reserves	168,623		96	(53)	168,667
- income-related	167,317		96	(53)	167,361
a) legal	2,101				2,101
b) established under the Articles of Association					-
c) treasury shares					-
d) other	165,216		96	(53)	165,260
- other	1,306				1,306
4. Equity instruments	45,500				45,500
3.5 Interim dividends (-)					-
5. (Treasury shares)	(355)				(355)
6. Valuation reserves	(12,353)				(12,353)
- Equity instruments designated at fair value through other comprehensive income	(586)				(586)
- Hedging of equity instruments designated at fair value through other comprehensive income					-
- Financial assets (other than equity instruments) measured at fair value through other comprehensive income	(11,634)				(11,634)
- Property and equipment					-
- Intangible assets					-
- Hedges of foreign investments					-
- Cash flow hedges					-
- Hedging instruments (non-designated elements)					-
- Exchange rate gains (losses)					-
- Non-current assets held for sale and disposal groups					-
- Financial liabilities designated at fair value through profit or loss (changes in own credit rating)					-
- Net actuarial gains (losses) on defined benefit pension plans	(133)				(133)
- Shares of valuation reserves of equity-accounted investees					-
- Special revaluation laws					-
7. Profit (loss) for the year	16,550		(44)		16,506
Total	**266,716**		**303**	**(303)**	**266,716**

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

	31.12.2023		31.12.2022	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities		11,634		24,400
2. Equity instruments		586		543
3. Financing				
Total		**12,220**		**24,943**

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

	Debt instruments	Equity instruments	Financing
1. Opening balance	**(24,400)**	**(543)**	
2. Increases	**19,338**	**400**	
2.1 Fair value gains		110	
2.2 Impairment losses due to credit risk		X	
2.3 Reclassifications of negative reserves to profit or loss on sale		X	
2.4 Transfers to other equity items (equity instruments)			
2.5 Other increases	19,338	290	
3. Decreases	**6,572**	**443**	
3.1 Fair value losses		175	
3.2 Impairment gains due to credit risk	177		
3.3 Reclassifications of positive reserves to profit or loss: on sale	X		
3.4 Transfers to other equity items (equity instruments)			
3.5 Other decreases	6,395	268	
4. Closing balance	**(11,634)**	**(586)**	

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

	31.12.2023
A. Opening balance	**52**
B. Increases	**79**
B.1 Actuarial gains	
B.2 Other increases	79
C. Decreases	**264**
C.1 Actuarial losses	
C.2 Other decreases	264
D. Closing balance	**(133)**
Total	**(133)**

Section 2 - Own funds and capital ratios

2.1 Own funds

A. Qualitative disclosure

Own funds, risk-weighted assets and solvency ratios as at 31 December 2023 were determined based on the provisions for Banks contained in Directive 2013/36/EU (CRD IV) and in Regulation (EU) 575/2013 (CRR) of 26 June 2013, that transpose in the European Union the standards defined by the Basel Committee on Banking Supervision (the so-called Basel 3 framework), and based on Bank of Italy Circulars no. 285 and no. 286 (enacted in 2013).

It should be noted that the mitigating measure provided for in Article 468 of the CRR concerning the full or partial neutralisation of the reserve requirement (HTCS) on government securities (part of a package of reforms to the Basel III rules) is expected to enter into force by the end of 1H24.

Reconciliation of Group equity and Own Funds

	31.12.2023	31.12.2022
Equity	266,716	245,872
Dividends distributed and other foreseeable expenses	(5,227)	(5,227)
Equity assuming dividends are distributed to shareholders	**261,489**	**240,645**
Regulatory adjustments	**(39,928)**	**(28,904)**
- Deduction of intangible assets	(32,370)	(32,393)
- Prudent valuation adjustment (1)	(742)	(558)
- Prudential filter for insufficient coverage of NPEs	(4,038)	(1,186)
- Prudential filter pursuant to art. 468	-	9,760
- Other adjustments	(2,778)	(4,528)
Equity instruments not eligible for inclusion in CET1	(45,500)	(45,500)
Eligible equity attributable to non-controlling interests	8,248	8,734
Common Equity Tier 1 (CET1)	**184,309**	**174,975**
Equity instruments eligible for inclusion in AT1	45,500	45,500
Additional Tier 1 (AT1) capital	**229,809**	**220,475**
Tier 2 Capital	252	193
Total Own Funds	**230,061**	**220,668**

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

A. Quantitative disclosure

	31.12.2023
A. Common Equity Tier 1 (CET1) before application of prudential filters	221,216
of which CET 1 instruments covered by transitional measures	-
B. CET1 prudential filters (+/-)	8,248
C. CET1 including items to be deducted and the effects of the transitional regime (A+/-B)	**229,464**
D. Items to be deducted from CET1	45,155
E. Transitional regime - Impact on CET (+/-)	-
F. Total Common Equity Tier 1 (CET1) (C-D+/-E)	**184,309**
G. Additional Tier 1 (AT1) including items to be deducted and the effects of the transitional regime	45,500
of which AT1 instruments covered by transitional measures	-
H. Items to be deducted from AT1	-
I. Transitional regime - Impact on AT1 (+/-)	-
L. Total Additional Tier 1 (AT1) (G-H+/-I)	**45,500**
M. Tier 2 (T2) including items to be deducted and the effects of the transitional regime	252
of which T2 instruments covered by transitional measures	-
N. Items to be deducted from T2	-
O. Transitional regime - Impact on T2 (+/-)	-
P. Total Tier 2 (T2) (M-N+/-O)	**252**
Q. Total Own Funds (F+L+P)	**230,061**

2.2 Capital adequacy

A. Qualitative disclosure

Total own funds were € 230 million at 31 December 2023 and included the profit for the year, net of dividends estimated on the profit for the year which were equal to a pay-out of 37% of the Parent's profit.

As at 31 December 2023, the Group had a CET1 capital ratio equal to 12.9%, a Tier 1 capital ratio equal to 16.1% and a Total capital ratio of 16.1%.

	Unweighted amounts		Weighted amounts/requirements	
	31.12.2023	31.12.2022	31.12.2023	31.12.2022
A. EXPOSURES				
A.1 Credit and counterparty risk	5,454,689	6,461,152	1,220,002	1,194,472
1. Standardised approach	5,454,689	6,461,152	1,220,002	1,194,472
2. Internal ratings based approach				
2.1 Basic				
2.2 Advanced				
3. Securitisations				
B. CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			97,600	95,558
B.2 Credit valuation adjustment risk			29	157
B.3 Settlement risk				
B.4 Market risk			255	
1. Standard approach			255	
2. Internal models				
3. Concentration risk				
B.5 Operational risk			15,237	15,105
1. Standard approach			15,237	15,105
2. Internal models				
3. Concentration risk				
B.6 Other calculation elements				
B.7 Total prudential requirements			113,121	110,820
C. EXPOSURES AND CAPITAL RATIOS			**1,427,705**	**1,385,244**
C.1 Risk-weighted assets			1,427,705	1,385,244
C.2 CET1 capital/risk-weighted assets (CET1 Capital Ratio)			12.9%	12.6%
C.3 Tier 1 capital/risk-weighted assets (Tier 1 Capital Ratio)			16.1%	15.9%
C.4 Total Own Funds/risk-weighted assets (Total Capital Ratio)			16.1%	15.9%

PART G - BUSINESS COMBINATIONS

Section 1 - Transactions performed in the year

No transactions to report.

Section 2 - Transactions performed after the end of the year

No transactions to report.

Section 3 - Retrospective adjustments

No transactions to report.

PART H - RELATED PARTY TRANSACTIONS

Related party transactions, including the relevant authorisation and disclosure procedures, are governed by the "Procedure governing related party transactions" approved by the Board of Directors and published on the internet site of the Parent, Banca Sistema S.p.A.

Transactions between Group companies and related parties were carried out in the interests of the Bank, including within the scope of ordinary operations; these transactions were carried out in accordance with market conditions and, in any event, on the basis of mutual financial advantage and in compliance with all procedures.

With respect to transactions with parties who exercise management and control functions in accordance with art. 136 of the Consolidated Law on Banking, they are included in the Executive Committee resolution, specifically authorised by the Board of Directors and with the approval of the Statutory Auditors, subject to compliance with the obligations provided under the Italian Civil Code with respect to matters relating to the conflict of interest of directors.

Pursuant to IAS 24, the related parties of Banca Sistema include:

- shareholders with significant influence;
- companies belonging to the banking Group;
- companies subject to significant influence;
- key management personnel;
- the close relatives of key management personnel and the companies controlled by (or connected with) such personnel or their close relatives.

1. Disclosure on the remuneration of key management personnel

The following data show the remuneration of key management personnel, as per IAS 24 and Bank of Italy Circular no. 262 of 22 December 2005 as subsequently updated, which requires the inclusion of the members of the Board of Statutory Auditors.

In thousands of Euro	Board of Directors	Board of Statutory Auditors	Other managers	31.12.2023
Remuneration to Board of Directors and Board of Statutory Auditors	2,877	241		3,118
Short-term benefits for employees			3,365	3,365
Post-employment benefits	146		319	465
Other long-term benefits	270		88	358
Termination benefits				
Share-based payments	240		46	286
Total	**3,533**	**241**	**3,819**	**7,593**

2. Disclosure on related party transactions

The following table shows the assets, liabilities, guarantees and commitments as at 31 December 2023, differentiated by type of related party with an indication of the impact on each individual caption.

In thousands of Euro	Directors, Board of Statutory Auditors and key management personnel	Other related parties	% of caption
Loans and receivables with customers	245	82,651	2.4%
Due to customers	1,942	53,621	1.7%

The following table indicates the costs and income for 2023, differentiated by type of related party.

In thousands of Euro	Directors, Board of Statutory Auditors and key management personnel	Other related parties	% of caption
Interest income	5	5	0.0%
Interest expense	98	643	0.7%

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

In thousands of Euro	Amount (Thousands of Euro)	Percentage (%)
LIABILITIES	**6,372**	**0.1%**
Due to customers	**-**	**0.0%**
Shareholders - SGBS	84	0.0%
Shareholders - Fondazione CR Alessandria	856	0.0%
Shareholders - Fondazione Pisa	57	0.0%
Shareholders - Fondazione Sicilia	5,375	0.2%

PART I - SHARE-BASED PAYMENT PLANS

Qualitative disclosure

As indicated in the 2023 Policies Document, Banca Sistema, having a four-year average of total assets of less than € 5 billion and not belonging to a group with assets worth more than € 30 billion, is considered to be a ''smaller and less complex bank''.

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

The Bank indicates 25% of average total remuneration of Italian high earners, as shown in the latest EBA report (published in January 2023) and relating to data processed at the end of 2021, as being a particularly high level of variable remuneration. The variable remuneration for "key personnel" relating to the performance of the year 2023 will be paid as follows, after the approval of the financial statements, subject to verification of compliance with the gates and the actual availability of the bonus pool according to the following methods:

- amounts equal to or lower than € 50,000 of variable remuneration, provided that this does not represent more than one third of the beneficiary's total annual remuneration: entirely up-front and in cash;
- amounts greater than € 50,000 and up to € 424,260 or where the condition referred to in the previous point is not met:
  - up-front and in cash for 70%;
  - for the remaining 30%: deferred in the first and second subsequent year, with payment according to the pro-rata criterion equal to 15%;
- for amounts greater than € 424,260:
  - up-front and in cash for 60%;
  - for the remaining 40%: deferred in the first and second subsequent year, with payment according to the pro-rata criterion equal to 20%.

Given the new provisions of the Bank of Italy Circular, which allow banks with assets of less than € 5 billion (as an average of the last four years) to neutralise the provisions relating to the disbursement of variable remuneration in financial instruments and to solely apply an "appropriate" deferral period, Banca Sistema intends to make use of this simplification and apply the abovementioned cash payment schemes for the payment of variable remuneration starting from 2023 (without prejudice to any regulatory updates and/or the achievement of the size thresholds indicated by Circular 285). The foregoing is without prejudice to the allocation of up-front and deferred portions in shares relating to past years in accordance with the rules set out in the relevant Policies of the same years.

Disclosure of the fees paid to the independent auditors

Pursuant to the provisions of Art. 149 duodecies of the Consob Issuers' Regulations, the information regarding the fees paid to the independent auditors BDO Italia S.p.A. and to the companies included in the same network is reported below for the following services:

1. Audit services that include:
   - The audit of the annual accounts, for the purpose of expressing an opinion thereon.
   - The audit of the interim accounts.

2. Certification services that include tasks whereby the auditor evaluates a specific element, the determination of which is performed by another party who is responsible thereof, through appropriate criteria, in order to express a conclusion that provides the recipient party with a degree of confidence concerning said specific element.

3. Tax advisory services.

4. Other services.

The fees presented in the table, pertaining to 2023, are those contracted, without index-linking (and excluding out-of-pocket expenses, any supervisory contribution and VAT).

They do not include, in accordance with the cited provision, the fees paid to any secondary auditors or to parties of the respective networks.

Type of services	Entity providing the service	Entity receiving the service	Remuneration
Audit	BDO Italy	Banca Sistema	206
Other certifications	BDO Italy	Banca Sistema	110
Audit	BDO Italy	LASS	14
Audit	BDO Italy	QS 2017	22
Audit	BDO Italy	Kruso Kapital	61
Audit	BDO Greece	Kruso Kapital - Greece	8
Total			**421**

PART L - SEGMENT REPORTING

For the purposes of segment reporting as per IFRS 8, the income statement is broken down by segment as follows.

Breakdown by segment as at 31 December 2023

Income statement (€,000)	Factoring Division	CQ Division	Collateralised Lending Division	Corporate Centre	Group Total
Net interest income	64,106	(4,600)	7,435	15	66,955
Net fee and commission income (expense)	7,738	(315)	11,970	254	19,647
Dividends and similar income	158	69	-	-	227
Net trading income (expense)	2,878	(101)	-	-	2,776
Gain from sales or repurchases of financial assets/liabilities	8,581	5,346	-	-	13,927
Total income	**83,460**	**399**	**19,405**	**268**	**103,532**
Net impairment losses on loans and receivables	(4,543)	42	(73)	(1)	(4,575)
Net financial income (expense)	**78,917**	**441**	**19,331**	**267**	**98,957**

Statement of Financial Position (€,000)	Factoring Division	CQ Division	Collateralised Lending Division	Corporate Centre	Group Total
Cash and cash equivalents	174,646	75,850	-	-	250,496
Financial assets (HTS and HTCS)	401,589	174,413	-	-	576,002
Loans and receivables with banks	870	56	-	-	926
Loans and receivables with customers	2,452,082	820,586	121,408	1,279	3,395,355
loans and receivables with customers - loans	2,409,480	802,083	121,408	1,279	3,334,250
loans and receivables with customers - debt instruments	42,602	18,503	-	-	61,105
Due to banks	-	-	-	644,263	644,263
Due to customers	56,444	-	-	3,176,323	3,232,767

This segment reporting includes the following divisions:

- Factoring Division, which includes the business segment related to the origination of trade and tax receivables with and without recourse and the management and recovery of default interest. In addition, the division includes the business segment related to the origination of state-guaranteed loans to SMEs disbursed to factoring customers and the management and recovery of receivables on behalf of third parties;
- CQ Division, which includes the business segment related to the purchase of salary- and pension-backed loans (CQS/CQP) portfolios and salary- and pension-backed loans disbursed through the direct channel;

- Collateralised Lending Division, which includes the business segment related to collateral-backed loans;
- Corporate Division, which includes activities related to the management of the Group's financial resources and costs/income in support of the business activities. In particular, the cost of funding managed in the central treasury pool is allocated to the divisions via an internal transfer rate ("ITR"), while income from the management of the securities portfolio and income from liquidity management (the result of asset and liability management activities) is allocated entirely to the business divisions through a pre-defined set of drivers. The division also includes income from the management of SME loan run-offs.

The secondary disclosure by geographical segment has been omitted as immaterial, since the customers are mainly concentrated in the domestic market.

PART M - LEASE DISCLOSURE

SECTION 1 - LESSEE

Qualitative disclosures

The Bank has contracts that fall within the scope of IFRS 16 attributable to the following categories:

- Property used for business and personal purposes;
- Cars.

At 31 December 2023, there were 51 leases, 17 of which were property leases for a total right of use value of € 3.68 million, while 34 were for cars, for a total right of use value of € 0.6 million. Property leases, which refer to lease payments for buildings used for business purposes such as offices and for personal use, have terms exceeding 12 months and typically have renewal and termination options that may be exercised by the lessor and the lessee as provided for by law.

Contracts referring to other leases are long-term leases for cars which are generally used exclusively by the employees to whom they are assigned. These contracts have a maximum term of 5 years with monthly lease payments, no renewal option, and no option to purchase the asset.

Contracts with a term of less than 12 months or those for which the replacement value of the individual leased asset is low, i.e. less than € 20 thousand, are excluded from the application of the standard.

Quantitative disclosures

The following table provides a summary of the Statement of Financial Position items relating to leases expressed in Euro; for further information, please refer to Part B of the notes to the financial statements:

Type of contract	Right of use (*)	Lease liabilities
Property lease payments	3,829,220	3,529,361
Long-term car lease	577,267	587,247
Total	**4,406,487**	**4,116,608**

(*) This is the right of use value net of accumulated depreciation.

The following table provides a summary of the Income Statement items relating to leases; for further information, please refer to Part B of the notes to the financial statements:

Type of contract	Interest expense	Net impairment losses on property and equipment
Property lease payments	46,915	1,144,732
Long-term car lease	6,739	324,545
Total	**53,654**	**1,469,277**

SECTION 2 - LESSOR

Qualitative disclosures

At the reporting date, the Bank does not engage in leases as a lessor.

STATEMENTS ON THE CONSOLIDATED FINANCIAL STATEMENTS

Statements on the consolidated financial statements in accordance with article 81-ter of Consob Regulation no. 11971 of 14 May 1999 as amended and supplemented

1. The undersigned, Gianluca Garbi, CEO, and Alexander Muz, Manager in charge of financial reporting of Banca Sistema S.p.A., hereby state, having taken into account the provisions of Art. 154-bis, paragraphs 3 and 4, of Legislative Decree no. 58 of 24 February 1998:

- the suitability as regards the characteristics of the bank and
- the effective application of the administrative and accounting procedures for the drafting of the consolidated financial statements during 2023.

2. Reference model

The suitability of the administrative and accounting procedures for the drafting of the consolidated financial statements at 31 December 2023 was assessed based on an internal model defined by Banca Sistema S.p.A. that was designed in a manner consistent with the framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the Control Objectives for IT and Related Technology (COBIT) framework, which represent the reference standards for the internal control system generally accepted on an international level.

3. Moreover, the undersigned hereby state that:

3.1 the consolidated financial statements:

a) were drafted in accordance with the applicable international accounting standards endorsed by the European Union, pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;

b) match the accounting books and records;

c) are suitable for providing a true and fair view of the financial position, results of operations and cash flows of the issuer and all the companies included in the scope of consolidation.

3.2 The Directors' Report includes a reliable analysis of business performance and results, as well as of the position of the issuer and the companies included in the scope of consolidation, together with a description of the main risks and uncertainties to which they are exposed.

Milan, 8 March 2024

Gianluca Garbi
Chief Executive Officer

Alexander Muz
Manager in charge
of financial reporting

INDEPENDENT AUDITORS' REPORT

BANCA SISTEMA GROUP

BANCA SISTEMA S.P.A.

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated January 27 2010 and article 10 of EU Regulation n. 537/2014

Consolidated financial statements as at December 31, 2023

Tel: +39 02 58.20.10
www.bdo.it

Viale Abruzzi, 94
20131 Milano

Independent auditor's Report
pursuant to article 14 of Legislative Decree n. 39, dated January 27 2010
and article 10 of EU Regulation n. 537/2014

To the shareholders of
Banca Sistema S.p.A.

Report on the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Banca Sistema Group (the "Group"), which comprise the consolidated balance sheet as at December 31, 2023, the profit and loss account, the statement of other comprehensive income, the statement of changes in net equity, the cash flow statement for the year then ended, and notes and comments to the financial statements which includes relevant information on applicable accounting standards.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2023 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as the regulation issued to implement article 9 of Legislative Decree NO. 38/05 as well as article 43 of Legislative Decree NO. 136/15.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We are independent of Banca Sistema S.p.A. (the "Company") in accordance with the ethical and independence requirements applicable in Italy to the audit of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

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Key audit matters	Audit responses
CLASSIFICATION AND MEASUREMENT OF LOANS AND RECEIVABLES WITH CUSTOMERS BOOKED UNDER THE FINANCIAL ASSETS MEASURED AT AMORTISED COST	
Notes to the consolidated financial statements: Part A) Accounting policies - paragraph A.2, "Information on the main items of the consolidated financial statements": "Financial assets measured at amortised cost"; Part B) Information on the statement of financial position, Assets - Section 4 "Financial assets measured at amortised cost"; Part C) Information on the income statement - Section 8.1 "Net impairment losses due to credit risk related to financial assets measured at amortised cost: breakdown"; Part E) Information concerning risk and related hedging policies. Loans and receivables with customers, which are booked under the financial assets measured at amortised cost as of December 31, 2023, are equal to Euro 3.395 million and represent the 74% of the Group's total assets. The acquisition by the Company of non-impaired loans claimed by companies supplying goods and services, mainly towards the public administration (the "factoring credits") and origination of credits relating to the sector of the transfers of salary or pension backed loans (the "CQS/CQP credits") represents the Company's main activities. Factoring credits and CQS/CQP credits as of December 31, 2023, are equal to, respectively, Euro 2.117 million and Euro 799 million. For classification purposes, the directors of the Company carry out analyses, sometimes complex, aimed at identifying the positions which, after the disbursement and / or acquisition, show evidence of a possible impairment, considering both internal information related to the trend credit positions, and external information related to the sector of reference or to the overall exposure of such debtors to the banking system. The evaluation of loans and receivables with customers is a complex estimation activity, characterized by a high degree of uncertainty and subjectivity, in which the Company's directors use evaluation models that take into consideration numerous quantitative and qualitative elements such as, among others, historical data relating to collections, expected cash flows and related recovery times, the existence of indicators of possible impairment, the assessment of any guarantee, the impact of macroeconomic variables, future scenarios and risks of the sectors in which the Group customers operate.	Our main audit procedures carried out in response to the key audit matter relating to the classification and measurement of loans and receivables with customers, also carried out with the support of specialists, concerned the following activities: ▪ analysis of the procedures and processes related to the item and verification of the effectiveness of controls to monitor these procedures and processes; ▪ analysis of the adequacy of the IT environment related to IT applications that are relevant to the process of evaluating loans to banks and customers; ▪ procedures for reconciling data between management systems and information reported in the financial statements; ▪ comparative analysis procedures and analysis of the results with the management involved; ▪ analysis of the criteria and methods for the evaluation of credits (analytical and collective) and verification on a sample basis of the reasonableness of the assumptions and of the components used for the assessment and the relative results; ▪ examination on a sample basis of the classification and valuation in the financial statements in accordance with the IFRS adopted by the European Union and the provisions issued pursuant to Article 43 of Legislative Decree 136/2015; ▪ examination of the disclosures provided in the explanatory notes.

For these reasons, we have considered the classification and evaluation of loans and receivables with customers booked under financial assets valued at amortized cost, a significant key matter in the context of our audit.

DETECTION OF DEFAULT INTEREST PURSUANT AND COMPENSATION FEES FOR RECOVERY EXPENSES TO LEGISLATIVE DECREE NO. 231 OF 9 OCTOBER 2002 ON PERFORMING RECEIVABLES ACQUIRED WITHOUT RECOURSE

Notes to the consolidated financial statements: Part A) Accounting policies – paragraph A.2., "Information on the main items of the consolidated financial statements"; Part C) Information on the income statement - Section 1 "interest – item 10 and 20"; Part E) Information concerning risk and related hedging policies

The Company's directors account for accrued default interest pursuant and, beginning in 2023, compensation fees for recovery expenses to legislative decree no. 231 of 9 October 2002 on performing receivables acquired without recourse.

The credits recognized on an accrual basis and compensation fees for recovery expenses reported in the consolidated balance sheet as at December 31, 2023 amount to Euro 78 million. The default interest recognized on an accrual basis as at December 31, 2023, equals to Euro 36,5 million and will be collected in the forthcoming years. This amount includes Euro 18,7 million recognized on an accrual basis from current estimates, Euro 1,2 million due to the update on the recovery estimates and Euro 6,5 million represented by collections in excess with respect to the revenues already recorded on an accrual basis in the previous years, Euro 6,4 million as a result of ECB benchmark rate hikes, Euro 3,7 million resulting from current estimates of compensation fees for recovery expenses.

The default interest and compensation fees for recovery expenses deemed recoverable by the directors of the Company is estimated by using models based on the analysis of the time series concerning the recovery percentages and actual collection times observed internally.

These analyses are periodically updated following the progressive consolidation of the time series.

The aforementioned estimate, characterized by a high degree of uncertainty and subjectivity, is made on the basis of models that take into account numerous quantitative and qualitative elements such as, among others, the historical data relating to collections, expected cash flows, the relative times collection costs and the impact

The main audit procedures carried out in response to the key audit matter relating to the detection of default interest pursuant to legislative decree no. 231 of 9 october 2002 on performing receivables acquired without recourse, also carried out with the support of specialists, concerned the following activities:

- analysis of the procedures and processes related to the item and verification of the effectiveness of controls to monitor these procedures and processes;
- analysis of the adequacy of the IT environment related to IT applications that are relevant to the process of detection of default interest;
- procedures for reconciling data between management systems and information reported in the financial statements;
- comparative analysis procedures and analysis of the results with the management involved;
- analysis of the models used to estimate default interest and examination of the reasonableness of the main assumptions contained in them;
- analysis of the adequacy of the information provided in the explanatory notes.

of the risks associated with the geographical areas in which the Company's customers operate.

For these reasons, we have considered the detection of default interest pursuant and compensation fees for recovery expenses to legislative decree no. 231 of 9 October 2002 on performing receivables acquired without recourse a significant key matter in the context of our audit.

VALUATION OF GOODWILL

Notes to the consolidated financial statements: Part A) Accounting policies – paragraph A.2., "Information on the main items of the consolidated financial statements": "Intangible assets"; Part B) Information on the statement of financial position – Section 10 "Intangible assets"

In the consolidated financial statements as at 31 December 2023, among the intangibles, the Group recorded a goodwill of Euro 33.5 million. As required by the IAS36 "Impairment of assets", goodwill is not a depreciable asset and, as such, it undergoes annually - at least - an "Impairment test". The test is compares the carrying value with the recoverable value of each CGU -which are represented by their value in use.

The impairment test performed by the Holding Company according to and using the DDM methodology with the variant "excess of capital", has highlighted an overestimate of the "value in use" of the CGU if compared to its net accounting value, confirming the recoverability of the goodwill accounted for in the consolidated financial statements.

We focused on this area due to the significance of its amount and the significant judgement and complexity of the evaluation process; the recoverable amount of goodwill is based on the realisation of the assumptions of the strategic plan, discount rates and expected future growth rates and other subjective assumptions.

Our main audit procedures performed in response to the key audit matter regarding the valuation of goodwill, also carried out with the support of specialists, included the following:

- we challenged the reasonableness of the key underlying assumptions of the plan;
- we assessed and challenged the adequacy of the impairment model adopted;
- we assessed the main key underlying assumptions for the impairment model, in particular the ones related to cash flow projections, discount rates, long term growth rates.
- we verified the clerical accuracy of the impairment model adopted.
- we performed sensitivity analysis of the control model of impairment when key assumptions change;
- we verified the disclosures provided in the explanatory notes.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, as well as the regulation issued to implement article 9 of Legislative Decree NO. 38/05 and article 43 of Legislative Decree NO. 136/15 and, within the terms provide by the law, for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the holding Banca Sistema S.p.A. or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also have:

- identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We have communicated with those charged with governance, as properly identified in accordance with ISA Italia, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have also provided those charged with governance with a statement that we have complied with relevant ethical and independence requirements applicable in Italy, and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, actions taken to eliminate relevant risks or the safeguards measures applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described those matters in the auditor's report.

Other information communicated pursuant to article 10 of Regulation (EU) 537/2014

We were initially engaged by the shareholders meeting of Banca Sistema S.p.A. on April 18, 2019 to perform the audit of the separate and the consolidated financial statements of each fiscal year starting from December 31, 2019 to December 31, 2027.

We declare that we did not provide prohibited non audit services, referred to article 5, paragraph 1, of Regulation (EU) 537/2014, and that we remained independent of the company in conducting the audit.

We confirm that the opinion on the consolidated financial statements of Banca Sistema S.p.A. included in this audit report is consistent with the content of the additional report prepared in accordance with article 11 of the EU Regulation n.537/2014, submitted to those charged with governance.

Report on other legal and regulatory requirements

Opinion on the compliance to the requirements of the Delegated Regulation (EU) 2019/815

The directors of Banca Sistema S.p.A. are responsible for the application of the requirements of Delegated Regulation (EU) 2019/815 of European Commission regarding the regulatory technical standards pertaining the electronic reporting format specifications (ESEF – European Single Electronic Format) (hereinafter the "Delegated Regulation") to the consolidated financial statements.

We have performed the procedures required under audit standard (SA Italia) no. 700B in order to express an opinion on the compliance of the consolidated financial statements to the requirements of the Delegated Regulation.

In our opinion, the consolidated financial statements at December 31, 2023 have been prepared in XHTML format and have been marked-up, in all material respects, in compliance to the requirements of the Delegated Regulation.

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

Opinion pursuant to article 14, paragraph 2, letter e), of Legislative Decree n. 39/10 and of article 123-bis of Legislative Decree n. 58/98.

The directors of Banca Sistema S.p.A. are responsible for the preparation of the report on operations and of the corporate governance report of Banca Sistema S.p.A. as at December 31, 2023, including their consistency with the consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and of specific information of the corporate governance report as provided by article 123-bis, paragraph. 4, of Legislative Decree n. 58/98, with the consolidated financial statements of Banca Sistema S.p.A. as at December 31, 2023 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the report on operations and the above mentioned specific information of the corporate governance report are consistent with the consolidated financial statements of Banca Sistema Group as at December 31, 2023 and are compliant with applicable laws and regulations

With reference to the assessment pursuant to article 14, paragraph. 2, letter e), of Legislative Decree n. 39/10 based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Milan, March 29, 2024

BDO Italia S.p.A.

(signed in the original)
Andrea Mezzadra

Partner

As disclosed by the Directors, the accompanying consolidated financial statements of Banca Sistema S.p.A. constitute a non-official version which is not compliant with the provisions of the Commission Delegated Regulation (EU) 2019/815. This independent auditor's report has been translated into the English language solely for the convenience of international readers. Accordingly, only the original text in Italian language is authoritative.

SEPARATE FINANCIAL STATEMENTS
AT 31 DECEMBER 2023

BANCA SISTEMA

DIRECTORS’ REPORT AT 31 DECEMBER 2023

BANCA SISTEMA

SEPARATE FINANCIAL STATEMENTS

AT 31 DECEMBER 2023

DIRECTORS' REPORT AT 31 DECEMBER 2023

INTRODUCTION TO THE DIRECTORS' REPORT OF BANCA SISTEMA S.P.A.

This Directors' Report provides commentary on the Parent's performance and the related figures and results.

For other information required by the applicable legal and regulatory provisions, please see the Directors' Report in the Banca Sistema Group's consolidated financial statements as regards the following:

- composition of management bodies
- composition of the internal committees
- significant events during the year
- the macroeconomic scenario
- factoring
- salary- and pension-backed loans
- funding activities
- composition and organisational structure of the Group
- capital and shares
- risk management and support control methods
- significant events after the reporting date
- business outlook and main risks and uncertainties.

With respect to the notes to the separate financial statements, the sections where reference is made to the consolidated financial statements are provided below:

Referring section of the separate financial statements	**Section of the consolidated financial statements to which reference is made**
Part B Section 9 – Intangible assets – Item 90 Narrative section	Part B Section 10 – Intangible assets – Item 100 Narrative section
Part E Section 1 - Credit risk Qualitative disclosure	Part E Section 2 - Prudential consolidation risks, 1.1 Credit risk Qualitative disclosure
Part E Section 2 - Market risk 2.1- Interest rate risk and price risk - regulatory trading book Qualitative disclosure	Part E 1.2 Market risk 1.2.1- Interest rate risk and price risk - regulatory trading book Qualitative disclosure
Part E Section 2 - Market risk 2.2 Interest rate risk and price risk - Banking Book Qualitative disclosure	Part E 1.2 Market risk 1.2.2 Interest rate risk and price risk - Banking Book Qualitative disclosure
Part E Section 2 - Market risk 2.3 Currency risk Qualitative disclosure	Part E 1.2 Market risk 1.2.3 Currency risk Qualitative disclosure
Part E Section 4 - Liquidity risk Qualitative disclosure	Part E 1.4 Liquidity risk Qualitative disclosure
Part E Section 5 - Operational risks Qualitative disclosure	Part E 1.4 Operational risks Qualitative disclosure

FINANCIAL HIGHLIGHTS AT 31 DECEMBER 2023

31-Dec-23 | 31-Dec-22

Statement of financial position data (€,000)	31-Dec-23	31-Dec-22	%
Total Assets	4,520,687	4,377,941	3.3%
Securities Portfolio	648,681	1,264,016	-48.7%
Loans - Factoring	2,032,443	1,429,794	42.1%
Loans - Salary-backed loans	798,695	933,200	-14.4%
Funding - Banks and REPOs	610,787	1,470,538	-58.5%
Funding - Term Deposits	2,402,002	1,431,548	67.8%
Funding - Current Accounts	752,777	794,878	-5.3%

Income statement data (€,000)	31-Dec-23	31-Dec-22	%
Net interest income	57,188	76,184	-24.9%
Net fee and commission income (expense)	7,136	8,305	-14.1%
Total income	84,085	90,471	-7.1%
Personnel expense	(22,988)	(20,817)	10.4%
Other administrative expenses	(28,880)	(25,546)	13.1%
Profit for the year attributable to the owners of the Parent	14,129	20,887	-32.4%

HUMAN RESOURCES

As at 31 December 2023, the Bank had staff of 208, broken down by category as follows:

FTES	31.12.2023	31.12.2022
Senior managers	23	22
Middle managers (QD3 and QD4)	53	51
Other personnel	132	129
Total	**208**	**202**

In 2023, a total of 27 individuals were recruited to support business expansion, fill staff vacancies or to replace long-term absentee workers. Among these hires, 4 occurred specifically in the fourth quarter with over 77% of these new recruits being offered permanent contracts, primarily in the Factoring Division and the Corporate Centre. An additional 7 positions were filled by existing bank employees who applied through an internal job posting, which serves as the primary tool for job rotation, offering opportunities for professional growth and development to Group employees. The turnover was 6.5 per cent, a decrease compared to the previous three quarters, in which the labour market dynamics were more significant than last year, particularly for certain professional profiles related to technology and data management and operations.

During 2023, the progressive digitalisation of the selection and recruitment process was initiated with the aim of significantly expanding the pool of candidates collected and analysed, as well as the speed of hiring and replacement.

Regarding skills development, the Bank identified professional and technical training requirements related to legal and regulatory issues. During the year, the Bank organized training sessions conducted by both internal and external trainers. These sessions focused on technical and professional training in areas such as anti-money laundering, MiFID II, cybersecurity, and Spanish language training for a total of 221 training days.

The Group continues to provide flexible working arrangements with middle managers and employees in the professional areas having the possibility of working remotely in accordance with the law and through individual agreements signed with those requesting it. Bank employees who perform all their work in-person at the various locations will receive a special welfare credit in 2023 to compensate for the increased transport and meal costs they incur over time.

The average age of Banca Sistema S.p.A. Bank employees is 45.7 for men and 42.1 for women. The breakdown by gender is essentially balanced with men accounting for 50.5% of the total.

INCOME STATEMENT RESULTS

Income statement (€,000)	2023	2022	Change	%
Net interest income	57,188	76,184	(18,996)	-24.9%
Net fee and commission income (expense)	7,136	8,305	(1,169)	-14.1%
Dividends and similar income	227	227	-	0.0%
Net trading income (expense)	2,772	(1,518)	4,290	<100%
Gain from sales or repurchases of financial assets/liabilities	13,926	5,077	8,849	>100%
Net gain (loss) on other financial assets and liabilities measured at FV through profit or loss	2,836	2,196	640	29.1%
Total income	**84,085**	**90,471**	**(6,386)**	**-7.1%**
Net impairment losses on loans and receivables	(4,513)	(8,476)	3,963	-46.8%
Gains/losses from contract amendments without derecognition	(1)	-	(1)	n.a.
Net financial income (expense)	**79,571**	**81,995**	**(2,424)**	**-3.0%**
Personnel expense	(22,988)	(20,817)	(2,171)	10.4%
Other administrative expenses	(28,880)	(25,546)	(3,334)	13.1%
Net accruals to provisions for risks and charges	(3,171)	(4,461)	1,290	-28.9%
Net impairment losses on property and equipment/intangible ass	(1,722)	(1,524)	(198)	13.0%
Other operating income (expense)	(1,921)	897	(2,818)	<100%
Operating costs	**(58,682)**	**(51,451)**	**(7,231)**	**14.1%**
Pre-tax profit	20,889	30,544	(9,655)	-31.6%
Income taxes for the year	**(6,760)**	**(9,657)**	**2,897**	**-30.0%**
Profit for the year	**14,129**	**20,887**	**(6,758)**	**-32.4%**

The 2023 financial year ended with a profit of € 14.1 million, down compared to the previous year, due to a decrease in net interest income caused by an increase in the cost of funding due to market conditions that was not counterbalanced by loan yields, excluding fixed-rate portfolios related to the salary- and pension-backed loan (CQ) business acquired in the past.

Net interest income (€,000)	2023	2022	Change	%
Interest and similar income				
Loans and receivables portfolios	132,768	82,191	50,577	61.5%
Factoring	95,126	54,488	40,638	74.6%
CQ	21,931	20,606	1,325	6.4%
Government-backed loans to SMEs	15,711	7,097	8,614	>100%
Securities portfolio	24,351	5,438	18,913	>100%
Other	9,096	1,311	7,785	>100%
Financial liabilities	-	2,212	(2,212)	-100.0%
Total interest income	**166,215**	**91,152**	**75,063**	**82.3%**
Interest and similar expense				
Due to banks	(20,038)	(527)	(19,511)	>100%
Due to customers	(83,499)	(13,572)	(69,927)	>100%
Securities issued	(5,490)	(863)	(4,627)	>100%
Financial assets	-	(5)	5	-100.0%
Total interest expense	**(109,027)**	**(14,967)**	**(94,060)**	**>100%**
Net interest income	**57,188**	**76,185**	**(18,997)**	**-24.9%**

Interest income was higher compared with the previous year, reflecting the good performance of the Factoring Division (which includes revenue from "factoring" and "Government-backed loans to SMEs"), which offset the increase in the cost of funding allocated to the Division. Interest expense, which continued to benefit from the low cost of funding throughout 2022, increased as a result of the ECB rate hikes over the course of 2023, although the average cost of funding is still well below the ECB rate.

The total contribution of the Factoring Division to interest income was € 111 million, equal to 83% of the entire loans and receivables portfolio, to which the commission component associated with the factoring business and the revenue generated by the assignment of receivables from the factoring portfolio need to be added. The item also includes the interest component tied to the amortised cost of superbonus loans used in compensation amounting to € 3.8 million.

The component owed for late payments pursuant to Legislative Decree 231/02 (consisting of default interest and compensation) legally enforced at 31 December 2023 amounted to € 36.5 million (€ 15.2 million at 31 December 2022):

- of which € 1.2 million resulting from the updated recovery estimates and expected collection times (€ 1.6 million in 2022);
- of which € 6.4 million recorded following the increases in benchmark rates (ECB) in 2022, which led to an increase in the "Legislative Decree No. 231 of 9 October 2002" rate (decree implementing European legislation on late payments) from 8% to 10.5% from 1 January 2023 to 30 June 2023, to 12% from 1 July 2023 to 31 December 2023, and to 12.5% from 1 January 2024;
- of which € 18.7 million resulting from the current recovery estimates (€ 7.5 million in 2022);

- of which €6.5 million (€6.1 million in 2022) coming from the difference between the amount collected during the period, equal to €10.8 million (€10.4 million in 2022) and that recognised on an accruals basis in previous years.
- of which € 3.7 million resulting from the current estimates for the recovery of the € 40 component of the compensation claims pursuant to Article 6 of Legislative Decree No. 231/02.

With reference to compensation claims, it should be noted that the recent ruling of the Court of Justice of the European Union of 20 October 2022, which is also binding for national courts in all Member States, confirmed and clarified the right to recover at least € 40 to be calculated for each overdue invoice to the Public Administration as compensation for the costs of recovering the debt.

Based on this binding clarification, which put an end to often inconsistent and varying application in the courts, the Bank has decided to start including these amounts in its cash flow calculations for recognising the amount receivable using the amortised cost method, in the same way that it does for default interest.

The recognition was based on the same time series and models that are already being used today to recognise default interest, whose model continues to show increasingly higher collection percentages over the years compared to what has been recorded as a receivable. To date, the scope only includes injunctions issued from April 2021, the period from which the Bank began to systematically request compensation. The Bank will move to claim these amounts for all invoices paid late, provided that the injunction has not been closed with a settlement and the right to claim has not lapsed, as even a failure to claim is not the legal equivalent of a waiver. Therefore, the scope over which the amortised cost will be calculated by including the € 40 amount may be expanded over time.

The amount of the stock of default interest from legal actions accrued at 31 December 2023, relevant for the allocation model, was € 129 million (€ 104 million at the end of 2022), which becomes € 234 million when including default interest related to positions with troubled local authorities, a component for which default interest is not allocated in the financial statements, whereas the loans and receivables recognised in the financial statements amount to € 78 million. Therefore, the amount of default interest accrued but not recognised in the income statement is € 155 million.

The contribution from interest from the salary- and pension-backed portfolios amounted to € 21.9 million, up from the previous year from the reduced impact of portfolio prepayment, along with a greater contribution from new loans originated at higher rates, although the effect of lower yield compared to the current market environment on portfolios purchased in previous years remains significant.

The interest component from government-backed loans also had a positive and significant impact.

The increased contribution of the securities portfolio, which grew by € 19 million over the previous year, is related to the growth in average yield, achieved thanks to purchases of securities at better market conditions, and is commensurate with the higher costs of financing the repo securities portfolio which are included within interest expense.

The growth in interest expense is entirely due to the series of rate hikes by the ECB; however, the Bank's average cost of funding is still 100 bps below the average ECB rate.

Net fee and commission income (€,000)	2023	2022	Change	%
Fee and commission income				
Factoring activities	11,895	11,380	515	4.5%
Fee and commission income - off-premises CQ	9,751	9,816	(65)	-0.7%
Collection activities	1,351	1,058	293	27.7%
Other fee and commission income	913	827	86	10.4%
Total fee and commission income	**23,910**	**23,081**	**829**	**3.6%**
Fee and commission expense				
Factoring portfolio placement	(1,333)	(1,176)	(157)	13.4%
Placement of other financial products	(4,143)	(1,717)	(2,426)	>100%
Fees - off-premises CQ	(9,299)	(10,439)	1,140	-10.9%
Other fee and commission expense	(1,999)	(1,444)	(555)	38.4%
Total fee and commission expense	**(16,774)**	**(14,776)**	**(1,998)**	**13.5%**
Net fee and commission income	**7,136**	**8,305**	**(1,169)**	**-14.1%**

Net fee and commission income (expense), equal to € 7.1 million, decreased by 14.1% due to the increase in commissions related to the placement of the SI Conto! Deposito product.

Fee and commission income from factoring should be considered together with interest income, since it makes no difference from a management point of view whether profit is recognised in the commissions and fees item or in interest in the without recourse factoring business.

Commissions on collection activities, related to the service of reconciliation of third-party invoices collected from the Public Administration are up 27.7% compared to last year, driven by the recent development of the servicer business for third-party securitisations.

Other Fee and commission income, includes commissions and fees related to current account services and auction fees related to the Art-Rite subsidiary amounting to € 0.9 million.

Fee and commission income - off-premises CQ refers to the commissions on the salary- and pension-backed loan (CQ) origination business of € 9.8 million, which should be considered together with the item Fees - off-premises CQ, amounting to € 9.3 million, which are composed of the commissions paid to financial advisers for the off-premises placement of the salary- and pension-backed loan product.

Fees and commissions for the placement of financial products paid to third parties are attributable to returns to third party intermediaries for the placement of the SI Conto! Deposito product under the passporting regime, whereas the fee and commission expense of placing the factoring portfolios is linked to the origination costs of factoring receivables, which remained in line with those reported in the previous year.

Other fee and commission expense includes commissions for trading third-party securities and for interbank collections and payment services.

Trading results (€ .000)	31.12.2023	31.12.2022	Delta €	Delta %
Gains from tradind of financial instruments	(338)	(1,518)	1,180	-77.7%
Gains from trading of Superbonus 110	3,110	-	3,110	n.a.
Totale	**2,772**	**(1,518)**	**4,290**	**<100%**

In addition to the trading income from securities, this item includes the result of trading in Superbonus and the valuation of loans at their fair value.

Gain (loss) from sales or repurchases (€,000)	2023	2022	Change	%
Gains from HTCS portfolio debt instruments	1,318	1,087	231	21.3%
Gains from HTC portfolio debt instruments	7,916	248	7,668	>100%
Gains from financial liabilities	-	-	-	n.a.
Gains from receivables (Factoring portfolio)	2,142	2,213	(71)	-3.2%
Gains from receivables (CQ portfolio)	2,550	1,529	1,021	66.8%
Total	**13,926**	**5,077**	**8,849**	**>100%**

The item Gain (loss) from sales or repurchases includes net realised gains from the securities portfolio and factoring receivables, the revenue from which derives from the sale of factoring portfolios to private-sector assignors, and the sale of CQ loans and receivables portfolios. In particular, following the resolution of the Bank's Board of Directors of 21 July to sell all or a portion of the government bonds in the HTC portfolio, this item includes the profit realised from the almost complete disposal of this portfolio.

Impairment losses on loans and receivables at 31 December 2023 amounted to € 4.5 million (€ 8.5 million at 31 December 2022). The loss rate decreased to 0.17% at 31 December 2023 from 0.29% in 2022.

Personnel expense (€,000)	2023	2022	Change	%
Wages and salaries	(17,905)	(15,925)	(1,980)	12.4%
Social security contributions and other costs	(3,705)	(3,578)	(127)	3.5%
Directors' and statutory auditors' remuneration	(1,378)	(1,314)	(64)	4.9%
Total	**(22,988)**	**(20,817)**	**(2,171)**	**10.4%**

The increase in personnel expense compared to the previous year was due to the release in the first quarter of 2022 of the estimate of the variable compensation component allocated in 2021 as a result of applying the remuneration policies and changes (which had an impact of € 1 million compared to € 0.1 million in 2023), in addition to the one-off positive effect of replacing, for some of the assignees, the non-compete agreement with a new retention plan of € 0.8 million (recorded in the fourth quarter of 2022) and the increase in costs following the revision of the banking contract applicable to the majority of employees. The average number of staff remained unchanged at 204.

Other administrative expenses (€,000)	2023	2022	€ Change	% Change
Consultancy	(6,466)	(5,220)	(1,246)	23.9%
IT expenses	(6,465)	(5,136)	(1,329)	25.9%
Servicing and collection activities	(1,972)	(2,206)	234	-10.6%
Indirect taxes and duties	(2,812)	(3,133)	321	-10.2%
Insurance	(896)	(951)	55	-5.8%
Other	(898)	(898)	-	0.0%
Expenses related to management of the SPVs	(341)	(454)	113	-24.9%
Outsourcing and consultancy expenses	(362)	(281)	(81)	28.8%
Car hire and related fees	(631)	(575)	(56)	9.7%
Advertising and communications	(1,838)	(993)	(845)	85.1%
Expenses related to property management and logistics	(1,991)	(1,470)	(521)	35.4%
Personnel-related expenses	(41)	(33)	(8)	24.2%
Entertainment and expense reimbursement	(536)	(513)	(23)	4.5%
Infoprovider expenses	(871)	(624)	(247)	39.6%
Membership fees	(328)	(310)	(18)	5.8%
Audit fees	(301)	(343)	42	-12.2%
Telephone and postage expenses	(514)	(460)	(54)	11.7%
Stationery and printing	(49)	(26)	(23)	88.5%
Total operating expenses	**(27,312)**	**(23,626)**	**(3,686)**	**15.6%**
Resolution Fund	(1,568)	(1,920)	352	-18.3%
Total	**(28,880)**	**(25,546)**	**(3,334)**	**13.1%**

Administrative expenses increased over the previous year, due to higher advertising costs and higher charges for external consulting.

IT expenses consist of costs for services rendered by the IT outsourcer providing the legacy services and costs related to the IT infrastructure.

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

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

The increase in Advertising expenses relates to costs incurred for advertising campaigns to promote the Bank's funding products.

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

Net impairment losses on property and equipment/ intangible assets (€,000)	2023	2022	€ Change	% Change
Depreciation of buildings used for operations	-	-	-	n.a.
Depreciation of furniture and equipment	(86)	(79)	(7)	8.9%
Amortisation of value in use	(1,606)	(1,422)	(184)	12.9%
Amortisation of software	-	-	-	n.a.
Amortisation of other intangible assets	(30)	(23)	(7)	30.4%
Total	**(1,722)**	**(1,524)**	**(198)**	**13.0%**

The impairment losses on property and equipment/intangible assets are the result of higher provisions for property used for business purposes, as well as the depreciation of the "right-of-use" asset following the application of IFRS 16.

Other operating income (expense) (€,000)	2023	2022	€ Change	% Change
Recovery of expenses and taxes	1,000	1,153	(153)	-13.3%
Amortisation of multiple-year improvement costs	(51)	(47)	(4)	8.5%
Other income (expense)	(3,341)	(392)	(2,949)	>100%
Contingent assets and liabilities	471	183	288	>100%
Total	**(1,921)**	**897**	**(2,818)**	**<100%**

The total of this item was significantly impacted by the increase in the contribution to the interbank fund, which increased by € 2.3 million compared to 2022.

THE MAIN STATEMENT OF FINANCIAL POSITION AGGREGATES

Assets (€,000)	31.12.2023	31.12.2022	€ Change	% Change
Cash and cash equivalents	247,376	124,175	123,201	99.2%
Financial assets measured at fair value through profit or loss	11,574	24,600	(13,026)	-53.0%
Financial assets measured at fair value through other comprehensive income	576,002	558,384	17,618	3.2%
Financial assets measured at amortised cost	3,368,819	3,519,272	(150,453)	-4.3%
a) loans and receivables with banks	795	34,825	(34,030)	-97.7%
b1) loans and receivables with customers - loans	3,306,919	2,803,415	503,504	18.0%
b2) loans and receivables with customers - debt instruments	61,105	681,032	(619,927)	-91.0%
Equity investments	45,250	45,250	-	0.0%
Property and equipment	2,319	3,035	(716)	-23.6%
Intangible assets	3,998	3,957	41	1.0%
of which: goodwill	*3,920*	*3,920*	-	0.0%
Tax assets	24,141	23,239	902	3.9%
Non-current assets held for sale and disposal groups	-	-	-	n.a.
Other assets	241,208	76,029	165,179	>100%
Total assets	**4,520,687**	**4,377,941**	**142,746**	**3.3%**

The year ended 31 December 2023 closed with total assets up by 3.3% over the end of 2022 and equal to € 4.5 billion.

The securities portfolio relating to Financial assets measured at fair value through other comprehensive income ("HTCS") of the Group continues to be mainly comprised of Italian government bonds with an average duration of about 13.8 months (the average remaining duration at the end of 2022 was 25.6 months). The nominal amount of the government bonds held in the HTCS portfolio amounted to € 586 million at 31 December 2023 (€ 586 million at 31 December 2022). The associated valuation reserve was negative at the end of the period, amounting to € 17.6 million before the tax effect.

Loans and receivables with customers (€,000)	31.12.2023	31.12.2022	€ Change	% Change
Factoring receivables	2,032,443	1,429,794	602,649	42.1%
Salary-/pension-backed loans (CQS/CQP)	798,695	933,200	(134,505)	-14.4%
Loans to SMEs	285,679	196,863	88,816	45.1%
Current accounts	177,715	160,783	16,932	10.5%
Compensation and Guarantee Fund	7,511	72,510	(64,999)	-89.6%
Other loans and receivables	4,876	10,263	(5,387)	-52.5%
Total loans	**3,306,919**	**2,803,413**	**503,506**	**18.0%**
Securities	61,105	681,032	(619,927)	-91.0%
Total loans and receivables with customers	**3,368,024**	**3,484,445**	**(116,421)**	**-3.3%**

The item loans and receivables with customers under Financial assets measured at amortised cost (hereinafter HTC, or "Held to Collect"), is composed of loan receivables with customers and the "held-to-maturity securities" portfolio.

Outstanding loans for factoring receivables compared to Total loans, therefore excluding the amounts of the securities portfolio, were 61% (51% at the end of 2022). The volumes generated during the quarter amounted to € 5,565 million (€ 4,417 million at 31 December 2022).

Salary- and pension-backed loans were lower than the end of the previous year, with volumes disbursed directly by the agent network amounting to € 194 million (€ 322 million at the end of 2022).

Government-backed loans to small and medium-sized enterprises increased to € 286 million as a result of new loans being disbursed.

HTC Securities are composed entirely of Italian government securities with an average duration of 43.6 months for an amount of € 61 million. The mark-to-market valuation of the securities at 31 December 2023 shows a pre-tax unrealised loss of € 5.4 million.

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

Status	31/12/2022	31/03/2023	30/06/2023	30/09/2023	31/12/2023
Bad exposures - gross	170,369	173,944	173,412	174,216	173,767
Unlikely to pay - gross	32,309	33,784	62,440	58,597	58,514
Past due - gross	81,449	67,432	61,857	53,904	64,176
Non-performing - gross	**284,127**	**275,160**	**297,709**	**286,717**	**296,457**
Performing - gross	**2,580,630**	**2,661,260**	**2,766,886**	**2,710,686**	**3,080,111**
Stage 2 - gross	112,795	109,583	94,494	89,453	90,908
Stage 1 - gross	2,467,835	2,551,677	2,672,392	2,621,233	2,989,203
Total loans and receivables with customers	**2,864,757**	**2,936,420**	**3,064,595**	**2,997,403**	**3,376,568**
Individual impairment losses	**61,454**	**61,874**	**63,340**	**63,843**	**65,020**
Bad exposures	47,079	47,334	48,218	48,332	49,119
Unlikely to pay	13,477	13,451	13,872	14,352	14,741
Past due	898	1,089	1,250	1,159	1,160
Collective impairment losses	**6,432**	**5,487**	**5,728**	**6,292**	**6,239**
Stage 2	1,993	689	607	653	694
Stage 1	4,439	4,798	5,121	5,639	5,545
Total impairment losses	**67,886**	**67,361**	**69,068**	**70,135**	**71,259**
Net exposure	**2,796,871**	**2,869,059**	**2,995,527**	**2,927,268**	**3,305,309**

The ratio of gross non-performing loans to the total portfolio decreased to 9.9% compared to 8.8% at 31 December 2023, following the decrease in past due loans, which remain high because of the entry into force of the new definition of default on 1 January 2021 ("New DoD"). Past due loans are associated with factoring receivables without recourse from Public Administration and are considered normal for the sector. Despite the new technical rules used to report past due loans for regulatory purposes, this continues not to pose particular problems in terms of credit quality and probability of collection.

The coverage ratio for non-performing loans is 21.9%, up from 21.7% at 31 December 2023.

Non-current assets held for sale and disposal groups include the assets of SF Trust Holding, which was put into liquidation in December 2021.

Other assets mainly include amounts being processed after the end of the period and advance tax payments. At 31 December 2023, this item included € 50.7 million of "Superbonus 110" tax credits purchased by the Bank to offset its own taxes and € 166 million of "Superbonus 110" tax credits purchased in 2023 to be used for trading.

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

Liabilities and equity (€,000)	31.12.2023	31.12.2022	Change	%
Financial liabilities measured at amortised cost	4,018,101	3,923,476	94,625	2.4%
a) due to banks	610,787	604,660	6,127	1.0%
b) due to customers	3,407,314	3,318,816	88,498	2.7%
c) securities issued	-	-	-	n.a.
Financial liabilities held for trading	-	-	-	n.a.
Tax liabilities	22,544	15,493	7,051	45.5%
Liabilities associated with disposal groups	-	-	-	n.a.
Other liabilities	175,039	154,238	20,801	13.5%
Post-employment benefits	3,809	3,250	559	17.2%
Provisions for risks and charges	37,132	35,777	1,355	3.8%
Valuation reserves	(12,333)	(24,870)	12,537	-50.4%
Reserves	207,471	195,098	12,373	6.3%
Equity instruments	45,500	45,500	-	0.0%
Equity attributable to non-controlling interests	-	-	-	n.a.
Share capital	9,651	9,651	-	0.0%
Treasury shares (-)	(355)	(559)	204	-36.5%
Profit for the year	14,129	20,887	(6,758)	-32.4%
Total liabilities and equity	**4,520,688**	**4,377,941**	**142,747**	**3.3%**

Wholesale funding, which represents about 17% of the total (38% at 31 December 2022), decreased in absolute terms compared to the end of 2022, following the increase in funding from term deposits.

Due to banks (€,000)	31.12.2023	31.12.2022	€ Change	% Change
Due to Central banks	556,012	537,883	18,129	3.4%
Due to banks	54,775	66,777	(12,002)	-18.0%
Current accounts with other banks	54,775	66,777	(12,002)	-18.0%
Other amounts due to banks	-	-	-	n.a.
Total	**610,787**	**604,660**	**6,127**	**1.0%**

The item "Due to banks" increased by 1%, compared to 31 December 2022, reflecting decrease in interbank funding, while ECB deposits remained stable compared to 31 December 2022.

Due to customers (€,000)	31.12.2023	31.12.2022	€ Change	% Change
Term deposits	2,402,002	1,431,548	970,454	67.8%
Financing (repurchase agreements)	-	865,878	(865,878)	-100.0%
Financing - others	65,154	66,166	(1,012)	-1.5%
Customer current accounts	752,777	794,878	(42,101)	-5.3%
Due to assignors	52,893	46,590	6,303	13.5%
Other payables	134,488	113,756	20,732	18.2%
Total	**3,407,314**	**3,318,816**	**88,498**	**2.7%**

The item "Due to customers" increased compared to the end of the previous year reflecting a decrease in funding from bank accounts. The period-end amount of term deposits increased from the end of 2022 (+67.8%), reflecting net positive funding (net of interest accrued) of € 941 million; gross deposits from the beginning of the year were € 2,447 million.

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

The provision for risks and charges of € 37.1 million includes the provision for possible liabilities attributable to past acquisitions of € 1.1 million, the estimated amount of personnel-related charges mainly for the portion of the bonus for the period, the deferred portion of the bonus accrued in previous years, and the estimates related to the non-compete agreement and the 2022 retention plan, totalling € 5.1 million (the item includes the estimated variable and deferred components, accrued but not paid). The provision also includes an estimate of charges related to possible liabilities to assignors that have yet to be settled and other estimated charges for ongoing lawsuits and legal disputes amounting to € 14.6 million. With reference to the CQ portfolio (Salary- and Pension-Backed Loans), there is also a provision for claims, a provision for the estimated negative effect of possible early repayments on existing portfolios and portfolios sold, as well as repayments related to the Lexitor ruling amounting to € 14.7 million.

"Other liabilities" mainly include payments received after the end of the year from the assigned debtors and which were still being allocated and items being processed during the days following year-end, as well as trade payables and tax liabilities.

CAPITAL ADEQUACY

Provisional information concerning the regulatory capital and capital adequacy of the Bank is shown below.

Own funds (€,000) and capital ratios	31.12.2023	31.12.2022
Common Equity Tier 1 (CET1)	**204,125**	**198,182**
ADDITIONAL TIER 1	45,500	45,500
Tier 1 capital (T1)	**249,625**	**243,682**
TIER2	-	-
Total Own Funds (TC)	**249,625**	**243,682**
Total risk-weighted assets	**1,360,858**	**1,354,950**
of which, credit risk	1,200,501	1,188,606
of which, market risk	3,191	-
of which, operational risk	157,165	166,344
Ratio - CET1	**15.0%**	**14.6%**
Ratio - T1	**18.3%**	**18.0%**
Ratio - TCR	**18.3%**	**18.0%**

Total regulatory own funds were € 249.6 million at 31 December 2023 and included the profit, net of dividends estimated on the profit for the period which were equal to the amount in the previous year with the pay-out increasing to 37% of the Parent's profit. For comparison purposes, this figure is to be compared with the fully loaded figure, meaning without applying the mitigating measure provided for under Article 468 of the Capital Requirements Regulation (CRR). In this regard, the neutralisation of all or part of the reserve (HTCS) on government bonds was approved by the European Trilogue.

The CET1 ratio decreased compared to the fully loaded ratio at 31 December 2023 due to more capital being allocated to private entities.

The Group's new consolidated capital requirements, which came into effect on 31 March 2024, are as follows:

- CET1 ratio of 9.4%;
- TIER1 ratio of 10.90%;
- Total Capital Ratio of 12.90%.

OTHER INFORMATION

Report on corporate governance and ownership structure

Pursuant to art. 123-bis, paragraph 3 of Legislative Decree no. 58 dated 24 February 1998, a "Report on corporate governance and ownership structure" has been drawn up; the document - published jointly with the draft financial statements as at and for the year ended 31 December 2023 - is available in the "Governance" section of the Banca Sistema website (www.bancasistema.it).

Remuneration Report

Pursuant to art. 84-quater, paragraph 1 of the Issuers' Regulation implementing Legislative Decree no. 58 dated 24 February 1998, a "Remuneration Report" has been drawn up; the document - published jointly with the draft financial statements as at and for the year ended 31 December 2023 - is available in the "Governance" section of the Banca Sistema website (www.bancasistema.it).

Research and Development Activities

No research and development activities were carried out in 2023.

RELATED PARTY TRANSACTIONS

Related party transactions including the relevant authorisation and disclosure procedures, are governed by the "Procedure governing related party transactions" approved by the Board of Directors and published on the internet site of the Parent, Banca Sistema S.p.A.

Transactions between Group companies and related parties were carried out in the interests of the Bank, including within the scope of ordinary operations; these transactions were carried out in accordance with market conditions and, in any event, based on mutual financial advantage and in compliance with all procedures.

ATYPICAL OR UNUSUAL TRANSACTIONS

During the year, the Group did not carry out any atypical or unusual transactions, as defined in Consob Communication no. 6064293 of 28 July 2006.

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

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

BUSINESS OUTLOOK AND MAIN RISKS AND UNCERTAINTIES

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

PROPOSED ALLOCATION OF PROFIT FOR THE YEAR

Dear Shareholders,

The financial statements as at and for the year ended 31 December 2023, which we submit for your approval, show a profit for the year of € 14,129,371.99.

We recommend allocating the profit for the year as follows:

- a dividend of € 5,227,368.38;
- the remainder of € 8,902,003.61 to retained earnings.

An allocation to the Legal Reserve was not made since the limits set out in Article 2430 of the Italian Civil Code were reached.

Milan, 8 March 2024

On behalf of the Board of Directors

The Chairperson

Luitgard Spögler

The CEO

Gianluca Garbi

SEPARATE FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

(Amounts in Euros)

	Assets	31.12.2023	31.12.2022
10.	Cash and cash equivalents	247,375,590	124,174,855
20.	Financial assets measured at fair value through profit or loss	11,573,875	24,599,724
	c) other financial assets mandatorily measured at fair value through profit or loss	11,573,875	24,599,724
30.	Financial assets measured at fair value through other comprehensive income	576,001,679	558,383,831
40.	Financial assets measured at amortised cost	3,368,819,318	3,519,271,470
	a) loans and receivables with banks	795,432	34,824,671
	b) loans and receivables with customers	3,368,023,886	3,484,446,799
70.	Equity investments	45,250,000	45,250,000
80.	Property and equipment	2,318,593	3,035,010
90.	Intangible assets	3,997,839	3,957,290
	of which:		
	goodwill	3,919,700	3,919,700
100.	*Tax assets*	*24,141,577*	23,239,118
	a) current	7,129,278	2,060,302
	b) deferred	17,012,299	21,178,816
110.	Non-current assets held for sale and disposal groups	-	-
120.	Other assets	241,209,525	76,029,368
	Total Assets	**4,520,687,996**	**4,377,940,666**

	Voci del passivo e del patrimonio netto	31.12.2023	31.12.2022
10.	Financial liabilities measured at amortised cost	4,018,100,468	3,923,475,253
	a) due to banks	610,786,777	604,659,631
	b) due to customers	3,407,313,691	3,318,815,622
60.	Tax liabilities	22,543,524	15,493,012
	b) deferred	22,543,524	15,493,012
80.	Other liabilities	175,039,229	154,238,734
90.	Post-employment benefits	3,809,285	3,249,865
100.	Provisions for risks and charges:	37,132,057	35,776,561
	a) commitments and guarantees issued	59,157	23,973
	c) other provisions for risks and charges	37,072,900	35,752,588
110.	Valuation reserves	(12,332,684)	(24,869,635)
130.	Equity instruments	45,500,000	45,500,000
140.	Reserves	168,371,404	155,998,213
150.	Share premium	39,100,168	39,100,168
160.	Share capital	9,650,526	9,650,526
170.	Treasury shares (-)	(355,353)	(558,600)
180.	Profit for the year	14,129,372	20,886,569
	Total liabilities and equity	**4,520,687,996**	**4,377,940,666**

INCOME STATEMENT

(Amounts in Euros)

		2023	2022
10.	Interest and similar income	166,214,678	91,151,677
	of which: interest income calculated with the effective interest method	166,214,678	91,151,677
20.	Interest and similar expense	(109,026,741)	(14,967,340)
30.	**Net interest income**	**57,187,937**	**76,184,337**
40.	Fee and commission income	23,910,139	23,080,565
50.	Fee and commission expense	(16,774,121)	(14,776,049)
60.	**Net fee and commission income (expense)**	**7,136,018**	**8,304,516**
70.	Dividends and similar income	226,667	226,667
80.	Net trading income (expense)	2,771,730	(1,517,569)
100.	Gain (loss) from sales or repurchases of:	13,926,608	5,077,427
	a) financial assets measured at amortised cost	12,608,394	3,990,912
	b) financial assets measured at fair value through other comprehensive income	1,318,214	1,086,515
	c) financial liabilities	-	-
110.	Net gain (loss) on other financial assets and liabilities measured at fair value through p	2,836,313	2,195,577
	b) other financial assets mandatorily measured at fair value through profit or loss	2,836,313	2,195,577
120.	**Total income**	**84,085,273**	**90,470,955**
130.	Net impairment losses/gains on:	(4,512,853)	(8,476,471)
	a) financial assets measured at amortised cost	(4,689,499)	(8,333,072)
	b) financial assets measured at fair value through other comprehensive income	176,646	(143,399)
140.	Gains/losses from contract amendments without derecognition	(692)	69
150.	**Net financial income (expense)**	**79,571,728**	**81,994,553**
160.	Administrative expenses	(51,868,573)	(46,362,961)
	a) personnel expense	(22,988,079)	(20,816,955)
	b) other administrative expenses	(28,880,494)	(25,546,006)
170.	Net accruals to provisions for risks and charges	(3,170,927)	(4,461,042)
	a) commitments and guarantees issued	(35,184)	15,095
	b) other net accruals	(3,135,743)	(4,476,137)
180.	Net impairment losses on property and equipment	(1,692,132)	(1,501,191)
190.	Net impairment losses on intangible assets	(30,211)	(22,541)
200.	Other operating income (expense)	(1,920,261)	896,341
210.	**Operating costs**	**(58,682,104)**	**(51,451,394)**
220.	Utili (Perdite) delle partecipazioni	-	-
260.	Utili (Perdite) da cessione di investimenti	-	-
260.	**Pre-tax profit (loss) from continuing operations**	**20,889,624**	**30,543,159**
270.	Income taxes	(6,760,252)	(9,656,590)
280.	**Post-tax profit from continuing operations**	**14,129,372**	**20,886,569**
290	Utile (Perdita) delle attività operative cessate al netto delle imposte	-	-
300.	**Profit for the year**	**14,129,372**	**20,886,569**

STATEMENT OF COMPREHENSIVE INCOME

(Amounts in Euros)

		2023	2022
10.	**Profit (loss) for the year**	**14,129,372**	**20,886,569**
i redditual	**Items, net of tax, that will not be reclassified subsequently to profit or loss**	-	-
70.	Defined benefit plans	(186,461)	338,644
	Items, net of tax, that will be reclassified subsequently to profit or loss	**-**	**-**
140.	Financial assets (other than equity instruments) measured at fair value through other comprehensive income	12,723,411	(22,222,629)
170.	**Total other comprehensive income (expense), net of income tax**	**12,536,951**	**(21,883,985)**
180.	**Comprehensive income (Items 10+170)**	**26,666,323**	**(997,416)**

STATEMENT OF CHANGES IN EQUITY AS AT 31/12/2023

Amounts in Euros

	Balance at 31.12.2022	Change in opening balances	Balance at 1.1.2023	Allocation of prior year profit: Reserves	Allocation of prior year profit: Dividends and other allocations	Variazioni dell'esercizio: Changes in reserves	Variazioni dell'esercizio: Transactions on equity: Issue of new shares	Transactions on equity: Repurchase of treasury shares	Transactions on equity: Extraordinary dividend distribution	Transactions on equity: Change in equity instruments	Transactions on equity: Derivatives on treasury shares	Transactions on equity: Stock options	Transactions on equity: Changes in equity investments	Variazioni dell'esercizio: Comprehensive income for 2023	Equity at 31.12.2023
Share capital:															
a) ordinary shares	**9,650,526**		9,650,526												**9,650,526**
b) other shares															
Share premium	**39,100,168**		39,100,168												**39,100,168**
Reserves	**155,998,213**		155,998,213	15,670,121		(3,296,929)									**168,371,404**
a) income-related	**156,124,391**		156,124,391	15,670,121		(2,928,889)									**168,865,622**
b) other	**(126,178)**		(126,178)			(368,040)									**(494,218)**
Valuation reserves	**(24,869,635)**		(24,869,635)											12,536,951	**(12,332,684)**
Equity instruments	**45,500,000**		45,500,000												**45,500,000**
Treasury shares	**(558,600)**		(558,600)					203,247							**(355,353)**
Profit (loss) for the year	**20,886,569**		20,886,569	(15,670,121)	(5,216,448)									14,129,372	**14,129,372**
Equity	**245,707,241**		**245,707,241**		**(5,216,448)**	**(3,296,929)**		**203,247**						**26,666,323**	**264,063,433**

STATEMENT OF CHANGES IN EQUITY AS AT 31/12/2022

Amounts in Euros

				Allocation of prior year profit		Variazioni dell'esercizio									
							Transactions on equity								
	Balance at 31.12.2022	Change in opening balances	Balance at 1.1.2022	Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Repurchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity investments	Comprehensive income for 2022	Equity at 31.12.2022
Share capital:															
a) ordinary shares	**9,650,526**		9,650,526												**9,650,526**
b) other shares															
Share premium	**39,100,168**		39,100,168												**39,100,168**
Reserves	**142,661,850**		142,661,850	17,374,262		(4,037,899)									**155,998,213**
a) income-related	**141,802,583**		141,802,583	17,374,262		(3,052,454)									**156,124,391**
b) other	**859,267**		859,267			(985,445)									**(126,178)**
Valuation reserves	**(2,985,650)**		(2,985,650)											(21,883,985)	**(24,869,635)**
Equity instruments	**45,500,000**		45,500,000												**45,500,000**
Treasury shares								(558,600)							**(558,600)**
Profit (loss) for the year	**23,142,841**		23,142,841	(17,374,262)	(5,768,579)									20,886,569	**20,886,569**
Equity	**257,069,735**		**257,069,735**		**(5,768,579)**	**(4,037,899)**		**(558,600)**						**(997,416)**	**245,707,241**

STATEMENT OF CASH FLOWS (INDIRECT METHOD)

Amounts in Euros

	Amount 2023	2022
A. OPERATING ACTIVITIES		
1. Operations	**42,790,553**	**38,933,145**
Profit (loss) for the year (+/-)	14,129,372	20,886,569
Gains/losses on financial assets held for trading and other financial assets/liabilities measured at fair value through profit or loss (-/+)		
Gains/losses on hedging activities (-/+)		
Net impairment losses/gains due to credit risk (+/-)	4,689,499	8,333,072
Net impairment losses/gains on property and equipment and intangible assets (+/-)	3,444,686	1,571,051
Net accruals to provisions for risks and charges and other costs/income (+/-)	3,170,927	4,461,042
Taxes, duties and tax assets not yet paid (+)	(1,547,372)	(1,090,419)
Other adjustments (+/-)	18,903,441	4,771,830
2. Cash flows generated by (used for) financial assets	**25,676,617**	**(782,614,680)**
Financial assets held for trading		
Financial assets designated at fair value through profit or loss		
Other assets mandatorily measured at fair value through profit or loss	13,025,849	(16,231,502)
Financial assets measured at fair value through other comprehensive income	(5,080,897)	(129,006,638)
Financial assets measured at amortised cost	167,733,408	(595,770,967)
Other assets	(150,001,743)	(41,605,573)
3. Cash flows generated by (used for) financial liabilities	**59,905,350**	**705,366,851**
Financial liabilities measured at amortised cost	50,889,918	690,292,264
Financial liabilities held for trading		
Financial liabilities designated at fair value through profit or loss		
Other liabilities	9,015,432	15,074,587
Net cash flows generated by (used for) operating activities	**128,372,520**	**(38,314,684)**
B. INVESTING ACTIVITIES		
1. Cash flows generated by	**-**	**-**
Sales of equity investments		
Dividends from equity investments		
Sales of property and equipment		
Sales of intangible assets		
Sales of business units		
2. Cash flows used in	**(158,583)**	**(84,824)**
Purchases of equity investments		
Purchases of property and equipment	(87,823)	(84,824)
Purchases of intangible assets	(70,760)	
Purchases of business units		
Net cash flows generated by (used in) investing activities	**(158,583)**	**(84,824)**
C. FINANCING ACTIVITIES		
Issues/repurchases of treasury shares	203,247	(558,600)
Issues/repurchases of equity instruments		
Dividend and other distributions	(5,216,448)	(5,768,579)
Net cash flows generated by (used in) financing activities	**(5,013,201)**	**(6,327,179)**
NET CASH FLOWS FOR THE PERIOD	**123,200,735**	**(44,726,687)**

VOCI DI BILANCIO		
Cassa e disponibilità liquide all'inizio dell'esercizio	**124,174,855**	**168,901,542**
Liquidità totale netta generata/assorbita nell'esercizio	123,200,735	(44,726,687)
Cassa e disponibilità liquide: effetto della variazione dei cambi		
Cassa e disponibilità liquide alla chiusura dell'esercizio	**247,375,590**	**124,174,855**

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

PART A - ACCOUNTING POLICIES

A.1 – GENERAL PART

Section 1 - Statement of compliance with International Financial Reporting Standards

The separate financial statements of Banca Sistema S.p.A. at 31 December 2023 were drawn up in accordance with International Financial Reporting Standards - called IFRS - issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and endorsed by the European Commission, as established by EU Regulation no. 1606 of 19 July 2002, adopted in Italy by art. 1 of Legislative Decree no. 38 of 28 February 2005 and considering the Bank of Italy Circular no. 262 of 22 December 2005 as subsequently updated, regarding the forms and rules for drafting the Financial Statements of banks.

In 2023, the following accounting standards or amendments to existing accounting standards came into force:

Document title	Effective date	EU Regulation and date of publication
IFRS 17 - Insurance Contracts (including amendments issued in June 2020)	1 January 2023	(EU) 2021/2036 23 November 2021
Initial application of IFRS 17 and IFRS 9 - Comparative information (Amendment to IFRS 17)	1 January 2023	(EU) 2022/1491 9 September 2022
Definition of Accounting Estimates (Amendments to IAS 8)	1 January 2023	(EU) 2022/357 3 March 2022
Disclosure of Accounting Policies (Amendments to IAS 1)	1 January 2023	(EU) 2022/357 3 March 2022
Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)	1 January 2023	(EU) 2022/1392 12 August 2022
International Tax Reform - Pillar Two Model Rules (Amendments to IAS 12)	1 January 2023	(EU) 2023/2468 9 November 2023

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

At 31 December 2023, the following documents were Endorsed by the European Commission:

Document title	**Effective date**	**EU Regulation and date of publication**
Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)	1 January 2024	(EU) 2023/2579 21 November 2023

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

Documents not yet endorsed by the EU as of 30 November 2023 and which will only be applicable after EU endorsement:

Document title	**Effective date of the IASB document**	**Date of expected endorsement by the EU**
Standards		
IFRS 14 Regulatory deferral accounts	1 January 2016	Endorsement process suspended pending the new financial reporting standard on "rate-regulated activities".
Amendments		
Sale or contribution of assets between an investor and its associate or joint venture (Amendments to IFRS 10 and IAS 28)	Deferred until completion of the IASB project on the equity method	Endorsement process suspended pending the conclusion of the IASB project on the equity method
Classification of liabilities as current or non-current (Amendments to IAS 1) and Non current liabilities with covenants (Amendments to IAS 1)	1 January 2024	Q4 2023
Supplier Finance Arrangements (Amendment to IAS 7 and IFRS 9)	1 January 2024	TBD
Lack of Exchangeability (Amendment to IAS 21)	1 January 2025	TBD

The International Financial Reporting Standards are applied by referring to the "Framework for the Preparation and Presentation of Financial Statements" (Framework).

If there is no standard or interpretation that applies specifically to a transaction, other event or circumstance, the Board of Directors uses its judgement to develop and apply an accounting standard in order to provide disclosure that:

- is relevant to the economic decision-making needs of users;
- is reliable, in that the financial statements:
- represent faithfully the financial position, financial performance and cash flows of the Bank;
- reflect the economic substance of transactions, other events and conditions, and not merely the legal form;
- are neutral, i.e. free from bias;
- are prudent;
- are complete in all material respects.

When exercising the aforementioned judgement, the Board of Directors of the Bank has made reference to and considered the applicability of the following sources, described in descending order of importance:

- the provisions and application guidelines contained in the Standards and Interpretations governing similar or related cases;
- the definitions, recognition criteria and measuring concepts for accounting for the assets, liabilities, revenue, and costs contained in the “Framework”.

When expressing an opinion, the Board of Directors may also consider the most recent provisions issued by other bodies that rule on accounting standards that use a similar "Framework" in concept for developing accounting standards, other accounting literature and consolidated practices in the sector.

In accordance with art. 5 of Legislative Decree no. 38 of 28 February 2005, if, in exceptional cases, the application of a provision imposed by the IFRS were incompatible with the true and fair representation of the financial position or results of operations, the provision would not apply. The justifications for any exceptions and their influence on the presentation of the financial position and results of operations would be explained in the Notes to the financial statements.

Any profits resulting from the exception would be recognised in a non-distributable reserve if they did not correspond to the recovered amount in the financial statements. However, no exceptions to the IFRS were applied.

The financial statements were audited by BDO Italia S.p.A.

Section 2 - General basis of preparation

The financial statements are drawn up with clarity and give a true and fair view of the financial position, profit or loss, cash flows, and changes in equity and comprise the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes to the financial statements.

The financial statements are accompanied by the Directors' Report on the Bank’s performance.

If the information required by the IFRS and provisions contained in Circular no. 262 of 22 December 2005 and/or the subsequent updates issued by the Bank of Italy are not sufficient to give a true and fair view that is relevant, reliable, comparable and understandable, the notes to the financial statements provide the additional information required. For the sake of completeness, please note that this financial report also considers the interpretation and supporting documents regarding the application of accounting standards, including those issued in connection with the Covid-19 pandemic, as well as those issued by European regulatory and supervisory bodies and standard setters.

The general principles that underlie the drafting of the financial statements are set out below:

- the measurements are made considering that the bank will continue as a going concern, where it is stated that the Directors have not identified any uncertainties that could cast doubt in this respect;
- costs and income are accounted for on an accruals basis;
- to ensure the comparability of the data and information in the financial statements and the notes to the financial statements, the methods of presentation and classification are kept constant over time unless they are changed to present the data more appropriately;
- each material class of similar items is presented separately in the statement of financial position and income statement; items of a dissimilar nature or function are presented separately unless they are considered immaterial;
- items that have nil balances at year end or for the financial year or for the previous year are not indicated in the statement of financial position or the income statement;
- if an asset or liability comes under several items in the statement of financial position, the notes to the financial statements make reference to the other items under which it is recognised if it is necessary for a better understanding of the financial statements;
- the items are not offset against one another unless it is expressly requested or allowed by an IFRS or an interpretation or the provisions of the aforementioned Circular no. 262 of 22 December 2005 as amended by the Bank of Italy;
- the financial statements are drafted by favouring substance over form and in accordance with the principle of materiality and significance of the information;
- comparative data for the previous financial year are presented for each statement of financial position and income statement item; if the items are not comparable to those of the previous year, they are adapted and the non-comparability and adjustment/or impossibility thereof are indicated and commented on in the notes to the financial statements;
- the layout recommended by the Bank of Italy was used with reference to the information reported in the notes to the financial statements; the tables included in this layout were not presented if they were not applicable to the Group's business.

Within the scope of drawing up the financial statements in accordance with the IFRS, bank management must make assessments, estimates and assumptions that influence the amounts of the assets, liabilities, costs and income recognised during the period.

The use of estimates is essential to preparing the financial statements. In particular, the most significant use of estimates and assumptions in the financial statements can be attributed to:

- the valuation of loans and receivables with customers: the acquisition of performing receivables from companies that supply goods and services represents the Bank’s main activity.

Estimating the value of these receivables is a complex activity with a high degree of uncertainty and subjectivity. Their value is estimated by using models that include numerous quantitative and qualitative elements. These include the historical data for collections, expected cash flows and the related expected recovery times, the existence of indicators of possible impairment, the valuation of any guarantees, and the impact of risks associated with the sectors in which the Bank's customers operate;

- the valuation of default interest pursuant to Legislative Decree no. 231 of 9 October 2002 on performing receivables acquired without recourse: estimating the expected recovery percentages of default interest is complex, with a high degree of uncertainty and subjectivity. Internally developed valuation models are used to determine these percentages, which take numerous qualitative and quantitative elements into consideration;
- the estimate related to the possible impairment losses on goodwill and equity investments recognised in the financial statements;
- the quantification and estimate made for recognising liabilities in the provisions for risks and charges, the amount or timing of which are uncertain;
- the recoverability of deferred tax assets.

It should be noted that an estimate may be adjusted following a change in the circumstances upon which it was formed, or if there is new information or more experience. Any changes in estimates are applied prospectively and therefore will have an impact on the income statement for the year in which the change takes place.

Pursuant to the provisions of art. 5 of Legislative Decree no. 38 of 28 February 2005, the financial statements use the Euro as the currency for accounting purposes. The financial statements are expressed in Euro. Unless otherwise stated, the notes to the financial statements are expressed in thousands of Euro. Any discrepancies between the figures shown in the Directors' Report and in the Separate Financial Statements and between the tables in the Notes to the Separate Financial Statements are due exclusively to rounding.

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

Section 3 - Subsequent events

With regard to IAS 10, it should be noted that no events occurred between the end of the financial year and the date of preparation of the financial statements that would require an adjustment to the figures presented therein.

Section 4 – Other aspects

There are no other significant aspects to note.

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

Financial assets measured at fair value through profit or loss

Classification criteria

Financial assets other than those classified as Financial assets measured at fair value through other comprehensive income and Financial assets measured at amortised cost are classified in this category. In particular, this item includes:

- financial assets held for trading;
- equity instruments, except for the possibility of their being classified in the new category Financial assets measured at fair value through other comprehensive income, excluding the possibility of subsequent reclassification to profit or loss;
- financial assets mandatorily measured at fair value, and which have not met the requirements to be measured at amortised cost;
- financial assets that are not held under a Held to Collect (or "HTC") business model or as part of a mixed business model, whose aim is achieved by collecting the contractual cash flows of financial assets held in the Bank's portfolio or also through their sale, when this is an integral part of the strategy ("Held to Collect and Sell" business model);
- financial assets designated at fair value, i.e. financial assets that are defined as such upon initial recognition and when the conditions apply. For this type of financial assets, upon recognition an entity may irrevocably recognise a financial asset as measured at fair value through profit or loss only if this eliminates or significantly reduces a measurement inconsistency;
- derivative instruments, which shall be recognised as financial assets held for trading if their fair value is positive and as liabilities if their fair value is negative. Positive and negative values may be offset only for transactions executed with the same counterparty if the holder currently holds the right to offset the amounts recognised in the books and it is decided to settle the offset positions on a net basis. Derivatives also include those embedded in complex financial contracts – where the host contract is a financial liability which has been recognised separately.

Except for the equity instruments which cannot be reclassified, financial assets may be reclassified to other categories of financial assets only if the entity changes its own business model for management of the financial assets. In such cases, which are expected to be absolutely infrequent, the financial assets may be reclassified from those measured at fair value through profit or loss to one of the other two categories established by IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at fair value through other comprehensive income). The transfer value is the fair value at the time of the reclassification and the effects of the reclassification apply prospectively from the reclassification date. In this case, the effective interest rate of the reclassified financial asset is determined based on its fair value at the reclassification date and that date is considered as the initial recognition date for the credit risk stage assignment for impairment purposes.

Recognition criteria

Initial recognition of financial assets occurs at the settlement date for debt instruments and equity instruments, at the disbursement date for loans and at the subscription date for derivative contracts.

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

Measurement and recognition criteria for income components

After initial recognition, the financial assets measured at fair value through profit or loss are recognised at fair value. The effects of the application of this measurement criterion are recognised in the income statement. For the determination of the fair value of financial instruments quoted on active markets, market quotations are used. If the market for a financial instrument is not active, standard practice estimation methods and measurement techniques are used which consider all the risk factors correlated to the instruments and that are based on market elements such as: measurement of quoted instruments with the same characteristics, calculation of discounted cash flows, option pricing models, recent comparable transactions, etc.. For equity and derivative instruments that have equity instruments as underlying assets, which are not quoted on an active market, the cost approach is used as the estimate of fair value only on a residual basis and in a small number of circumstances, i.e., when all the measurement methods referred to above cannot be applied, or when there are a wide range of possible measurements of fair value, in which cost represents the most significant estimate.

In particular, this item includes:

- debt instruments held for trading;
- equity instruments held for trading.

For more details on the methods of calculating the fair value please refer to the paragraph below "Criteria for determining the fair value of financial instruments".

Derecognition criteria

Financial assets are derecognised when the contractual rights on the cash flows deriving from the assets expire, or in the case of a transfer, when the same entails the substantial transfer of all risks and rewards related to the financial assets.

Financial assets measured at fair value through other comprehensive income (FVOCI)

Classification criteria

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

- financial assets that are held under a business model whose aim is achieved both through the collection of contractual cash flows and through sale (“Held to Collect and Sell” business model);
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (“SPPI Test” passed).

This item also includes equity instruments, not held for trading, for which the option was exercised upon initial recognition of their designation at fair value through other comprehensive income.

In particular, this item includes:

- debt instruments that can be attributed to a Held to Collect and Sell business model and that have passed the SPPI test;
- equity interests, that do not qualify as investments in subsidiaries, associates or joint ventures and are not held for trading, for which the option has been exercised of their designation at fair value through other comprehensive income.

Except for the equity instruments which cannot be reclassified, financial assets may be reclassified to other categories of financial assets only if the entity changes its own business model for management of the financial assets.

In such cases, which are expected to be absolutely infrequent, the financial assets may be reclassified from those measured at fair value through other comprehensive income to one of the other two categories established by IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at fair value through profit or loss). The transfer value is the fair value at the time of the reclassification and the effects of the reclassification apply prospectively from the reclassification date. In the event of reclassification from this category to the amortised cost category, the cumulative gain (loss) recognised in the valuation reserve is allocated as an adjustment to the fair value of the financial asset at the reclassification date. In the event of reclassification to the fair value through profit or loss category, the cumulative gain (loss) previously recognised in the valuation reserve is reclassified from equity to profit (loss).

Recognition criteria

Initial recognition of the financial assets is at the date of disbursement, based on their fair value including the transaction costs/income directly attributable to the acquisition of the financial instrument. Costs/income having the previously mentioned characteristics that will be repaid by the debtor or that can be considered as standard internal administrative costs are excluded.

The initial fair value of a financial instrument is usually the cost incurred for its acquisition.

Measurement and recognition criteria for income components.

Following initial recognition, financial assets are measured at their fair value with any gains or losses resulting from a change in the fair value compared to the amortised cost recognised in a specific equity reserve recognised in the statement of comprehensive income up until said financial asset is derecognised or an impairment loss is recognised.

For more details on the methods of calculating the fair value please refer to paragraph 17.3 below "Criteria for determining the fair value of financial instruments".

Equity instruments, for which the choice has been made to classify them in this category, are measured at fair value and the amounts recognised in other comprehensive income cannot be subsequently transferred to profit or loss, not even if they are sold (the so-called OCI exemption). The only component related to these equity instruments that is recognised through profit or loss is their dividends. Fair value is determined on the basis of the criteria already described for Financial assets measured at fair value through profit or loss.

For the equity instruments included in this category, which are not quoted on an active market, the cost approach is used as the estimate of fair value only on a residual basis and in a small number of circumstances, i.e., when all the measurement methods referred to above cannot be applied, or when there are a wide range of possible measurements of fair value, in which cost represents the most significant estimate.

Financial assets measured at fair value through other comprehensive income are subject to the verification of the significant increase in credit risk (impairment) required by IFRS 9, with the consequent recognition through profit or loss of an impairment loss to cover the expected losses.

Derecognition criteria

Financial assets are derecognised when the contractual rights on the cash flows deriving from the assets expire, or in the case of a transfer, when the same entails the substantial transfer of all risks and rewards related to the financial assets.

Financial assets measured at amortised cost

Classification criteria

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

- the financial asset is held under a business model whose objective is achieved through the collection of expected contractual cash flows (Held to Collect business model);
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI Test" passed).

In particular, this item includes:

- loans and receivables with banks;
- loans and receivables with customers;
- debt instruments.

Except for the equity instruments which cannot be reclassified, financial assets may be reclassified to other categories of financial assets only if the entity changes its own business model for management of the financial assets. In such cases, which are expected to be absolutely infrequent, the financial assets may be reclassified from the amortised cost category to one of the other two categories established by IFRS 9 (Financial assets measured at fair value through other comprehensive income or Financial assets measured at fair value through profit or loss). The transfer value is the fair value at the time of the reclassification and the effects of the reclassification apply prospectively from the reclassification date. Gains and losses resulting from the difference between the amortised cost of a financial asset and its fair value are recognised through profit or loss in the event of reclassification to Financial assets measured at fair value through profit or loss and under equity, in the specific valuation reserve, in the event of reclassification to Financial assets measured at fair value through other comprehensive income.

Recognition criteria

Initial recognition of a receivable is at the date of disbursement based on its fair value including the costs/income of the transaction directly attributable to the acquisition of the receivable.

Costs/income having the previously mentioned characteristics that will be repaid by the debtor or that can be considered as standard internal administrative costs are excluded.

The initial fair value of a financial instrument is usually equivalent to the amount granted or the cost incurred by the acquisition.

Measurement and recognition criteria for income components

Following initial recognition, loans and receivables with customers are stated at amortised cost, equal to the initial recognition amount reduced/increased by principal repayments, by impairment losses/gains and the amortisation - calculated on the basis of the effective interest rate - of the difference between the amount provided and that repayable at maturity, usually the cost/income directly attributed to the individual loan.

The effective interest rate is the rate that discounts future payments estimated for the expected duration of the loan, in order to obtain the exact carrying amount at the time of initial recognition, which includes both the directly attributable transaction costs/income and all of the fees paid or received between the parties. This accounting method, based on financial logic, enables the economic effect of costs/income to be spread over the expected residual life of the receivable.

The measurement criteria are strictly connected with the stage to which the receivable is assigned, where stage 1 contains performing loans, stage 2 consists of under-performing loans, i.e. loans that have undergone a significant increase in credit risk (“significant deterioration”) since the initial recognition of the instrument, and stage 3 consists of non-performing loans, i.e. the loans that show objective evidence of impairment.

The impairment losses recognised through profit or loss for the performing loans classified in stage 1 are calculated by considering an expected loss at one year, while for the performing loans in stage 2 they are calculated by considering the expected losses over the entire residual contractual lifetime of the asset (Lifetime Expected Loss). The performing financial assets are measured according to probability of default (PD), loss given default (LGD) and exposure at default (EAD) parameters, derived from internal historical series. For impaired assets, the amount of the loss, to be recognised through profit or loss, is established based on individual measurement or determined according to uniform categories and, then, individually allocated to each position, and takes account of forward-looking information and possible alternative recovery scenarios. Impaired assets include financial instruments classified as bad exposures, unlikely-to-pay or past due/overdrawn by over ninety days according to the rules issued by the Bank of Italy, in line with the IFRS and EU Supervisory Regulations. The expected cash flows take into account the expected recovery times and the estimated realisable value of any guarantees. The original effective rate of each asset remains unchanged over time even if the relationship has been restructured with a variation of the contractual interest rate and even if the relationship, in practice, no longer bears contractual interest. If the reasons for impairment are no longer applicable following an event subsequent to the recognition of impairment, impairment gains are recognised in the income statement. The impairment gains may not in any case exceed the amortised cost that the financial instrument would have had in the absence of previous impairment losses. Impairment gains with time value effects are recognised in net interest income.

Derecognition criteria

Loans and receivables are derecognised from the financial statements when they are deemed totally unrecoverable or if transferred, when this entails the substantial transfer of all loan-related risks and rewards.

Hedging transactions

At the reporting date, the Bank had not made any "Hedging transactions".

Equity investments

Classification criteria

This category includes equity investments in subsidiaries, associates, and joint ventures by Banca Sistema.

Recognition criteria

Equity investments are recognised in the financial statements at purchase cost plus any related charges.

Measurement criteria

If there is evidence that an equity investment may be impaired, the recoverable value of said equity investment is estimated by considering the present value of future cash flows that the investment could generate, including the final disposal value of the investment and/ or other measurement elements. The amount of any impairment, calculated based on the difference between the carrying amount of the investment and its recoverable value is recognised in the income statement under "Gains (losses) on equity investments". If the reasons for impairment are removed following an event occurring after recognition of the impairment, impairment gains are recognised in the income statement under the same item as above to the extent of the previous impairment loss.

Derecognition criteria

Equity investments are derecognised from the financial statements when the contractual rights to cash flows deriving from the investment are lost or when the investment is transferred, with the substantial transfer of all related risks and rewards. Gains and losses on the sale of equity investments are charged to the income statement under the item "220 Gains (losses) on equity investments"; gains and losses on the sale of investments other than those measured at equity are charged to the income statement under the item "250 Gains (losses) on sales of investments".

Property and equipment

Classification criteria

This item includes assets for permanent use, held to generate income, to be leased, or for administrative purposes, such as land, operating property, investment property, technical installations, furniture and fittings and equipment of any nature and works of art.

They also include leasehold improvements to third party assets if they can be separated from the assets in question. If the above costs do not display functional or usefulness-related autonomy, but future economic benefits are expected from them, they are recognised under "other assets" and are depreciated over the shorter period between that of expected usefulness of the improvements in question and the residual duration of the lease. Depreciation is recognised under "Other operating income (expense)".

Property and equipment also include payments on account for the purchase and renovation of assets not yet part of the production process and therefore not yet subject to depreciation.

“Operating” property and equipment are represented by assets held for the provision of services or for administrative purposes, while property and equipment held for “investment purposes” are those held to collect lease instalments and/or held for capital appreciation.

The item also includes rights of use associated with leased assets and fees for use.

Recognition criteria

Property and equipment are initially recognised at cost, including all costs directly attributable to installation of the asset.

Extraordinary maintenance costs and costs for improvements leading to actual improvement of the asset, or an increase in the future benefits generated by the asset, are attributed to the reference assets, and are depreciated based on their residual useful life.

Under IFRS 16, leases are accounted for in accordance with the right-of-use model, whereby, at the commencement date, the lessee incurs an obligation to make payments to the lessor for the right to use the underlying asset for the term of the lease. When the asset is made available for use by the lessee, the lessee recognises both the liability and the right-of-use asset.

Measurement criteria

Following initial recognition, “operating” property and equipment are recognised at cost, less accumulated depreciation, and any impairment losses, in line with the “cost model” illustrated in paragraph 30 of IAS 16. More specifically, property and equipment are systematically depreciated each year based on their estimated useful life, using the straight-line basis method apart from:

- land, regardless of whether this was purchased separately or was incorporated into the value of the building, which, insofar as it has an indefinite useful life, is not depreciated;
- works of art, which are not depreciated as their useful life cannot be estimated and their value typically appreciates over time;
- investment property which is recognised at fair value in accordance with IAS 40.

For assets acquired during the financial year, depreciation is calculated on a daily basis from the date of entry into use of the asset. For assets transferred and/or disposed of during the financial year, depreciation is calculated on a daily basis until the date of transfer and/or disposal.

At the end of each year, if there is any evidence that property or equipment that is not held for investment purposes may have suffered an impairment loss, a comparison is made between its carrying amount and its recoverable value, equal to the higher between the fair value, net of any costs to sell, and the related value in use of the asset, intended as the present value of future cash flows expected from the asset. Any impairment losses are recognised in the income statement under “net impairment losses on property and equipment”.

If the reasons that led to recognition of the impairment loss cease to apply, an impairment gain is recognised that may not exceed the value that the asset would have had, net of depreciation calculated in the absence of previous impairment losses.

For investment property, which comes within the scope of application of IAS 40, the measurement is made at the market value determined using independent surveys and the changes in fair value are recognised in the income statement under the item “fair value gains (losses) on property, equipment and intangible assets”.

The right-of-use asset, recognised in accordance with IFRS 16, is measured using the cost model under IAS 16 Property, plant and equipment. In this case, the asset is subsequently depreciated and tested for impairment if impairment indicators are present.

Derecognition criteria

Property and equipment is derecognised from the statement of financial position upon disposal thereof or when the asset is permanently withdrawn from use and no future economic benefit is expected from its disposal.

Intangible assets

Classification criteria

This item includes non-monetary assets without physical substance that satisfy the following requirements:

- they can be identified;
- they can be monitored;
- they generate future economic benefits.

In the absence of one of the above characteristics, the expense of acquiring or generating the asset internally is recognised as a cost in the year in which it was incurred.

Intangible assets include software to be used over several years and other identifiable assets generated by legal or contractual rights.

Goodwill is also included under this item, representing the positive difference between the acquisition cost and fair value of the assets and liabilities acquired as part of a business combination. Specifically, an intangible asset is recognised as goodwill when the positive difference between the fair value of the assets and liabilities acquired and the acquisition cost represents the future capacity of the equity investment to generate profit (goodwill). If this difference proves negative (badwill), or if the goodwill offers no justification of the capacity to generate future profit from the assets and liabilities acquired, it is recognised directly in the income statement.

Measurement criteria

Intangible assets are systematically amortised from the time of their input into the production process.

With reference to goodwill, on an annual basis (or when impairment is detected), an assessment test is carried out on the adequacy of its carrying amount. For this purpose, the cash-generating unit to which the goodwill is attributed, is identified. The amount of any impairment is determined by the difference between the goodwill carrying amount and its recoverable value, if lower. This recoverable value is equal to the higher amount between the fair value of the cash-generating unit, net of any costs to sell, and its value in use. As stated above, any consequent impairment losses are recognised in the income statement.

Derecognition criteria

An intangible asset is derecognised from the statement of financial position at the time of its disposal and if there are no expected future economic benefits.

Non-current assets held for sale and disposal groups

Non-current assets or groups of assets for which a disposal process has been initiated and whose sale is considered highly probable are classified under "Non-current assets held for sale and disposal groups". These assets are measured at the lower of their carrying amount and their fair value, net of disposal costs, with the exception of certain types of assets (e.g. financial assets falling within the scope of IFRS 9) for which IFRS 5 specifically requires that the measurement criteria of the relevant accounting standard be applied. Income and expenses (net of the tax effect) relating to groups of assets being disposed of or recognised as such during the year, are shown in the income statement as a separate item.

Financial liabilities measured at amortised cost

Classification criteria

This item includes Due to banks, Due to customers and Securities issued.

Recognition criteria

These financial liabilities are initially recognised when the deposits are received or when the debt instruments are issued. Initial recognition is based on the fair value of the liabilities, increased by the costs/income of the transaction directly attributable to the acquisition of the financial instrument.

Costs/income having the previously mentioned characteristics that will be repaid by the creditor or that can be considered as standard internal administrative costs are excluded.

The initial fair value of a financial liability is usually equivalent to the amount collected.

Measurement and recognition criteria for income components

After the initial recognition, the previously mentioned financial liabilities are measured at amortised cost with the effective interest rate method.

Derecognition criteria

The above financial liabilities are derecognised from the statement of financial position when they expire or when they are extinguished. They are derecognised also in the event of repurchase, even temporary, of the previously-issued securities. Any difference between the carrying amount of the extinguished liability and the amount paid is recognised in the income statement, under “Gain (loss) from sales or repurchases of: financial liabilities”. If the Group, subsequent to the repurchase, re-places its own securities on the market, said transaction is considered a new issue and the liability is recognised at the new placement price.

Financial liabilities held for trading

Classification and recognition criteria

In particular, this category of liabilities includes the liabilities originating from technical exposures deriving from security trading activities.

Financial instruments are recognised at the date of their subscription or issue at a value equal to their fair value, without including any transaction costs or income directly attributable to the instruments themselves.

Measurement and recognition criteria for income components

The financial instruments are measured at fair value with recognition of the measurement results in the income statement.

Derecognition criteria

Financial liabilities held for trading are derecognised when the contractual rights on the related cash flows expire or when the financial liability is sold with a substantial transfer of all risks and rewards related to the liabilities.

Financial liabilities designated at fair value through profit or loss

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

Current and deferred taxes

Income taxes, calculated in compliance with prevailing tax regulations, are recognised in the income statement on an accruals basis, in accordance with the recognition in the financial statements of the costs and income that generated them, apart from those referring to the items recognised directly in equity, where the recognition of the tax is made to equity in order to be consistent.

Income taxes are provided for on the basis of a prudential estimate of the current and deferred taxes. More specifically, deferred taxes are determined on the basis of the temporary differences between the carrying amount of assets and liabilities and their tax bases. Deferred tax assets are recognised in the financial statements to the extent that it is probable that they will be recovered based on the Bank’s ability to continue to generate positive taxable income.

Deferred tax assets and liabilities are accounted for in the statement of financial position with open balances and without offsetting entries, recognising the former under “Tax assets” and the latter under “Tax liabilities”.

With respect to current taxes, at the level of individual taxes, advances paid are offset against the relevant tax charge, indicating the net balance under “current tax assets” or “current tax liabilities” depending on whether it is positive or negative.

Provisions for risks and charges

In line with the requirements of IAS 37, provisions for risks and charges cover liabilities, the amount or timing of which is uncertain, related to current obligations (legal or implicit), owing to a past event for which it is likely that financial resources will be used to fulfil the obligation, on condition that an estimate of the amount required to fulfil said obligation can be made at the reporting date. Where the temporary deferral in sustaining the charge is significant, and therefore the extent of the discounting will be significant, provisions are discounted at current market rates.

The provisions are reviewed at the reporting date of the annual financial statements and the interim financial statements and adjusted to reflect the current best estimate. These are recognised under their own items in the income statement in accordance with a cost classification approach based on the "nature" of the cost. Provisions related to future charges for employed personnel relating to the bonus system appear under "personnel expense". The provisions that refer to risks and charges of a tax nature are reported as "income taxes", whereas the provisions connected to the risk of potential losses not directly chargeable to specific items in the income statement are recognised as "net accruals to provisions for risks and charges".

Other information

Post-employment benefits

According to the IFRIC, the post-employment benefits can be equated with a post-employment benefit of the "defined-benefit plan" type which, based on IAS 19, is to be calculated via actuarial methods. Consequentially, the end of the year measurement of the item in question is made based on the accrued benefits method using the Projected Unit Credit Method.

This method calls for the projection of the future payments based on historical, statistical, and probabilistic analysis, as well as in virtue of the adoption of appropriate demographic fundamentals. It allows the post-employment benefits vested at a certain date to be calculated actuarially, distributing the expense for all the years of estimated remaining employment of the existing workers, and no longer as an expense to be paid if the company ceases its activity on the reporting date.

The actuarial gains and losses, defined as the difference between the carrying amount of the liability and the present value of the obligation at year end, are recognised in equity.

An independent actuary assesses the post-employment benefits in compliance with the method indicated above.

Repurchase agreements

"Repurchase agreements" that oblige the party selling the relevant assets (for example securities) to repurchase them in the future and the "securities lending" transactions where the guarantee is represented by cash, are considered equivalent to swap transactions and, therefore, the amounts received and disbursed appear in the financial statements as payables and receivables. In particular, the previously mentioned "repurchase agreements" and "securities lending" transactions are recognised in the financial statements as payables for the spot price received, while those for investments are recognised as receivables for the spot price paid. Such transactions do not result in changes in the securities portfolio. Consistently, the cost of funds and the income from the investments, consisting of accrued dividends on the securities and of the difference between the spot price and the forward price thereof, are recognised for the accrual period under interest in the income statement.

Criteria for determining the fair value of financial instruments

Fair value is defined as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants”, at a specific measurement date, excluding forced transactions. Underlying the definition of fair value is a presumption that a company is a going concern without any intention or need to liquidate, to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

In the case of financial instruments quoted in active markets, the fair value is determined based on the deal pricing (official price or other equivalent price on the last stock market trading day of the financial year of reference) of the most advantageous market to which the Group has access. For this purpose, a financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm’s length basis.

In the absence of an active market, the fair value is determined using measurement techniques generally accepted in financial practice, aimed at establishing what price the financial instrument would have had, on the valuation date, in a free exchange between knowledgeable and willing parties. Such measurement techniques require, in the hierarchical order in which they are presented, the use:

- of the most recent NAV (Net Asset Value) published by the management investment company for the harmonised funds (UCITS - Undertakings for Collective Investment in Transferable Securities), the Hedge Funds and the SICAVs;
- of the recent transaction prices observable in the markets;
- of the price indications deducible from infoproviders (e.g., Bloomberg, Reuters);
- of the fair value obtained from measurement models (for example, Discounting Cash Flow Analysis, Option Pricing Models) that estimate all the possible factors that influence the fair value of a financial instrument (cost of money, credit exposure, liquidity risk, volatility, foreign exchange rates, prepayment rates, etc.) based on data observable in the market, also with regards to similar instruments on the measurement date. If market data cannot be referenced for one or more risk factors, metrics internally determined on a historical-statistical basis are used. The measurement models are subject to periodic review to guarantee complete and constant reliability;
- of the price indications provided by the counterparty issuer adjusted if necessary to take into account the counterparty and/or liquidity risk (for example, the price resolved on by the Board of Directors and/or the Shareholders for the shares of unlisted cooperative banks, the unit value communicated by the management investment company for the closed-end funds reserved to institutional investors or for other types of OEICs other than those cited in paragraph 1, the redemption value calculated in compliance with the issue regulation for the insurance contracts);
- for the equity-linked instruments, where the measurement techniques pursuant to the previous paragraphs are not applicable: i) the value resulting from independent surveys if available; ii) the value corresponding to the portion of equity held resulting from the company's most

recently approved financial statements; iii) the cost, adjusted if necessary to take into account significant reductions in value, where the fair value cannot be reliably determined.

Based on the foregoing considerations and in compliance with the IFRS, the Group classifies the measurements at fair value based on a hierarchy of levels that reflects the significance of the inputs used in the measurements. The following levels are noted:

- Level 1 - prices (without adjustments) reported on an active market: the measurements of the financial instruments quoted on an active market based on quotations that can be understood from the market;
- Level 2 - the measurement is not based on prices of the same financial instrument subject to measurement, but on prices or credit spreads obtained from the official prices of essentially similar instruments in terms of risk factors, by using a given calculation method (pricing model). The use of this approach translates to the search for transactions present on active markets, relating to instruments that, in terms of risk factors, are comparable with the instrument subject to measurement.
  The calculation methods (pricing models) used in the comparable approach make it possible to reproduce the prices of financial instruments quoted on active markets (model calibration) without including discretionary parameters - i.e. parameters whose value cannot be obtained from the prices of financial instruments present on active markets or cannot be fixed at levels as such to replicate prices present on active markets - which may influence the final valuation price in a decisive manner.
- Level 3 - inputs that are not based on observable market data: the measurements of financial instruments not quoted on an active market, based on measurement techniques that use significant inputs that are not observable on the market, involving the adoption of estimates and assumptions by management (prices supplied by the issuing counterparty, taken from independent surveys, prices corresponding to the fraction of the equity held in the company or obtained using measurement models that do not use market data to estimate significant factors that condition the fair value of the financial instrument). This level includes measurements of financial instruments at cost price.

Business combinations

A business combination is the bringing together of separate entities or businesses into one reporting entity. A business combination may give rise to an investment relationship between the parent (acquirer) and the subsidiary (acquiree). A business combination may also involve the purchase of the net assets, including any goodwill, of another entity rather than the purchase of the equity of the other entity (mergers and contributions). Based on the provisions of IFRS 3, business combinations must be accounted for by applying the purchase method, which comprises the following phases:

- identification of the acquirer;
- measurement of the cost of the business combination;

- allocation, at the acquisition date, of the cost of the business combination to the assets acquired and liabilities and contingent liabilities assumed.

More specifically, the cost of a business combination must be determined as the total fair value, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, in exchange for control of the acquiree, and all costs directly attributable to the business combination.

The acquisition date is the date on which control of the acquiree is effectively obtained. When this is achieved through a single exchange transaction, the date of exchange coincides with the acquisition date.

If the business combination is carried out through several exchange transactions

- the cost of the combination is the aggregate cost of the individual transactions
- the date of exchange is the date of each exchange transaction (i.e. the date that each individual investment is recognised in the financial statements of the acquirer), whereas the acquisition date is the date on which control of the acquiree is obtained.

The cost of a business combination is allocated by recognising the acquiree's identifiable assets, liabilities and contingent liabilities at their fair values at the acquisition date.

The acquiree's identifiable assets, liabilities and contingent liabilities are recognised separately at the acquisition date only if they satisfy the following criteria at that date:

- in the case of an asset other than an intangible asset, it is probable that any associated future economic benefits will flow to the acquirer, and its fair value can be measured reliably;
- in the case of a liability other than a contingent liability, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and its fair value can be measured reliably;
- in the case of an intangible asset or a contingent liability, its fair value can be measured reliably.

The positive difference between the cost of the business combination and the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities must be accounted for as goodwill.

After the initial recognition, the goodwill acquired in a business combination is measured at the relevant cost and is submitted to an impairment test at least once a year.

If the difference is negative, a new measurement is made. This negative difference, if confirmed, is recognised immediately as income in the income statement.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

A.3 - DISCLOSURE ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

A.3.1 Reclassified financial assets: change in business model, carrying amount and interest income

No financial instruments were transferred between portfolios.

A.3.2 Reclassified financial assets: change in business model, fair value and effects on comprehensive income

No financial assets were reclassified.

A.3.3 Reclassified financial assets: change in business model and effective interest rate

No financial assets held for trading were transferred.

A.4 - FAIR VALUE DISCLOSURE

Qualitative disclosure

A.4.1 Fair value levels 2 and 3: valuation techniques and inputs used

Please refer to the accounting policies.

A.4.2 Processes and sensitivity of measurements

The carrying amount of financial assets and liabilities due within one year has been assumed to be a reasonable approximation of fair value, while for those due beyond one year, the fair value is calculated taking into account both interest rate risk and credit risk.

A.4.3 Fair value hierarchy

The following fair value hierarchy was used in order to prepare the financial statements:

Level 1- Effective market quotes

The valuation is the market price of said financial instrument subject to valuation, obtained on the basis of quotes expressed by an active market.

Level 2 - Comparable Approach

Level 3 - Mark-to-Model Approach

A.4.4 Other Information

The item is not applicable for the Bank.

Quantitative disclosure

A.4.5 Fair value hierarchy

A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: breakdown by fair value level.

Financial assets/liabilities measured at fair value	31.12.2023			31.12.2022		
	L1	L 2	L 3	L1	L 2	L 3
1. Financial assets measured at fair value through profit or loss		11,574				24,600
a) financial assets held for trading						
b) financial assets designated at fair value through profit or loss						
c) other financial assets mandatorily measured at fair value through profit or loss		11,574				24,600
2. Financial assets measured at fair value through other comprehensive income	571,002		5,000	553,384		5,000
3. Hedging derivatives						
4. Property and equipment						
5. Intangible assets						
Total	**571,002**	**11,574**	**5,000**	**553,384**		**29,600**
1. Financial liabilities held for trading						
2. Financial liabilities designated at fair value through profit or loss						
3. Hedging derivatives						
Total						

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

A.4.5.4 Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: breakdown by fair value level

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis	31.12.2023				31.12.2022			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets measured at amortised cost	3,368,819	55,705		3,335,429	3,519,272	672,384		2,851,146
2. Investment property								
3. Non-current assets held for sale and disposal groups								
Total	**3,368,819**	**55,705**		**3,335,429**	**3,519,272**	**672,384**		**2,851,146**
1. Financial liabilities measured at amortised cost	4,018,100			4,019,090	3,923,476			3,923,476
2. Liabilities associated with disposal groups								
Total	**4,018,100**			**4,019,090**	**3,923,476**			**3,923,476**

Key:

CA = carrying amount

L1 = Level 1

L2 = Level 2

L3 = Level 3

A.5 DISCLOSURE CONCERNING "DAY ONE PROFIT/LOSS"

Nothing to report.

PART B - INFORMATION ON THE STATEMENT OF FINANCIAL POSITION

ASSETS

Section 1 - Cash and cash equivalents – Item 10

1.1 Cash and cash equivalents: breakdown

	31.12.2023	31.12.2022
a) Cash	50	57
b) current accounts and demand deposits with Central Banks	199,773	66,133
c) Current and deposit accounts with banks	47,553	57,985
Total	**247,376**	**124,175**

Section 2 - Financial assets measured at fair value through profit or loss - Item 20

2.5 Other financial assets mandatorily measured at fair value through profit or loss: breakdown by product

	31/12/2023			31/12/2022		
	L1	L2	L3	L1	L2	L3
1. Debt instruments			**11,574**			**24,600**
1.1 Structured instruments						
1.2 Other debt instruments			11,574			24,600
2. Equity instruments						
3. OEIC units						
4. Financing						
4.1 Reverse repurchase agreements						
4.2 Other						
Total			**11,574**			**24,600**

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

	31.12.2023	31.12.2022
1. Equity instruments		
of which: banks		
of which: other financial corporations		
of which: non-financial corporations		
2. Debt instruments	**11,574**	**24,600**
a) Central Banks		
b) General governments		
c) Banks		
d) Other financial corporations	11,574	24,600
of which: insurance companies		
e) Non-financial corporations		
3. OEIC units		
4. Financing		
a) Central Banks		
b) General governments		
c) Banks		
d) Other financial corporations		
of which: insurance companies		
e) Non-financial corporations		
f) Households		
Total	**11,574**	**24,600**

Section 3 - Financial assets measured at fair value through other comprehensive income - Item 30

3.1 Financial assets measured at fair value through other comprehensive income: breakdown by product

	31.12.2023			31.12.2022		
	L1	L2	L3	L1	L2	L3
1. Debt instruments	**570,729**			**553,046**		
1.1 Structured instruments						
1.2 Other debt instruments	570,729			553,046		
2. Equity instruments	**273**		**5,000**	**338**		**5,000**
3. Financing						
Total	**571,002**		**5,000**	**553,384**		**5,000**

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

3.2 Financial assets measured at fair value through other comprehensive income: breakdown by debtor/issuer

	31.12.2023	31.12.2022
1. Debt instruments	**570,729**	**553,046**
a) Central Banks		
b) General governments	570,729	553,046
c) Banks		
d) Other financial corporations		
of which: insurance companies		
e) Non-financial corporations		
2. Equity instruments	**5,273**	**5,338**
a) Banks	5,000	5,000
b) Other issuers:	273	338
- other financial corporations	273	338
of which: insurance companies		
- non-financial corporations		
- other		
4. Financing		
a) Central Banks		
b) General governments		
c) Banks		
d) Other financial corporations		
of which: insurance companies		
e) Non-financial corporations		
f) Households		
Total	**576,002**	**558,384**

3.3 Financial assets measured at fair value through other comprehensive income: gross amount and total impairment losses

	Gross amount					Total impairment losses				Overall partial write-offs (*)
	First stage	of which instruments with low credit risk	Second stage	Third stage	Purchased or originated credit-impaired	First stage	Second stage	Third stage	Purchased or originated credit-impaired	
Debt securities	570,873	570,873				145				
Financing										
Total 31.12.2023	**570,873**	**570,873**				**145**				
Total 31.12.2022	**553,368**	**553,368**				**322**				

Section 4 - Financial assets measured at amortised cost - Item 40

4.1 Financial assets measured at amortised cost: breakdown by product of the loans and receivables with banks

	31.12.2023						31.12.2022					
	Carrying amount			Fair value			Carrying amount			Fair value		
	First and second stage	Third stage	of which: purchased or originated credit-impaired	L1	L2	L3	First and second stage	Third stage	of which: purchased or originated credit-impaired	L1	L2	L3
A. Loans and receivables with Central Banks	**4**					**4**	**17,617**					**17,617**
1. Term deposits				X	X	X				X	X	X
2. Minimum reserve				X	X	X	16,308			X	X	X
3. Reverse repurchase agreements				X	X	X				X	X	X
4. Other	4			X	X	X	1,309			X	X	X
B. Loans and receivables with banks	**790**	**1**				**791**	**17,197**	**11**				**17,208**
1. Financing	**790**	**1**				**791**	**17,197**	**11**				**17,208**
1.1 Current accounts and demand deposits				X	X	X				X	X	X
1.2. Term deposits				X	X	X	15,000			X	X	X
1.3. Other financing:	790	1		X	X	X	2,197	11		X	X	X
- Reverse repurchase agreements				X	X	X				X	X	X
- Finance leases				X	X	X				X	X	X
- Other	790	1		X	X	X	2,197	11		X	X	X
2. Debt instruments												
2.1 Structured instruments												
2.2 Other debt instruments												
Total	**794**	**1**				**795**	**34,814**	**11**				**34,825**

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

4.2 Financial assets measured at amortised cost: breakdown by product of the loans and receivables with customers

	31.12.2023						31.12.2022					
	Carrying amount			Fair value			Carrying amount			Fair value		
	First and second stage	Third stage	Purchased or originated credit-impaired	L1	L2	L3	First and second stage	Third stage	Purchased or originated credit-impaired	L1	L2	L3
Financing	**3,073,875**	**231,347**	**87**			**3,333,025**	**2,574,198**	**222,589**	**84**			**2,809,783**
1.1. Current accounts	177,854	45		X	X	X	160,814	153		X	X	X
1.2. Reverse repurchase agreements				X	X	X				X	X	X
1.3. Loans	263,917	23,349		X	X	X	195,790	1,966		X	X	X
1.4. Credit cards, personal loans and salary- and pension-backed	767,070	13,714		X	X	X	899,411	15,411		X	X	X
1.5. Finance leases				X	X	X				X	X	X
1.6. Factoring	1,618,022	180,916	87	X	X	X	1,083,395	190,501	84	X	X	X
1.7. Other financing	247,012	13,323		X	X	X	234,788	14,558		X	X	X
Debt instruments	**62,715**			**55,705**	**1,608**		**687,576**			**672,384**		**6,538**
1.1. Structured instruments												
1.2. Other debt instruments	62,715			55,705	1,608		687,576			672,384		6,538
Total	**3,136,590**	**231,347**	**87**	**55,705**	**1,608**	**3,333,025**	**3,261,774**	**222,589**	**84**	**672,384**		**2,816,321**

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

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

	31.12.2023			31.12.2022		
	First and second stage	Third stage	Purchased or originated credit-impaired	First and second stage	Third stage	Purchased or originated credit-impaired
1. Debt securities	62,715			687,576		
a) General governments	61,105			681,032		
b) Other financial corporations	1,610			6,544		
of which: insurance companies						
c) Non-financial corporations						
2. Financing to:	3,073,874	231,348	87	2,574,198	222,589	84
a) General governments	1,523,990	161,822	87	953,054	172,132	84
b) Other financial corporations	166,598	2,083		217,296	2,225	
of which: insurance companies	105	2,082		256	2,223	
c) Non-financial corporations	585,574	52,255		479,142	31,264	
d) Households	797,712	15,188		924,706	16,968	
Total	**3,136,589**	**231,348**	**87**	**3,261,774**	**222,589**	**84**

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

	Gross amount					Total impairment losses				Overall partial write-offs (*)
	First stage		Second stage	Third stage	Purchased or originated credit-impaired	First stage	Second stage	Third stage	Purchased or originated credit-impaired	
		of which instruments with low credit risk								
Debt securities	62,735	61,125				20				
Financing	2,990,003	1,525,472	90,908	296,369	88	5,548	695	65,021		
Total 31.12.2023	**3,052,738**	**1,586,597**	**90,908**	**296,369**	**88**	**5,568**	**695**	**65,021**	**-**	**-**
Total 31.12.2022	**3,190,595**	**1,635,040**	**112,795**	**284,054**	**84**	**4,809**	**1,993**	**61,454**		

4.4a Loans measured at amortised cost subject to Covid-19 support measures: gross amount and total impairment losses

	Gross amount					Total impairment losses				Overall partial write-offs (*)
	First stage		Second stage	Third stage	Purchased or originated credit-impaired	First stage	Second stage	Third stage	Purchased or originated credit-impaired	
		of which instruments with low credit risk								
1. Forborne loans in compliance with the EBA Guidelines										
2. Loans subject to existing moratoria no longer in compliance with the EBA Guidelines and not considered forborne										
3. Loans subject to other forbearance measures										
4. New loans	86,031			21,458		241		428		
Total 31.12.2023	**86,031**			**21,458**		**241**		**428**		
Total 31.12.2022	**151,034**		**2,537**	**761**		**364**	**1,273**	**48**		

Section 7 - Equity investments - item 70

7.1 Equity investments: information on investment relationships

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

7.2 Significant equity investments: carrying amount

Denominazioni	Valore di bilancio 2023	Valore di bilancio 2022
A. Imprese controllate in via esclusiva		
Kruso Kapital S.p.A.	29.250	29.250
Largo Augusto Servizi e Sviluppo S.r.l.	15.000	15.000
S.F. Trust Holdings Ltd		
B. Joint ventures		
EBNSistema Finance Sl	1.000	1.000

7.3 Significant equity investments: accounting information

Denominazioni	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total income	Net interest income	Net impairment gains and losse	Pre-tax profit (loss) from contir	Post-tax profit (loss) from conti	Post-tax profit (loss) from disc	Profit (loss) for the year	Other comprehensive income (	Comprehensive income (expen
A. Fully-controlled companies														
1. S.F. Trust Holdings Ltd														
2. Largo Augusto Servizi e Sviluppo S.r.l.	-	-	35,832	20,441	394	2,316	(211)	(943)	258	196	-	196	-	196
3. Kruso Kapital S.p.A.	5,944	121,350	38,761	112,559	9,889	22,708	7,455	(1,397)	5,259	3,582	-	3,582	-	3,577

7.4 Non-significant equity investments: accounting information

	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total income	Net interest income	Net impairment gains and losse	Pre-tax profit (loss) from conti	Post-tax profit (loss) from cont	Post-tax profit (loss) from disc	Profit (loss) for the year	Other comprehensive income (	Comprehensive income (expen
B. Joint ventures														
1. EBN SISTEMA FINANCE SL	7,661	66	-	-	5,758	-	601	-	-	66	50	50	-	50

7.5 Equity investments: changes

	31.12.2023	31.12.2022
A. Opening balance	**45,250**	**45,250**
B. Increases		
B.1 Purchases		
B.2 Impairment gains		
B.3 Revaluations		
B.4 Other increases		
C. Decreases		
C.1 Sales		
C.2 Impairment losses		
C.3 Write-offs		
C.4 Other decreases		
D. Closing balance	**45,250**	**45,250**
E. Total revaluations		
F. Total impairment losses		

Section 8 – Property and equipment – Item 80

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

	31.12.2023	31.12.2022
1 Owned	**329**	**328**
a) land		
b) buildings		
c) furniture	220	161
d) electronic equipment	109	167
e) other	-	-
2 Right-of-use assets acquired under finance lease	**1,990**	**2,707**
a) land		-
b) buildings	1,471	2,129
c) furniture		
d) electronic equipment		
e) other	519	578
Total	**2,319**	**3,035**
of which: obtained from the enforcement of guarantees received		

Property and equipment are recognised in the financial statements in accordance with the general acquisition cost criteria, including the related charges and any other expenses incurred to place the assets in conditions useful for the Bank, in addition to indirect costs for the portion reasonably attributable to assets that refer to the costs incurred, as at the end of the year.

Depreciation rates:

- Office furniture: 12%
- Furnishings: 15%
- Electronic machinery and miscellaneous equipment: 20%
- Assets less than Euro 516: 100%

8.6 Operating assets: changes

	Land	Buildings	Furniture	Electronic equipment	Other	Total
A. Gross opening balances		**7,274**	**1,304**	**2,330**	**2,134**	**13,042**
A.1 Total net impairment losses		5,145	1,143	2,162	1,556	10,006
A.2 Net opening balances		**2,129**	**161**	**168**	**578**	**3,036**
B. Increases:		**641**	**79**	**9**	**298**	**1,027**
B.1 Purchases		116	79	9	291	495
B.2 Capitalised improvement costs		525			7	
B.3 Impairment gains						
B.4 Fair value gains recognised in						
a) equity						
b) profit or loss						
B.5 Exchange rate gains						
B.6 Transfers from investment property			X	X	X	
B.7 Other increases						
C. Decreases:		**1,299**	**20**	**66**	**359**	**1,744**
C.1 Sales						
C.2 Depreciation		1,299	20	66	306	1,691
C.3 Impairment losses recognised in						
a) equity						
b) profit or loss						
C.4 Fair value losses recognised in						
a) equity						
b) profit or loss						
C.5 Exchange rate losses						
C.6 Transfers to:						
a) investment property			X	X	X	
b) non-current assets held for sale and disposal groups						
C.7 Other decreases					53	53
D. Net closing balance		**1,471**	**220**	**111**	**517**	**2,319**
D.1 Total net impairment losses		6,444	1,163	2,228	1,915	11,750
D.2 Gross closing balance		**7,915**	**1,383**	**2,339**	**2,432**	**14,069**
E. Measurement at cost		1,471	220	111	517	2,319

Section 9 – Intangible assets – Item 90

9.1 Intangible assets: breakdown by type of asset

	31.12.2023		31.12.2022	
	Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life
A.1 Goodwill		**3,920**	**x**	**3,920**
A.2 Other intangible assets	**78**		**37**	
of which software				
A.2.1 Assets measured at cost:	78		37	
a) Internally developed assets				
b) Other	78		37	
A.2.2 Assets measured at fair value:				
a) Internally developed assets				
b) Other				
Total	**78**	**3,920**	**37**	**3,920**

The other intangible assets are recognised at purchase cost including related costs, and are systematically amortised over a period of 5 years. The item mainly refers to software.

With respect to information related to goodwill, reference should be made to Part B - Information on the statement of financial position, Section 10 – Intangible assets – Item 100 of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

9.2 Intangible assets: changes

	Goodwill	Other intangible assets: internally developed		Other intangible assets: other		Total
		FIN	INDEF	FIN	INDEF	
A. Opening balance	**3,920**			**3,172**		**7,092**
A.1 Total net impairment losses				3,135		3,135
A.2 Net opening balances	**3,920**	**-**	**-**	**37**	**-**	**3,957**
B. Increases				**71**		
B.1 Purchases				71		
B.2 Increases in internally developed assets	X					
B.3 Impairment gains	X					
B.4 Fair value gains recognised in:						
- equity	X					
- profit or loss	X					
B.5 Exchange rate gains						
B.6 Other increases						
C. Decreases				**30**		**30**
C.1 Sales						
C.2 Impairment losses				30		30
- Amortisation	X			30		30
- Impairment losses:						
- equity	X					
- profit or loss						
C.3 Fair value losses recognised in:						
- equity	X					
- profit or loss	X					
C.4 Transfers to disposal groups						
C.5 Exchange rate losses						
C.6 Other decreases						
D. Net closing balance	**3,920**			**78**		**3,998**
D.1 Total net impairment losses				3,165		3,165
E. Gross closing balance	**3,920**			**3,243**		**7,163**
F. Measurement at cost	**3,920**			**78**		**3,998**

Key

Fin: finite useful life

Indef: indefinite useful life

Section 10 – Tax assets and tax liabilities – Item 100 of assets and Item 60 of liabilities

Below is the breakdown of the current tax assets and current tax liabilities

	31.12.2023	31.12.2022
Current tax assets	**8,495**	**10,979**
IRES prepayments	**6,197**	**8,321**
IRAP prepayments	2,111	2,426
Other	187	232
Current tax liabilities	**(1,366)**	**(8,919)**
Provision for IRES	1,180	(5,931)
Provision for IRAP	(1,991)	(2,284)
Provision for substitute tax	(555)	(704)
Total	**7,129**	**2,060**

10.1 Deferred tax assets: breakdown

	31.12.2023	31.12.2022
Deferred tax assets through profit or loss:	**8,923**	**8,442**
Impairment losses on loans	**1,163**	**1,733**
Non-recurring transactions	315	348
Other	7,445	6,361
Deferred tax assets through equity:	**8,088**	**12,737**
Non-recurring transactions	180	200
HTCS securities	6,109	12,483
Other	1,799	54
Total	**17,012**	**21,179**

10.2 Deferred tax liabilities: breakdown

	31.12.2023	31.12.2022
Deferred tax liabilities through profit or loss:	**22,544**	**15,493**
Uncollected default interest income	**21,526**	**15,493**
Other	1,017	
Deferred tax liabilities through equity:	**-**	**-**
HTCS securities		
Total	**22,544**	**15,493**

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

	31.12.2023	31.12.2022
1. Opening balance	**8,442**	**8,487**
2. Increases	**2,779**	**2,406**
2.1 Deferred tax assets recognised in the year	2,779	2,382
a) related to previous years		
b) due to changes in accounting policies		
c) impairment gains		
d) other	2,779	2,382
e) business combination transactions		
2.2 New taxes or tax rate increases		
2.3 Other increases	-	24
3. Decreases	**2,298**	**2,451**
3.1 Deferred tax assets derecognised in the year	2,298	2,451
a) reversals		
b) impairment due to non-recoverability		
c) changes in accounting policies		
d) other	2,298	2,451
3.2 Tax rate reductions		
3.3 Other decreases	-	-
a) conversion into tax assets pursuant to Law 214/2011		
b) other		
4. Closing balance	**8,923**	**8,442**

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

	31.12.2023	31.12.2022
1. Opening balance	**2,281**	**2,596**
2. Increases		
3. Decreases	**623**	**315**
3.1 Reversals		
3.2 Conversions into tax assets	-	-
a) arising on loss for the year		
b) arising on tax losses		
3.3 Other decreases	623	315
4. Closing balance	**1,658**	**2,281**

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

	31.12.2023	31.12.2022
1. Opening balance	**15,493**	**14,173**
2. Increases	**7,051**	**1,320**
2.1 Deferred tax liabilities recognised in the year	7,051	1,320
a) related to previous years		
b) due to changes in accounting policies		
c) other	7,051	1,320
2.2 New taxes or tax rate increases		
2.3 Other increases		
3. Decreases	**-**	**-**
3.1 Deferred tax liabilities derecognised in the year	-	-
a) reversals		
b) due to changes in accounting policies		
c) other		
3.2 Tax rate reductions		
3.3 Other decreases		
4. Closing balance	**22,544**	**15,493**

10.5 Change in deferred tax assets (through equity)

	31.12.2023	31.12.2022
1. Opening balance	**12,737**	**1,739**
2. Increases	**7,863**	**12,483**
2.1 Deferred tax assets recognised in the year	7,863	12,483
a) related to previous years		
b) due to changes in accounting policies		
c) other	7,863	12,483
2.2 New taxes or tax rate increases		
2.3 Other increases		
3. Decreases	**12,512**	**1,485**
3.1 Deferred tax assets derecognised in the year	12,512	1,461
a) reversals		
b) impairment due to non-recoverability		
c) due to changes in accounting policies		
d) other	12,512	1,461
3.2 Tax rate reductions		
3.3 Other decreases		24
4. Closing balance	**8,089**	**12,737**

Section 12 - Other assets - Item 120

12.1 Other assets: breakdown

	31.12.2023	31.12.2022
Ecobonus 110% tax assets	216,765	54,914
Tax advances	7,306	7,525
Work in progress	5,060	4,692
Prepayments not related to a specific item	7,609	4,717
Trade receivables	2,053	1,609
Advance to third parties	1,200	1,304
Other	789	958
Leasehold improvements	272	149
Security deposits	156	161
Total	**241,210**	**76,029**

LIABILITIES

Section 1 - Financial liabilities measured at amortised cost - Item 10

1.1 Financial liabilities measured at amortised cost: breakdown by product of due to banks

	31.12.2023				31.12.2022			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Due to Central banks	**556,012**	**X**	**X**	**X**	**537,883**	**X**	**X**	**X**
2. Due to banks	**54,775**	**X**	**X**	**X**	**66,777**	**X**	**X**	**X**
2.1 Current accounts and demand deposits	311	X	X	X	1,645	X	X	X
2.2 Term deposits	54,464	X	X	X	65,084	X	X	X
2.3 Financing		X	X	X		X	X	X
2.3.1 Repurchase agreements		X	X	X		X	X	X
2.3.2 Other		X	X	X		X	X	X
2.4 Commitments to repurchase own equity instruments		X	X	X		X	X	X
2.5 Lease liabilities		X	X	X		X	X	X
2.6 Other payables		X	X	X	48	X	X	X
Total	**610,787**			**610,787**	**604,660**			**604,660**

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

1.2 Financial liabilities measured at amortised cost: breakdown by product of due to customers

	31.12.2023				31.12.2022			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	752,777	X	X	X	794,796	X	X	X
2. Term deposits	2,401,941	X	X	X	1,431,436	X	X	X
3. Financing	118,078	X	X	X	978,636	X	X	X
3.1 Repurchase agreements		X	X	X	865,878	X	X	X
3.2 Other	118,078	X	X	X	112,758	X	X	X
4. Commitments to repurchase own equity instruments		X	X	X		X	X	X
5. Lease liabilities		X	X	X		X	X	X
6. Other payables	134,519	X	X	X	113,948	X	X	X
Total	**3,407,315**			**3,407,315**	**3,318,816**			**3,318,816**

Key:

CA = carrying amount

L1 = Level 1

L2 = Level 2

L3 = Level 3

Section 6 – Tax liabilities – Item 60

The breakdown as well as the change in the deferred tax liabilities were illustrated in Part B Section 10 of assets in these notes to the financial statements.

Section 8 - Other Liabilities - Item 80

8.1 Other liabilities: breakdown

	31.12.2023	31.12.2022
Payments received in the reconciliation phase	110,583	103,512
Accrued expenses	18,702	17,527
Work in progress	25,008	12,806
Trade payables	6,549	6,122
Tax liabilities with the Tax Authority and other tax authorities	10,578	8,934
Finance lease liabilities	2,028	2,761
Due to employees	650	1,616
Pension repayments	788	694
Other	66	66
Due to group companies	87	201
Total	**175,039**	**154,239**

Section 9 - Post-employment benefits - Item 90

9.1 Post-employment benefits: changes

	31.12.2023	31.12.2022
A. Opening balance	**3,250**	**3,360**
B. Increases	**706**	**843**
B.1 Accruals	521	843
B.2 Other increases	185	
C. Decreases	**147**	**953**
C.1 Payments	147	208
C.2 Other decreases		745
D. Closing balance	**3,809**	**3,250**

9.2 Other Information

The actuarial amount of post-employment benefits was calculated by an external actuary, who issued an appraisal.

The other decreases refer to the actuarial gain accounted for during the year. The payments made refer to post-employment benefits paid during the year.

The technical valuations were conducted on the basis of the assumptions described in the following table:

Annual discount rate	3.17%
Annual inflation rate	2.00%
Annual post-employment benefits increase rate	3.00%
Annual real salary increase rate	3.17%

The discount rate used for determining the present value of the obligation was calculated, pursuant to IAS 19.83, from the Iboxx Corporate AA index with 10+ duration during the valuation month. To this end, a choice was made to select the yield with a duration comparable to the duration of the set of workers subject to valuation.

SECTION 10 – Provisions for risks and charges - Item 100

10.1 Provisions for risks and charges: breakdown

	31.12.2023	31.12.2022
1. Provisions for credit risk related to commitments and financial guarantees issued	59	24
2. Provisions for other commitments and other guarantees issued	-	
3. Internal pension funds	-	
4. Other provisions for risks and charges	37,073	35,753
4.1 legal and tax disputes	15,718	12,818
4.2 personnel expense	5,110	5,036
4.3 other	16,245	17,899
Total	**37,132**	**35,777**

10.2 Provisions for risks and charges: changes

	Provisions for other commitments and other guarantees issued	Pension funds	Other provisions for risks and charges	Total
A. Opening balance	**24**		**35,753**	**35,777**
B. Increases	**35**	**-**	**11,483**	**11,518**
B.1 Accruals			10,657	10,657
B.2 Discounting				-
B.3 Changes due to discount rate changes				-
B.4 Other increases	35		826	861
C. Decreases	**-**	**-**	**10,163**	**10,163**
C.1 Utilisations	-	-	10,009	10,009
C.2 Changes due to discount rate changes	-	-	-	-
C.3 Other decreases	-	-	154	154
D. Closing balance	**59**	**-**	**37,073**	**37,132**

10.3 Provisions for credit risk related to commitments and financial guarantees issued

	Provisions for credit risk related to commitments and financial guarantees issued			
	First stage	Second stage	Third stage	Total
Commitments to disburse funds				-
Financial guarantees issued	59			59
Total	**59**	**-**	**-**	**59**

10.5 Internal defined benefit pension funds

Nothing to report.

10.6 Provisions for risks and charges - other provisions

Voci/Valori	31.12.2022	31.12.2021
Controversie legali e fiscali	15,718	12,818
Oneri per il personale	5,110	5,036
Altri	16,245	17,899
Totale	**37,073**	**35,753**

SECTION 12 – Bank equity – Items 110, 130, 140, 150, 160, 170 and 180

12.1 "Share capital" and "Treasury shares": breakdown

The share capital of Banca Sistema is composed of 80,421,052 ordinary shares, for a total paid-in share capital of € 9,650,526.24. All outstanding shares have regular dividend entitlement from 1 January.

Based on evidence from the Shareholders' Register and more recent information available, as at 31 December 2022 the shareholders with stakes of more than 5%, the threshold above which Italian law (art. 120 of the Consolidated Law on Finance) requires disclosure to the investee and Consob, were as follows:

Person at the top of the chain of ownership	Shareholder	No. of shares	% of the ordinary shares	% of the voting capital
Gianluca Garbi	SGBS Srl	18,578,900	23.1%	22.5%
	Garbifin Srl	409,453	0.5%	0.5%
	Fondazione Cassa di Risparmio di Cuneo	4,030,000	5.0%	4.9%
	Fondazione Cassa di Risparmio di Alessandria	5,950,000	7.4%	7.2%
	Fondazione Sicilia	5,950,104	7.4%	7.2%
	Chandler	6,013,000	7.5%	7.3%
	Treasury shares	168,004	0.2%	0.2%
	Market	39,321,591	48.9%	50.2%
TOTAL SHARES		**80,421,052**	**100.0%**	**100.0%**

A breakdown of the composition of equity is shown below:

	Amount 31.12.2023	Amount 31.12.2022
1. Share capital	9,651	9,651
2. Share premium	39,100	39,100
3. Reserves	168,371	155,998
4. Equity instruments	45,500	45,500
5. (Treasury shares)	(355)	(559)
6. Valuation reserves	(12,333)	(24,870)
8. Profit	14,129	20,887
Total	**264,063**	**245,707**

The Parent, Banca Sistema, holds a total of 168,004 treasury shares corresponding to 0.209% of the share capital valued at € 355 thousand.

12.2 Share capital - Parent's number of shares: changes

	Ordinary	Other
A. Opening balance	**80,140,133**	
- fully paid-in		
- not fully paid-in		
A.1 Treasury shares (-)		
A.2 Outstanding shares: opening balance	**80,140,133**	
B. Increases	**112,915**	
B.1 New issues		
- against consideration:		
- business combination transactions		
- conversion of bonds		
- exercise of warrants		
- other		
- bond issues:		
- to employees		
- to directors		
- other		
B.2 Sale of treasury shares	112,915	
B.3 Other increases		
C. Decreases	**-**	
C.1 Cancellation		
C.2 Repurchase of treasury shares		
C.3 Disposal of equity investments		
C.4 Other decreases		
D. Outstanding shares: closing balance	**80,253,048**	
D.1 Treasury shares (+)		
D.2 Closing balance		
- fully paid-in		
- not fully paid-in		

12.4 Income-related reserves: other information

In compliance with art. 2427(7 bis) of the Italian Civil Code, below is the detail of the equity items revealing the origin and possibility of use and distributability.

	Value at 31.12.2023	Possible use	Available portion
A) Share capital	9,651	-	
B) Equity-related reserves:			
Share premium reserve	39,100	A,B,C	
Reserve to provide for losses		-	
C) Income-related reserves:			
Legal reserve	1,930	B	
Valuation reserve	(12,333)	-	
Negative goodwill	1,774	A,B,C	
Retained earnings	165,161	A,B,C	
Reserve for treasury shares	386		
Reserve for future capital increase	-	-	
D) Other reserves	(880)	-	
E) Equity instruments	45,500		
F) Treasury shares	(355)		
Total	**249,934**		
Profit for the year	14,129	-	
Total equity	**264,063**	**-**	
Undistributable portion	-	-	
Distributable portion	-	-	

Key:

A: for share capital increase

B: to cover losses

C: for distribution to shareholders

12.5 Equity instruments: breakdown and changes

	Issuer	Type of issue	Coupon	Maturity date	Nominal amount	IFRS amount
Tier 1 Capital	Banca Sistema S.p.A.	Tier 1 subordinated loans with mixed rate: ISIN IT0004881444	6-month Euribor +5% variable rate	Perpetual	8,000	8,018
Tier 1 Capital	Banca Sistema S.p.A.	Subordinated ordinary loans (Tier 1): ISIN IT0005450876	Fixed rate at 9% until 25 June 2031	Perpetual	37,500	37,558
Total					**45,500**	**45,576**

The breakdown of bonds issued at 31 December 2022, which given their predominant characteristics are classified under equity instruments in item 140 of equity, is as follows:

- AT1 subordinated loan of € 8 million, with no maturity (perpetual basis) and a variable coupon starting from 19 June 2023, issued on 18 December 2012 and 18 December 2013 (reopening date);
- AT1 subordinated loan of € 37.5 million, with no maturity (perpetual basis) and a fixed coupon until 25 June 2031 at 9% issued on 25 June 2021.

Other information

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

	Nominal amount of commitments and financial guarantees issued					
	First stage	Second stage	Third stage	Purchased or originated credit-impaired	31.12.2023	31.12.2022
Commitments to disburse funds	**913,081**		**38,444**		**951,526**	**950,932**
a) Central Banks						
b) General governments	493,573		22,722		516,295	282,952
c) Banks						
d) Other financial corporations	254,651				254,651	450,899
e) Non-financial corporations	164,112		15,714		179,827	216,342
f) Households	745		8		753	739
Financial guarantees issued	**26,880**		**3,269**		**30,149**	**9,707**
a) Central Banks						
b) General governments	60				60	60
c) Banks	2,446				2,446	2,446
d) Other financial corporations	9,162				9,162	122
e) Non-financial corporations	15,170		3,269		18,439	7,027
f) Households	42				42	52

3. Assets pledged as collateral for liabilities and commitments

	Amount	
	31.12.2023	31.12.2022
1. Financial assets measured at fair value through profit or loss		
2. Financial assets measured at fair value through other comprehensive income		553,046
3. Financial assets measured at amortised cost	203,032	540,472
4. Property and equipment		
of which: Property and equipment included among inventories		

4. Management and trading on behalf of third parties

Type of services	Amount
1. Execution of orders on behalf of customers	
a) purchases	
1. settled	
2. unsettled	
b) sales	
1. settled	
2. unsettled	
2. Individual asset management	
3. Securities custody and administration	**1,112,845**
a) third-party securities held as part of depositary bank services (excluding asset management)	
1. securities issued by the reporting entity	
2. other securities	
b) third-party securities on deposit (excluding asset management): other	49,956
1. securities issued by the reporting entity	3,769
2. other securities	46,187
c) third-party securities deposited with third parties	49,956
d) securities owned by the bank deposited with third parties	1,062,889
4. Other transactions	

PART C - INFORMATION ON THE INCOME STATEMENT

Section 1 – Items 10 and 20

1.1 Interest and similar income: breakdown

Items/Technical forms	Debt instruments	Financing	Other transactions	2023	2022
1. Financial assets measured at fair value through profit or loss:	194	19		213	94
1.1 Financial assets held for trading	104	19		123	17
1.2 Financial assets designated at fair value through profit or loss					
1.3 Other financial assets mandatorily measured at fair value through profit or loss	90			90	77
2. Financial assets measured at fair value through other comprehensive income	1,670		X	1,670	723
3. Financial assets measured at amortised cost:	22,577	137,949		160,526	88,122
3.1 Loans and receivables with banks		4,235	X	4,235	363
3.2 Loans and receivables with customers	22,577	133,714	X	156,291	87,759
4. Hedging derivatives	X	X			
5. Other assets	X	X	3,806	3,806	
6. Financial liabilities	X	X	X		2,212
Total	**24,441**	**137,968**	**3,806**	**166,215**	**91,151**
of which: interest income on impaired assets					
of which: interest income on finance leases	X		X		

The total contribution of the Factoring Division to interest income was € 111 million, equal to 83% of the entire loans and receivables portfolio, to which the commission component associated with the factoring business and the revenue generated by the assignment of receivables from the factoring portfolio need to be added. The item also includes the interest component tied to the amortised cost of superbonus loans used in compensation amounting to € 3.8 million.

The component owed for late payments pursuant to Legislative Decree 231/02 (consisting of default interest and compensation) legally enforced at 31 December 2023 amounted to € 36.5 million (€ 15.2 million at 31 December 2022):

- of which € 1.2 million resulting from the updated recovery estimates and expected collection times (€ 1.6 million in 2022);
- of which € 6.4 million recorded following the increases in benchmark rates (ECB) in 2022, which led to an increase in the "Legislative Decree No. 231 of 9 October 2002" rate (decree implementing European legislation on late payments) from 8% to 10.5% from 1 January 2023 to 30 June 2023, to 12% from 1 July 2023 to 31 December 2023, and to 12.5% from 1 January 2024;
- of which € 18.7 million resulting from the current recovery estimates (€ 7.5 million in 2022);

- of which €6.5 million (€6.1 million in 2022) coming from the difference between the amount collected during the period, equal to €10.8 million (€10.4 million in 2022) and that recognised on an accruals basis in previous years.
- of which € 3.7 million resulting from the current estimates for the recovery of the € 40 component of the compensation claims pursuant to Article 6 of Legislative Decree No. 231/02.

The contribution from interest from the salary- and pension-backed portfolios amounted to € 21.9 million, up from the previous year from the reduced impact of portfolio prepayment, along with a greater contribution from new loans originated at higher rates, although the effect of lower yield compared to the current market environment on portfolios purchased in previous years remains significant.

1.3 Interest and similar expense: breakdown

Items/Technical forms	Liabilities	Securities	Other transactions	2023	2022
1. Financial liabilities measured at amortised cost	103,537	5,490		109,027	14,962
1.1 Due to Central banks	18,129	X		18,129	
1.2 Due to banks	6,518	X		6,518	527
1.3 Due to customers	78,890	X		78,890	13,572
1.4 Securities issued	X	5,490		5,490	863
2. Financial liabilities held for trading					
3. Financial liabilities designated at fair value through profit or loss					
4. Other liabilities and provisions	X	X			
5. Hedging derivatives	X	X			
6. Financial assets	X	X	X		5
Total	**103,537**	**5,490**		**109,027**	**14,967**
of which: interest expense related to lease liabilities	31	X	X		

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

2.1 Fee and commission income: breakdown

	2023	2022
a) Financial instruments	144	137
1. Placement of securities	85	86
1.1 Underwritten and/or on a firm commitment basis	85	86
2. Order collection and transmission, and execution of orders on behalf of customers	46	40
2.1 Order collection and transmission for one or more financial instruments	46	40
3. Other fees associated with activities related to financial instruments	13	11
of which: individual asset management	13	11
b) Corporate Finance		
c) Investment advisory activities		
d) Clearing and settlement		
e) Custody and administration		
2. Other fees related to custody and administration activities		
f) Central administrative services for collective asset management		
g) Fiduciary activities		
h) Payment services	117	141
1. Current accounts	44	74
2. Credit cards		
3. Debit and other payment cards	27	22
4. Bank transfers and other payment orders		
5. Other fees related to payment services	46	45
i) Distribution of third party services	1,439	2
2. Insurance products	11	2
3. Altri prodotti	1,428	
k) Servicing of securitisations	231	
l) Commitments to disburse funds		
m) Financial guarantees issued	127	37
n) Financing transactions	11,932	11,380
of which: factoring transactions	11,678	11,380
o) Foreign currency transactions		
p) Commodities		
q) Other fee and commission income	9,920	11,384
Total	**23,910**	**23,081**

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

Channels/Amounts	31.12.2023	31.12.2022
a) at its branches:	**109**	**99**
1. asset management	13	11
2. placement of securities	85	86
3. third-party services and products	11	2
b) off-premises:		
1. asset management		
2. placement of securities		
3. third-party services and products		
c) other distribution channels:		
1. asset management		
2. placement of securities		
3. third-party services and products		

2.3 Fee and commission expense: breakdown

Services/Amounts	2023	2022
a) Financial instruments	71	72
of which: trading in financial instruments	71	72
of which: placement of financial instruments		
of which: individual asset management		
- Proprietary		
- Delegated to third parties		
b) Clearing and settlement	49	
c) Custody and administration		
d) Collection and payment services	245	216
of which: credit cards, debit cards and other payment cards		216
e) Servicing of securitisations		
f) Commitments to receive funds		
g) Financial guarantees received	1,575	1,032
of which: credit derivatives		
h) Off-premises distribution of securities, products and services	14,812	13,383
i) Foreign currency transactions		
j) Other fee and commission expense	22	73
Total	**16,774**	**14,776**

Section 3 – DIVIDENDS AND SIMILAR INCOME – ITEM 70

3.1 Dividends and similar income: breakdown

Items/Income	2023		2022	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading				
B. Other financial assets mandatorily measured at fair value through profit or loss				
C. Financial assets measured at fair value through other comprehensive income	227		227	
D. Equity investments				
Total	**227**		**227**	

Section 4 – NET TRADING INCOME (EXPENSE) - ITEM 80

4.1 Net trading income (expense): breakdown

	Gains (A)	Trading income (B)	Losses (C)	Trading losses (D)	Net trading income (expense) [(A+B) - (C+D)]
1. Financial assets held for trading	**1,654**	**1,456**		**(338)**	**2,772**
1.1 Debt instruments				(338)	(338)
1.2 Equity instruments					
1.3 OEIC units					
1.4 Financing					
1.5 Other	1,654	1,456			3,110
2. Financial liabilities held for trading					
2.1 Debt instruments					
2.2 Payables					
2.3 Other					
3. Other financial assets and liabilities: exchange rate gains (losses)	X	X	X	X	
4. Derivatives					
4.1 Financial derivatives:					
- On debt instruments and interest rates					
- On equity instruments and equity indexes					
- On currencies and gold	X	X	X	X	
- Other					
4.2 Credit derivatives					
of which: natural hedges connected to the fair value option	X	X	X	X	
Total	**1,654**	**1,456**		**(338)**	**2,772**

Section 6 - Gain from sales or repurchases - Item 100

6.1 Gain from sales or repurchases: breakdown

	2023			2022		
	Gain	Loss	Net gain	Gain	Loss	Net gain
A. Financial assets						
1. Financial assets measured at amortised cost:	12,609		12,609	3,990		3,990
1.1 Loans and receivables with banks						
1.2 Loans and receivables with customers	12,609		12,609	3,990		3,990
2. Financial assets measured at fair value through other comprehensive income	1,318		1,318	3,292	(2,205)	1,087
2.1 Debt instruments	1,318		1,318	3,292	(2,205)	1,087
2.2 Financing						
Total assets (A)	**13,927**		**13,927**	**7,282**	**(2,205)**	**5,077**
B. Financial liabilities measured at amortised cost						
1. Due to banks						
2. Due to customers						
3. Securities issued						
Total liabilities						

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

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

	Gains (A)	Trading income (B)	Losses (C)	Trading losses (D)	Net trading income (expense) [(A+B) - (C+D)]
1. Financial assets					
1.1 Debt instruments					
1.2 Financing					
2. Financial liabilities	2,836				**2,836**
2.1 Securities issued	2,836				
2.2 Due to banks					
2.3 Due to customers					
3. Foreign currency financial assets and liabilities: exchange rate gains (losses)	**X**	**X**	**X**	**X**	
Total	**2,836**				**2,836**

Section 8 - Net impairment losses/gains due to credit risk - Item 130

8.1 Net impairment losses due to credit risk related to financial assets measured at amortised cost: breakdown

	Impairment losses (1)						Impairment gains (2)					
	First stage	Second stage	Third stage		Purchased or originated credit-		First stage	Second stage	Third stage	Purchased or originated credit-impaired	2023	2022
			Write-offs	Other	Write-offs	Other						
A. Loans and receivables with banks	**23**										**23**	**(46)**
- financing	23										23	(46)
- debt instruments											-	
B. Loans and receivables with customers:	**375**		**9**	**5,347**			**890**			**175**	**4,666**	**8,379**
- financing	375		9	5,347			890			175	4,666	8,084
- debt instruments											-	295
C. Total	**398**		**9**	**5,347**			**890**			**175**	**4,689**	**8,333**

8.1a Net impairment losses due to credit risk related to loans measured at amortised cost subject to Covid-19 support measures: breakdown

	Net impairment losses							
	First stage	Second stage	Third stage		Purchased or originated credit-impaired		2023	2022
			write-offs	Other	write-offs	Other		
1. Forborne loans in compliance with the EBA Guidelines								(46)
2. Loans subject to existing moratoria no longer in compliance with the EBA Guidelines and not considered forborne								
3. Loans subject to other forbearance measures								
4. New loans	(37)	1		382			346	(19)
Total	**(37)**	**1**		**382**			**346**	**(65)**

8.2 Net impairment losses due to credit risk related to financial assets measured at fair value through other comprehensive income: breakdown

	Impairment losses (1)						Impairment gains (2)				2023	2022
	First stage	Second stage	Third stage		Purchased or originated credit-impaired		First stage	Second stage	Third stage	originated credit-impaired		
			Write-offs	Other	Write-offs	Other						
A. Debt instruments							**177**				**(177)**	**143**
B. Financing												
- To customers											-	
- To banks											-	
Total							**177**				**(177)**	**143**

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

9.1 Gains (losses) from contract amendments: breakdown

	2023	2022
9.1 Gains/losses from contract amendments without derecognition: breakdown	(1)	

Section 10 – Administrative expenses – Item 160

10.1 Personnel expense: breakdown

	2023	2022
1) Employees	21,095	18,699
a) wages and salaries	12,586	12,496
b) social security charges	3,508	3,381
c) post-employment benefits		
d) pension costs		
e) accrual for post-employment benefits	897	799
f) accrual for pension and similar provisions:	-	-
- defined contribution plans		
- defined benefit plans		
g) payments to external supplementary pension funds:	196	197
- defined contribution plans	196	197
- defined benefit plans		
h) costs of share-based payment plans		
i) other employee benefits	3,908	1,826
2) Other personnel	438	460
3) Directors and statutory auditors	1,378	1,314
4) Retired personnel		
5) Recovery of costs for employees of the Bank seconded to other entities	(46)	
6) Reimbursement of costs for employees of other entities seconded to the Bank	123	344
Total	**22,988**	**20,817**

x\

10.2 Average number of employees by category

Employees

a) Senior managers	22
b) Middle managers (Q4 – Q3)	53
c) Remaining employees	128

10.5 Other administrative expenses: breakdown

Other administrative expenses	2023	2022
Consultancy	(6,466)	(5,220)
IT expenses	(6,465)	(5,136)
Servicing and collection activities	(1,972)	(2,206)
Indirect taxes and duties	(2,812)	(3,133)
Insurance	(896)	(951)
Other	(898)	(898)
Expenses related to management of the SPVs	(341)	(454)
Outsourcing and consultancy expenses	(362)	(281)
Car hire and related fees	(631)	(575)
Advertising and communications	(1,838)	(993)
Expenses related to property management and logistics	(1,991)	(1,470)
Personnel-related expenses	(41)	(33)
Entertainment and expense reimbursement	(536)	(513)
Infoprovider expenses	(871)	(624)
Membership fees	(328)	(310)
Audit fees	(301)	(343)
Telephone and postage expenses	(514)	(460)
Stationery and printing	(49)	(26)
Total operating expenses	**(27,312)**	**(23,626)**
Resolution Fund	(1,568)	(1,920)
Total	**(28,880)**	**(25,546)**

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

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

	2023	2022
Net accruals for commitments and guarantees	(35)	15
Net accruals for other commitments and other guarantees		
Total	**(35)**	**15**

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

	2023	2022
Provisions for risks and charges - other provisions and risks	(3.136)	(4.476)
Release of provisions for risks and charges		
Total	**(3.136)**	**(4.476)**

Section 12 – Net impairment losses on property and equipment – Item 180

12.1 Net impairment losses on property and equipment: breakdown

	Depreciation (a)	Impairment losses (b)	Impairment gains (c)	Carrying amount (a + b - c)
A. Property and equipment				-
1. Operating assets	1,692			1,692
- owned	86			86
- right-of-use assets acquired under a leas	1,606			1,606
2. Investment property				-
- owned				-
- right-of-use assets acquired under a leas				-
3. Inventories				-
Total	**1,692**			**1,692**

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

13.1 Net impairment losses on intangible assets: breakdown

	Depreciation (a)	Impairment losses (b)	Impairment gains (c)	Net gain Carrying amount (a + b - c)
A. Intangible assets				
of which: software				
A.1 Owned	**30**			**30**
- Developed internally				
- Other	30			30
A.2 Right-of-use assets acquired under a lease				
Total	**30**			**30**

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

14.1 Other operating expense: breakdown

	2023	2022
Amortisation of leasehold improvements	51	47
Other operating expense	4,545	2,153
Total	**4,596**	**2,200**

14.2 Other operating income: breakdown

	2023	2022
Recoveries of expenses on current accounts and deposits for sundry taxes	969	1,100
Recoveries of sundry expenses	32	53
Other income	1,675	1,944
Total	**2,676**	**3,097**

Section 19 – Income taxes – Item 270

19.1 Income taxes: breakdown

	2023	2022
1. Current taxes (-)	(127)	(8,396)
2. Changes in current taxes of previous years (+/-)		
3. Decrease in current taxes for the year (+)		
3bis. Decrease in current taxes for the year due to tax assets pursuant to Law no. 214/2011 (+)		
4. Changes in deferred tax assets (+/-)	418	59
5. Changes in deferred tax liabilities (+/-)	(7,051)	(1,320)
6. Tax expense for the year (-) (-1+/-2+3+/-4+/-5)	(6,760)	(9,657)

19.2 Reconciliation between theoretical and effective tax expense

IRES (CORPORATE INCOME TAX)	Taxable income	IRES (Corporate income tax)	%
Theoretical IRES expense	**20,890**	**(5,745)**	**27.50%**
Permanent increases	881	(242)	1.16%
Temporary increases	8,982	(2,470)	11.82%
Permanent decreases	(3,643)	1,002	-4.80%
Temporary decreases	(33,465)	9,203	-44.06%
Effective IRES expense	**(6,355)**	**1,748**	**-8.37%**
IRAP (REGIONAL BUSINESS TAX)	**Taxable income**	**IRAP**	**%**
Theoretical IRAP expense	**20,890**	**(1,164)**	**5.57%**
Permanent increases	65,246	(3,634)	17.40%
Temporary increases	6,113	(340)	1.63%
Permanent decreases	(58,046)	3,233	-15.48%
Temporary decreases	(1,652)	92	-0.44%
Effective IRAP expense	**32,551**	**(1,813)**	**8.68%**
Total effective IRES and IRAP expense - current taxes	**26,196**	**(65)**	**0.31%**
- deferred tax liabilities	24,681	(6,786)	32.49%
- deferred tax assets	(2,765)	154	-0.74%
Total effective tax expense	**-**	**(6,698)**	**32.06%**

Section 21 - Other Information

Nothing to report.

Section 22 – Earnings per share

Earnings per share (EPS)	2023	2022
Profit for the year (thousands of Euro)	14,129	20,887
Average number of outstanding shares	80,216,544	80,113,775
Basic earnings per share (basic EPS) (in Euro)	0.176	0.261
Diluted earnings per share (diluted EPS) (in Euro)	0.176	0.261

EPS is calculated by dividing the profit attributable to holders of ordinary shares of Banca Sistema (numerator) by the weighted average number of ordinary shares (denominator) outstanding during the year.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

PART D – OTHER COMPREHENSIVE INCOME

BREAKDOWN OF COMPREHENSIVE INCOME

		31.12.2023	31.12.2022
10.	**Profit (loss) for the year**	**20,887**	**23,143**
	Items, net of tax, that will not be reclassified subsequently to profit or loss	**-**	**-**
20.	Equity instruments designated at fair value through other comprehensive income:	-	-
30.	Financial liabilities designated at fair value through profit or loss (changes in own credit rating):	-	-
40.	Hedging of equity instruments designated at fair value through other comprehensive income:	-	-
50.	Property and equipment		
60.	Intangible assets		
70.	Defined benefit plans	339	(30)
80.	Non-current assets held for sale		
90.	Share of valuation reserves of equity-accounted investments		
100.	Income taxes on items that will not be reclassified subsequently to profit or loss		
	Items, net of tax, that will be reclassified subsequently to profit or loss	-	-
110.	Hedges of foreign investments:	-	-
120.	Exchange rate gains (losses):	-	-
130.	Cash flow hedges:	-	-
140.	Hedging instruments (non-designated elements):	-	-
150.	Financial assets (other than equity instruments) measured at fair value through other comprehensive income:	(22,223)	(4,342)
	a) fair value gains (losses)	(23,462)	(2,543)
	b) reclassification to profit or loss	-	-
	- impairment losses due to credit risk	143	(28)
	- gains/losses on sales	1,096	(1,771)
	c) other changes	-	-
160.	Non-current assets held for sale and disposal groups:	-	-
170.	Share of valuation reserves of equity-accounted investments:	-	-
180.	Income taxes on items that will be reclassified subsequently to profit or loss		
190.	**Total other comprehensive income (expense)**	**(21,884)**	**(4,372)**
200.	**Comprehensive income (expense) (10+190)**	**(996)**	**18,771**

PART E - INFORMATION CONCERNING RISKS AND RELATED HEDGING POLICIES

Section 1 - Credit risk

Qualitative disclosure

1. General aspects

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

2. Credit Risk Management Policies

2.1 Organisational aspects

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

2.2 Management, measurement and control systems

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

2.3 Methods for measuring expected losses

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

2.4 Credit Risk mitigation techniques

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

3. Non-performing exposures

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

3.1 Management strategies and policies

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

3.2 Write-offs

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

3.3 Purchased or originated credit-impaired financial assets

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

4. Financial assets subject to commercial renegotiation and forborne exposures

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

Quantitative disclosure

A. Credit quality

A.1 Impaired and unimpaired loans: carrying amounts, impairment losses, performance and business breakdown

A.1.1 Breakdown of financial assets by portfolio and by credit quality (carrying amounts)

	Bad exposures	Unlikely to pay	Non-performing past due exposures	Performing past due exposures	Other performing exposures	31.12.2023
1. Financial assets measured at amortised cost	124,647	43,773	63,017	359,465	2,777,918	3,368,820
2. Financial assets measured at fair value through other comprehensive income					570,728	570,728
3. Financial assets designated at fair value through profit or loss						
4. Other financial assets mandatorily measured at fair value through profit or loss					11,574	11,574
5. Financial assets held for sale						
Total 31.12.2023	**124,647**	**43,773**	**63,017**	**359,465**	**3,360,220**	**3,951,122**
Total 31.12.2022	**123,290**	**18,832**	**80,562**	**317,982**	**3,556,251**	

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

	Non-performing				Performing			Total (carrying amount)
	Gross amount	Total impairment losses	Net exposure	overall partial write-offs (*)	Gross amount	Total impairment losses	Net exposure	
1. Financial assets measured at amortised cost	296,458	65,021	231,437		3,143,646	6,263	3,137,382	3,368,819
2. Financial assets measured at fair value through other comprehensive income					570,873	145	570,728	570,728
3. Financial assets designated at fair value through profit or loss								
4. Other financial assets mandatorily measured at fair value through profit or loss							11,574	11,574
5. Financial assets held for sale								
Total 31.12.2023	**296,458**	**65,021**	**231,437**		**3,714,519**	**6,408**	**3,719,684**	**3,951,121**
Total 31.12.2022	**284,139**	**61,454**	**222,685**		**3,856,756**	**7,124**	**3,874,232**	**4,096,917**

A.1.3 Breakdown of financial assets by past due range (carrying amounts)

	First stage			Second stage			Third stage			Purchased or originated credit-impaired		
	From 1 day to 30 days	From more than 30 days to 90 days	More than 90 days	Up to 30 days	From more than 30 days to 90 days	More than 90 days	Up to 30 days	From more than 30 days to 90 days	More than 90 days	Up to 30 days	From more than 30 days to 90 days	More than 90 days
1. Financial assets measured at amortised cost	21,827	34,618	300,326	553	150	###	370	1,211	195,531			87
2. Financial assets measured at fair value through other comprehensive income												
3. Financial assets held for sale												
Total 31.12.2023	**21,827**	**34,618**	**300,326**	**553**	**150**	**###**	**370**	**1,211**	**195,531**			**87**
Total 31.12.2022	**15,236**	**19,315**	**282,726**	**87**	**226**	**393**	**728**	**2,362**	**175,476**			**84**

A.1.4 Financial assets, commitments to disburse funds and financial guarantees issued: changes in impaired positions and accruals to provisions

	Total impairment losses																							Overall accruals to provisions on commitments to disburse funds and financial guarantees issued				Total
	Assets included in the first stage						Assets included in the second stage						Assets included in the third stage						Purchased or originated credit-impaired financial assets									
	Demand loans and receivables with banks and	Financial assets measured at amortised cost	Financial assets measured at fair value through	Financial assets held for sale	of which: individual impairment losses	of which: collective impairment losses	Demand loans and receivables with banks and	Financial assets measured at amortised cost	Financial assets measured at fair value through	Financial assets held for sale	of which: individual impairment losses	of which: collective impairment losses	Demand loans and receivables with banks and	Financial assets measured at amortised cost	Financial assets measured at fair value through	Financial assets held for sale	of which: individual impairment losses	of which: collective impairment losses	Financial assets measured at amortised cost	Financial assets measured at fair value th	Financial assets held for sale	of which: individual impairment losses	of which: collective impairment losses	First stage	Second stage	Third stage	Purchased or originated credit-impaired comm	
Opening total impairment losses	**3**	**4,809**	**321**			**5,134**		**1,993**				**1,993**		**61,454**			**61,454**							**24**				**68,605**
Increases in purchased or originated financial assets		2,190				2,336		86				86		227			227							34				2,682
Derecognition other than write-offs		1,752				2,074		221				221		1,048			1,048											3,343
Net impairment losses/gains due to credit risk (+/-)	23	321				344		(1,163)				(1,163)		4,388			4,388							1				3,570
Contract amendments without derecognition																												
Changes in estimation method																												
Write-offs not recognised directly through profit or loss																												
Other changes																												
Closing total impairment losses		**5,568**	**321**			**5,740**		**695**				**695**		**65,021**			**65,021**							**59**				**71,515**
Recoveries from collection on financial assets that have been written off																												
Write-offs recognised directly through profit or loss																												

A.1.5 Financial assets, commitments to disburse funds and financial guarantees issued: transfers between different credit risk stages (gross amount and nominal amount)

	Gross amount / Nominal amount					
	Transfers between the first and second stage		Transfers between the second and third stage		Transfers between the first and third stage	
	From the first to the second stage	From the second to the first stage	From the second to the third stage	From the third to the second stage	From the first to the third stage	From the third to the first stage
1. Financial assets measured at amortised cost	25,488	9,799	6,387	2,475	50,110	20,170
2. Financial assets measured at fair value through other comprehensive income						
3. Financial assets held for sale						
4. Commitments to disburse funds and financial guarantees issued					4,537	14,478
Totale 31.12.2023	**25,488**	**9,799**	**6,387**	**2,475**	**54,647**	**34,648**
Totale 31.12.2022	**49,559**	**4,270**	**2,988**	**251**	**38,986**	**49,304**

A.1.5a Loans subject to Covid-19 support measures: transfers between different credit risk stages (gross amount and nominal amount)

	Gross amount / Nominal amount					
	Transfers between the first and second stage		Transfers between the second and third stage		Transfers between the first and third stage	
	From the first to the second stage	From the second to the first stage	From the second to the third stage	From the third to the second stage	From the first to the third stage	From the third to the first stage
A. Loans measured at amortised cost		**511**			**21,458**	
A.1 forborne in compliance with the EBA Guidelines						
A.2 subject to existing moratoria no longer in compliance with the EBA Guidelines and not considered forborne						
A.3 subject to other forbearance measures						
A.4 new loans		511			21,458	
B. Loans measured at fair value through other comprehensive income						
B.1 forborne in compliance with the EBA Guidelines						
B.2 subject to existing moratoria no longer in compliance with the EBA Guidelines and not considered forborne						
B.3 subject to other forbearance measures						
B.4 new loans						
Totale 31.12.2023		**511**			**21,458**	
Totale 31.12.2022					**608**	

A.1.6 On- and off-statement of financial position loans and receivables with banks: gross amounts and carrying amounts

	Gross amount				31.12.2023				Net exposure	Overall partial write-offs *
		First stage	Second stage	Third stage Purchased or originated credit-impaired		First stage	Second stage	Third stage Purchased or originated credit-impaired		
A. ON-STATEMENT OF FINANCIAL POSITION LOANS AND RECEIVABLES										
A.1 ON DEMAND	**247,351**	**247,351**			**26**	**26**			**247,325**	
a) Non-performing		**X**				**X**				
b) Performing	**247,351**	**247,351**		**X**	**26**	**26**		**X**	**247,325**	
A.2 OTHER	**799**	**798**		**1**	**3**	**3**			**796**	
a) Bad exposures		X				X				
- of which: forborne exposures		X				X				
b) Unlikely to pay		X				X				
- of which: forborne exposures		X				X				
c) Non-performing past due exposures	1	X		1		X			1	
- of which: forborne exposures		X				X				
d) Performing past due exposures	6	6		X				X	6	
- of which: forborne exposures				X				X		
e) Other performing exposures	792	792		X	3	3		X	789	
- of which: forborne exposures				X				X		
TOTAL A	**248,150**	**248,149**		**1**	**29**	**29**			**248,121**	
B. OFF-STATEMENT OF FINANCIAL POSITIO										
a) Non-performing		X				X				
b) Performing	2,446	2,446		X				X	2,446	
TOTAL B	**2,446**	**2,446**							**2,446**	
TOTAL (A+B)	**250,596**	**250,595**		**1**	**29**	**29**			**250,567**	

A.1.7 On- and off-statement of financial position loans and receivables with customers: gross amounts and carrying amounts

	Gross amount					31.12.2023					Net exposure	Overall partial write-offs *
		First stage	Second stage	Third stage	Purchased or originated credit-impaired		First stage	Second stage	Third stage	Purchased or originated credit-impaired		
A. ON-STATEMENT OF FINANCIAL POSITION LOANS AND RECEIVABLES												
a) Bad exposures	173,766	X		173,679	87	49,119	X		49,119		124,647	
- of which: forborne exposures		X					X					
b) Unlikely to pay	58,514	X		58,514		14,741	X		14,741		43,773	
- of which: forborne exposures		X					X					
c) Non-performing past due exposures	64,177	X		64,177		1,161	X		1,161		63,016	
- of which: forborne exposures		X					X					
d) Performing past due exposures	361,530	358,801	2,729	X		2,071	2,036	35	X		359,459	
- of which: forborne exposures				X					X			
e) Other performing exposures	3,363,765	3,275,587	88,179	X		4,334	3,674	660	X		3,359,431	
- of which: forborne exposures				X					X			
TOTAL A	**4,021,752**	**3,634,388**	**90,908**	**296,370**	**87**	**71,426**	**5,710**	**695**	**65,021**		**3,950,326**	
B. OFF-STATEMENT OF FINANCIAL POSITIO												
a) Non-performing	41,713	X		41,713			X				41,713	
b) Performing	937,516	937,516		X		59	59		X		937,457	
TOTAL B	**979,229**	**937,516**		**41,713**		**59**	**59**				**979,170**	
TOTAL (A+B)	**5,000,981**	**4,571,904**	**90,908**	**338,083**	**87**	**71,485**	**5,769**	**695**	**65,021**		**4,929,496**	

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

	Gross amount					31.12.2023				Net exposure	Overall partial write-offs *
		First stage	Second stage	Third stage	Purchased or originated credit-impaired	First stage	Second stage	Third stage	Purchased or originated credit-impaired		
A. BAD LOANS											
a) Forborne in compliance with the EBA Guidelines											
b) Subject to moratoria no longer in compliance with the EBA Guidelines and not considered forborne											
c) Subject to other forbearance measures											
d) New loans											
B. UNLIKELY-TO-PAY LOANS	**21,458**			**21,458**				**428**		**21,030**	
a) Forborne in compliance with the EBA Guidelines											
b) Subject to moratoria no longer in compliance with the EBA Guidelines and not considered forborne											
c) Subject to other forbearance measures											
d) New loans	21,458			21,458				428		21,030	
C) IMPAIRED PAST DUE LOANS											
a) Forborne in compliance with the EBA Guidelines											
b) Subject to moratoria no longer in compliance with the EBA Guidelines and not considered forborne											
c) Subject to other forbearance measures											
d) New loans											
D) PERFORMING LOANS											
a) Forborne in compliance with the EBA Guidelines											
b) Subject to moratoria no longer in compliance with the EBA Guidelines and not considered forborne											
c) Subject to other forbearance measures											
d) New loans											
E) OTHER PERFORMING LOANS	**86,542**	**86,031**	**511**			**241**	**1**			**86,300**	
a) Forborne in compliance with the EBA Guidelines											
b) Subject to moratoria no longer in compliance with the EBA Guidelines and not considered forborne											
c) Subject to other forbearance measures											
d) New loans	86,542	86,031	511			241	1			86,300	
TOTAL (A+B+C+D+E)	**108,000**	**86,031**	**511**	**21,458**		**241**	**1**	**428**		**107,330**	

A.1.8 On-statement of financial position loans and receivables with banks: gross non-performing exposures

	Bad exposures	Unlikely to pay	Non-performing past due exposures
A. Opening gross balance			**11**
- of which: positions transferred but not derecognised			1
B. Increases			**1**
B.1 transfers from performing loans			
B.2 transfers from purchased or originated credit-impaired financial assets			
B.3 transfers from other categories of non-performing exposures			
B.4 contract amendments without derecognition			
B.5 other increases			1
C. Decreases			**11**
C.1 transfers to performing loans			
C.2 write-offs			
C.3 collections			11
C.4 gains on sales			
C.5 losses on sales			
C.6 transfers to other categories of non-performing exposures			
C.7 contract amendments without derecognition			
C.8 other decreases			
D. Closing gross balance			**1**
- of which: positions transferred but not derecognised			

A.1.9 On-statement of financial position loans and receivables with customers: gross non-performing exposures

	Bad exposures	Unlikely to pay	Non-performing past due
A. Opening gross balance	**170,368**	**32,309**	**81,449**
- of which: positions transferred but not derecognised	29	3,022	9,362
B. Increases	**11,269**	**110,111**	**43,286**
B.1 transfers from performing loans	7,392	58,129	22,682
B.2 transfers from purchased or originated credit-impaired financial assets			
B.3 transfers from other categories of non-performing exposures	2,456	136	45
B.4 contract amendments without derecognition			
B.5 other increases	1,421	51,846	20,559
C. Decreases	**7,871**	**83,906**	**60,558**
C.1 transfers to performing loans	5,617	45	15,560
C.2 write-offs	139		
C.3 collections	2,093	83,752	42,492
C.4 gains on sales			
C.5 losses on sales			
C.6 transfers to other categories of non-performing exposures	22	109	2,506
C.7 contract amendments without derecognition			
C.8 other decreases			
D. Closing gross balance	**173,766**	**58,514**	**64,177**
- of which: positions transferred but not derecognised	3	1,045	1,652

A.1.9bis On-statement of financial position loans and receivables with customers: breakdown of gross forborne exposures by credit quality

	Non-performing exposures with forbearance measures	Other forborne exposures
A. Opening gross balance	**3,470**	**206**
- of which: positions transferred but not derecognised		
B. Increases		
B.1 transfers from performing exposures without forbearance measures		
B.2 transfers from forborne performing exposures		X
B.3 transfers from non-performing exposures with forbearance measures	X	
B.4 transfers from non-performing exposures without forbearance measures		
B.5 other increases		
C. Decreases	**2,670**	**63**
C.1 transfers to performing exposures without forbearance measures	X	
C.2 transfers to forborne performing exposures		X
C.3 transfers to non-performing exposures with forbearance measures	X	
C.4 write-offs		
C.5 collections		63
C.6 gains on sales		
C.7 losses on sales		
C.8 other decreases	2,670	
D. Closing gross balance	**800**	**143**
- of which: positions transferred but not derecognised		

A.1.10 On-statement of financial position non-performing loans and receivables with banks: changes in impaired positions

	Bad exposures Total	Bad exposures of which: forborne exposures	Unlikely to pay Total	Unlikely to pay of which: forborne exposures	Non-performing past due exposures Total	Non-performing past due exposures of which: forborne exposures
A. Opening total impairment losses					**24**	
- of which: positions transferred but not derecognised						
B. Increases					**9**	
B.1 impairment losses on purchased or originated credit-impaired financial assets		X		X		X
B.2 other impairment losses					9	
B.3 losses on sales						
B.4 transfers from other categories of non-performing exposures						
B.5 contract amendments without derecognition						
B.6 other increases						
C. Decreases						
C.1 impairment gains						
C.2 impairment gains due to collections						
C.3 gains on sales						
C.4 write-offs						
C.5 transfers to other categories of non-performing exposures						
C.6 contract amendments without derecognition						
C.7 other decreases						
D. Closing total impairment losses					**33**	
- of which: positions transferred but not derecognised						

A.1.11 On-statement of financial position non-performing loans and receivables with customers: changes in impaired positions

	Bad exposures		Unlikely to pay		Non-performing past due exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Opening total impairment losses	**47,080**	**48**	**13,477**	**175**	**899**	**34**
- of which: positions transferred but not derecognised			413		11	
B. Increases	**2,837**		**2,458**		**522**	
B.1 impairment losses on purchased or originated credit-impaired financial assets		X		X		X
B.2 other impairment losses	2,810		2,384		499	
B.3 losses on sales						
B.4 transfers from other categories of non-performing exposures	23		15			
B.5 contract amendments without derecognition						
B.6 other increases	4		59		23	
C. Decreases	**798**		**1,194**		**269**	**32**
C.1 impairment gains	558		338		12	
C.2 impairment gains due to collections	72		814		160	
C.3 gains on sales						
C.4 write-offs						
C.5 transfers to other categories of non-performing exposures			26		21	32
C.6 contract amendments without derecognition						
C.7 other decreases	168		16		76	
D. Closing total impairment losses	**49,119**	**48**	**14,741**	**175**	**1,152**	**2**
- of which: positions transferred but not derecognised			557		8	

A.2 Classification of financial assets, commitments to disburse funds and financial guarantees issued based on external and internal rating

A.2.1 Breakdown of financial assets, commitments to disburse funds and financial guarantees issued by external rating class (gross amounts)

The risk categories for the external rating indicated in this table refer to the creditworthiness classes of the debtors/guarantors pursuant to prudential requirements.

The Bank uses the standardised approach in accordance with the risk mapping of the rating agencies:

- "DBRS Ratings Limited", for exposures to: central authorities and central banks; supervised brokers; public sector institutions; territorial entities;
- "Fitch Ratings" and Standard & Poor's, for exposures to companies and other parties.

Exposures	External rating class						Without rating	Total
	class 1	class 2	class 3	class 4	class 5	class 6		
A. Financial assets measured at amortised cost							**3,378,980**	**3,378,980**
- First stage							2,991,613	2,991,613
- Second stage							90,908	90,908
- Third stage							296,371	296,371
- Purchased or originated credit-impaired							88	88
B. Financial assets measured at fair value through other comprehensive income								
- First stage								
- Second stage								
- Third stage								
- Purchased or originated credit-impaired								
C. Financial assets held for sale								
- First stage								
- Second stage								
- Third stage								
- Purchased or originated credit-impaired								
Total (A+B+C)							**3,378,980**	**3,378,980**
D. Commitments to disburse funds and financial guarantees issued							**981,675**	**981,675**
- First stage							939,962	939,962
- Second stage								
- Third stage							41,713	41,713
- Purchased or originated credit-impaired								
Total D							**981,675**	**981,675**
Total (A + B + C + D)							**4,360,655**	**4,360,655**

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

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

No positions to report.

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

	Gross amount	Net exposure	Collateral (1)				Personal guarantees (2)									Total (1)+(2)
							Credit derivatives					Endorsement credits				
								Other derivatives								
			Mortgaged estate	Properties under finance lease	Securities	Other collateral	CLN	Central Counterparties	Banks	Other financial corporations	Other	General governments	Banks	Other financial corporations	Other	
1. Guaranteed on-statement of financial position loans:	**1,169,417**	**1,158,569**	**2,232**		**88**	**779,752**						**249,161**	**18,844**	**53,066**	**13,622**	**1,116,765**
1.1 fully guaranteed	912,813	906,386	2,232		88	779,752						59,005	600	53,066	11,643	906,386
- of which non-performing	19,321	14,652				13,714						33		7	898	14,652
1.2 partially guaranteed	256,604	252,183										190,156	18,244		1,979	210,379
- of which non-performing	27,023	23,352										20,427				20,427
2. Guaranteed off-statement of financial position loans:	**13,866**	**13,866**			**28**	**3,367**							**33**	**8,150**	**1,646**	**13,224**
2.1 fully guaranteed	13,191	13,191			28	3,367								8,150	1,646	13,191
- of which non-performing	3,669	3,669				3,269									400	3,669
2.2 partially guaranteed	675	675											33			33
- of which non-performing																

B. Breakdown and concentration of credit exposures

B.1 Breakdown by business segment of on- and off-statement of financial position loans and receivables with customers

	General governments		Financial corporations		Financial corporations (of which: insurance companies)		Non-financial corporations		Households	
	Net exposure	Total impairment	Net exposure	Total impairment	Net exposure	Total impairment	Net exposure	Total impairment	Net exposure	Total impairment
A. On-statement of financial position loans and receivables										
A.1 Bad exposures	122,154	15,558					2,461	32,737	32	824
- of which: forborne exposures										
A.2 Unlikely to pay	161	531					40,348	10,993	3,263	3,218
- of which: forborne exposures										
A.3 Non-performing past due exposures	39,594	64	2,083	8	2,082	8	9,446	923	11,893	165
- of which: forborne exposures										
A.4 Performing exposures	2,155,823	2,815	179,782	109	105		585,574	2,029	797,711	1,452
- of which: forborne exposures										
Total (A)	**2,317,732**	**18,968**	**181,865**	**117**	**2,187**	**8**	**637,829**	**46,682**	**812,899**	**5,659**
B. Off-statement of financial position loans and receivables										
B.1 Non-performing exposures	22,722						18,983		8	
B.2 Performing exposures	493,633		263,813				179,223	59	787	
Total (B)	**516,355**		**263,813**				**198,206**	**59**	**795**	
Total (A+B) 31.12.2023	**2,834,087**	**18,968**	**445,678**	**117**	**2,187**	**8**	**836,035**	**46,741**	**813,694**	**5,659**
Total (A+B) 31.12.2022	**2,642,359**	**18,279**	**701,686**	**37**	**2,479**	**7**	**733,753**	**44,262**	**942,466**	**6,018**

B.2 Breakdown by geographical segment of on- and off-statement of financial position loans and receivables with customers

	Italy		Other European countries		America		Asia		Rest of the world	
	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment
A. On-statement of financial position loans and receivables										
A.1 Bad exposures	124,647	49,039		80						
A.2 Unlikely to pay	43,773	14,741								
A.3 Non-performing past due exposure	62,965	1,157	51	4						
A.4 Performing exposures	3,561,341	6,133	154,691	260	2,753	11	106			
Total (A)	**3,792,726**	**71,070**	**154,742**	**344**	**2,753**	**11**	**106**			
B. Off-statement of financial position loans and receivables										
B.1 Non-performing exposures	41,713									
B.2 Performing exposures	906,099	50	29,252				2,106	9		
Total (B)	**947,812**	**50**	**29,252**				**2,106**	**9**		
Total (A+B) 31.12.2023	**4,740,538**	**71,120**	**183,994**	**344**	**2,753**	**11**	**2,212**	**9**		
Total (A+B) 31.12.2022	**4,824,247**	**68,283**	**189,603**	**289**	**3,836**	**15**	**2,578**	**10**		

B.3 Breakdown by geographical segment of on- and off-statement of financial position loans and receivables with banks

	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Total impairment losses	Net exposure	Total impairment losses	Net exposure	Total impairment losses	Net exposure	Total impairment losses	Net exposure	Total impairment losses
A. On-statement of financial position loans and receivables										
A.1 Bad exposures										
A.2 Unlikely to pay										
A.3 Non-performing past due exposures	1									
A.4 Performing exposures	247,032	30	1,088							
Total (A)	**247,033**	**30**	**1,088**							
B. Off-statement of financial position loans and receivables										
B.1 Non-performing exposures										
B.2 Performing exposures	2,446									
Total (B)	**2,446**									
Total (A+B) 31.12.2023	**249,479**	**30**	**1,088**							
Total (A+B) 31.12.2022	**161,346**	**9**	**41**							

As at 31 December 2023, the Bank's large exposures are as follows:

a) Carrying amount € 4,020,584 thousand

b) Weighted amount € 356,178 thousand

c) No. of positions 22.

C. Securitisation transactions

Qualitative disclosure

For the qualitative aspects, please refer to the contents of the Directors' Report herein.

Quantitative disclosure

The following table details the amounts of the junior and senior tranches issued by the special purpose vehicle and repurchased by Banca Sistema, and the loan granted to the same special purpose vehicle.

C.2 Exposures deriving from the main "third-party" securitisation transactions broken down by type of asset securitised and by type of exposure

	ON-STATEMENT OF FINANCIAL POSITION						GUARANTEES ISSUED						CREDIT LINES					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Carrying amount	Impairment losses/gains	Carrying amount	Impairment losses/gains	Carrying amount	Impairment losses/gains	Carrying amount	Impairment losses/gains	Carrying amount	Impairment losses/gains	Carrying amount	Impairment losses/gains	Carrying amount	Impairment losses/gains	Carrying amount	Impairment losses/gains	Carrying amount	Impairment losses/gains
BS IVA SPV S.r.l. securitisation	1,610				11,574								81,768					

E. Transfers

A. Financial assets transferred and not derecognised

Qualitative disclosure

The financial assets transferred and not derecognised refer to Italian government securities used for repurchase agreements. Said financial assets are classified in the financial statements among the available-for-sale financial assets, while the repurchase agreement loan is predominantly presented in due to customers. As a last resort the financial assets transferred and not derecognised comprise trade receivables used for loan transactions in the ECB (Abaco).

E.1. Prudential consolidation – Financial assets transferred and recognised in full, and associated financial liabilities: carrying amount

	Financial assets transferred and recognised in full				Associated financial liabilities		
	Carrying amount	of which: subject to securitisation transactions	of which: subject to a sales contract with repurchase agreement	of which: non-performing	Carrying amount	of which: subject to securitisation transactions	of which: subject to a sales contract with repurchase agreement
A. Financial assets held for trading				**X**			
1. Debt securities				X			
2. Equity instruments				X			
3. Financing				X			
4. Derivatives				X			
B. Other financial assets mandatorily measured at fair value through profit or loss							
1. Debt securities							
2. Equity instruments				X			
3. Financing							
C. Financial assets designated at fair value through profit or loss							
1. Debt securities							
2. Financing							
D. Financial assets measured at fair value through other comprehensive income							
1. Debt securities							
2. Equity instruments				X			
3. Financing							
E. Financial assets measured at amortised cost	**202,259**	**202,259**		**2,135**	**134,484**	**134,484**	
1. Debt securities							
2. Financing	202,259	202,259		2,135	134,484	134,484	
Total 31.12.2023	**202,259**	**202,259**		**2,135**	**134,484**	**134,484**	
Total 31.12.2022	**1,060,188**	**175,626**	**884,562**	**2,731**	**979,478**	**113,560**	**865,918**

F. Models for the measurement of credit risk

Section 2 - Market risk

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

2.1- Interest rate risk and price risk - regulatory trading book

Qualitative disclosure

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

2.2 Interest rate risk and price risk - Banking Book

Qualitative disclosure

A. General aspects, management procedures and methods of measuring the interest rate risk and the price risk

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

Quantitative disclosure

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

	on demand	up to 3 months	from more than 3 months up to 6 months	from more than 6 months up to 1 year	from more than 1 year up to 5 years	31.12.2023	more than 10 years	open term
1. Assets	**2,007,982**	**195,037,620**	**28,576**	**83,480**	**73,109,540**	**361,284**	**1,316**	
1.1 Debt instruments	4				306,256			
- with early repayment option								
- other	4				306,256			
1.2 Financing to banks	243,752	14						
1.3 Financing to customers	1,764,226	195,037,606	28,576	83,480	72,803,284	361,284	1,316	
- current accounts	104,207	73,692						
- other financing	1,660,019	194,963,914	28,576	83,480	72,803,284	361,284	1,316	
- with early repayment option	138,082	298,453	28,437	82,957	427,240	237,222	1,316	
- other	1,521,937	194,665,461	139	523	72,376,044	124,062		
2. Liabilities	**942,617**	**544,200**	**282,656**	**1,406,658**	**767,813**	**50,410**		
2.1 Due to customers	926,590	460,080	282,656	915,418	767,813	50,410		
- current accounts	791,130	448,706	273,837	889,424	703,255	43,948		
- other payables	135,460	11,374	8,819	25,994	64,558	6,462		
- with early repayment option								
- other	135,460	11,374	8,819	25,994	64,558	6,462		
2.2 Due to banks	16,027	84,120		491,240				
- current accounts	238							
- other payables	15,789	84,120		491,240				
2.3 Debt instruments								
2.4 Other liabilities								
3. Financial derivatives		**30,259**	**43**	**1,571**	**27,117**	**1,503**	**24**	
3.1 With underlying security								
- Options								
- Other derivatives								
3.2 Without underlying security		30,259	43	1,571	27,117	1,503	24	
- Options		30,259	43	1,571	27,117	1,503	24	
+ long positions			43	1,571	27,117	1,503	24	
+ short positions		30,259						
- Other derivatives								
4. Other off-statement of financial position transactions	**51,658**	**51,658**						
+ long positions		51,658						
+ short positions	51,658							

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

	on demand	up to 3 months	from more than 3 months up to 6 months	from more than 6 months up to 1 year	from more than 1 year up to 5 years	31.12.2023	more than 10 years	open term
1. Assets	**4,355**							
1.1 Debt instruments								
- with early repayment option								
- other								
1.2 Financing to banks	4,355							
1.3 Financing to customers								
- current accounts								
- other financing								
- with early repayment option								
- other								
2. Liabilities	**4,346**							
2.1 Due to customers	4,346							
- current accounts	4,346							
- other payables								
2.2 Due to banks								
2.3 Debt instruments								
2.4 Other liabilities								
3. Financial derivatives								
3.1 With underlying security								
- Options								
- Other derivatives								
3.2 Without underlying security								
- Options								
- Other derivatives								
4. Other off-statement of financial position transactions								
+ long positions								
+ short positions								

2.3 Currency risk

Qualitative disclosure

A. General aspects, management processes and methods of measuring the currency risk

All items are in Euro, except for the security in the HTCS portfolio. The currency risk is limited due to the size of the investment.

Quantitative disclosure

1. Breakdown of assets, liabilities and derivatives by currency of denomination

	Currencies					
	US Dollars	UK Pounds	Yen	Canadian Dollars	Swiss Francs	Other currencies
A. Financial assets	**4,346**	**2**		**1**	**1**	**5**
A.1 Debt instruments						
A.2 Equity instruments						
A.3 Financing to banks	4,346	2		1	1	5
A.4 Financing to customers						
A.5 Other financial assets						
B. Other assets						
C. Financial liabilities	**4,346**					
C.1 Due to banks						
C.2 Due to customers	4,346					
C.3 Debt instruments						
C.4 Other financial liabilities						
D. Other liabilities						
E. Financial derivatives						
- Options						
- Other derivatives						
Total assets	**4,346**	**2**		**1**	**1**	**5**
Total liabilities	**4,346**					
Difference (+/-)		**2**		**1**	**1**	**5**

Section 3 - Derivatives and hedging policies

3.1 Derivatives held for trading

A. Financial derivatives

No amount was recognised for this item at the reporting date.

B. Credit derivatives

No amount was recognised for this item at the reporting date.

3.2 Hedge Accounting

The Bank did not perform any such transactions during the year.

3.3 Other disclosure of derivatives (held for trading and hedging)

No such items existed at the reporting date.

Section 4 - Liquidity risk

Qualitative disclosure

A. General aspects, management processes and methods of measuring the liquidity risk

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

Quantitative disclosure

1. Breakdown of financial assets and liabilities by remaining contractual term (EURO)

	on demand	from more than 1 day up to 7 days	from more than 7 days up to 15 days	from more than 15 days up to 1 month	from more than 1 month up to 3 months	31.12.2023	from more than 6 months up to 1 year	from more than 1 year up to 5 years	More than 5 years	Open term
Assets	**1,821,000**	**92**	**3,177**	**24,509**	**154,890**	**114,006**	**581,557**	**907,848**	**330,270**	
A.1 Government securities			409		316	805	346,530	301,994		
A.2 Other debt instruments				306		306	613			
A.3 OEIC units										
A.4 Financing	1,821,000	92	2,768	24,203	154,574	112,895	234,414	605,854	330,270	
- banks	43,978			14						
- customers	1,777,022	92	2,768	24,189	154,574	112,895	234,414	605,854	330,270	
Liabilities	**912,140**	**75,015**	**49,857**	**98,332**	**299,929**	**296,924**	**1,453,624**	**767,813**	**50,410**	
B.1 Deposits and current accounts	761,028	64,846	49,857	98,295	249,642	287,046	935,411	703,255	43,948	
- banks										
- customers	761,028	64,846	49,857	98,295	249,642	287,046	935,411	703,255	43,948	
B.2 Debt instruments										
B.3 Other liabilities	151,112	10,169		37	50,287	9,878	518,213	64,558	6,462	
Off-statement of financial position transactions	**567,025**						**56,691**	**10,074**		
C.1 Financial derivatives with exchange of principal										
C.2 Financial derivatives without exchange of principal										
C.3 Deposits and financing to be received										
- long positions										
- short positions										
C.4 Commitments to disburse funds	555,552						51,308			
- long positions	251,947						51,308			
- short positions	303,605									
C.5 Financial guarantees issued	11,473						5,383	10,074		
C.6 Financial guarantees received										
C.7 Credit derivatives with exchange of principal										
C.8 Credit derivatives without exchange of principal										

1. Breakdown of financial assets and liabilities by remaining contractual term (OTHER CURRENCIES)

	on demand	from more than 1 day up to 7 days	from more than 7 days up to 15 days	from more than 15 days up to 1 month	from more than 1 month up to 3 months	31.12.202 3	from more than 6 months up to 1 year	from more than 1 year up to 5 years	More than 5 years	Open term
Assets	**4,376**									
A.1 Government securities										
A.2 Other debt instruments										
A.3 OEIC units										
A.4 Financing	4,376									
- banks	4,376									
- customers										
Liabilities	**4,346**									
B.1 Deposits and current accounts	4,346									
- banks										
- customers	4,346									
B.2 Debt instruments										
B.3 Other liabilities										
Off-statement of financial position transactions										
C.1 Financial derivatives with exchange of principal										
C.2 Financial derivatives without exchange of principal										
C.3 Deposits and financing to be received										
C.4 Commitments to disburse funds										
C.5 Financial guarantees issued										
C.6 Financial guarantees received										
C.7 Credit derivatives with exchange of principal										
C.8 Credit derivatives without exchange of principal										

Section 5 - Operational risks

Qualitative disclosure

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

A. General aspects, management processes and methods of measuring operational risk

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

PART F - INFORMATION ON BANK EQUITY

Section 1 - Bank equity

A. Qualitative disclosure

The objectives pursued in the management of bank equity are inspired by the prudential supervisory provisions and are oriented towards maintaining adequate levels of capitalisation to take on risks typical to credit positions.

The income allocation policy aims to strengthen the Bank's capital with special emphasis on common equity, to the prudent distribution of the operating results, and to guaranteeing a correct balance of the financial position.

B. Quantitative disclosure

B.1 Bank equity: breakdown

	31.12.2023	31.12.2022
1. Share capital	9,651	9,651
2. Share premium	39,100	39,100
3. Reserves	168,371	155,998
- income-related	168,865	156,124
a) legal	1,930	1,930
b) established under the Articles of Association		
c) treasury shares		
d) other	166,935	154,194
- other	(494)	(126)
4. Equity instruments	45,500	45,500
3.5 Interim dividends (-)		
5. (Treasury shares)	(355)	(559)
6. Valuation reserves	(12,333)	(24,870)
- Equity instruments designated at fair value through other comprehensive income	(586)	(543)
- Hedging of equity instruments designated at fair value through other comprehensive income		
- Financial assets (other than equity instruments) measured at fair value through other comprehensive income	(11,634)	(24,400)
- Property and equipment		
- Intangible assets		
- Hedges of foreign investments		
- Cash flow hedges		
- Hedging instruments (non-designated elements)		
- Exchange rate gains (losses)		
- Non-current assets held for sale and disposal groups		
- Financial liabilities designated at fair value through profit or loss (changes in own credit rating)		
- Net actuarial gains (losses) on defined benefit pension plans	(113)	73
- Shares of valuation reserves of equity-accounted investees		
- Special revaluation laws		
7. Profit (loss) for the year	14,129	20,887
Total	**264,063**	**245,707**

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

	31.12.2023		31.12.2023	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities		11,634		24,400
2. Equity instruments		586		543
3. Financing				
Total		**12,220**		**24,943**

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

	Debt instruments	Equity instruments	Financing
1. Opening balance	**(24,400)**	**(543)**	
2. Increases	**19,338**	**400**	
2.1 Fair value gains		110	
2.2 Impairment losses due to credit risk		X	
2.3 Reclassifications of negative reserves to profit or loss on sale		X	
2.4 Transfers to other equity items (equity instruments)			
2.5 Other increases	19,338	290	
3. Decreases	**6,572**	**443**	
3.1 Fair value losses		175	
3.2 Impairment gains due to credit risk	177		
3.3 Reclassifications of positive reserves to profit or loss: on sale	X		
3.4 Transfers to other equity items (equity instruments)			
3.5 Other decreases	6,395	268	
4. Closing balance	**(11,634)**	**(586)**	

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

	31.12.2023
A. Opening balance	**74**
B. Increases	**71**
B.1 Actuarial gains	
B.2 Other increases	71
C. Decreases	**257**
C.1 Actuarial losses	
C.2 Other decreases	257
D. Closing balance	**(113)**
Total	**(113)**

Section 2 - Own funds and capital ratios

2.1 Own funds

A. Qualitative disclosure

Own funds, risk-weighted assets and solvency ratios as at 31 December 2023 were determined based on the provisions for Banks contained in Directive 2013/36/EU (CRD IV) and in Regulation (EU) 575/2013 (CRR) of 26 June 2013, that transpose in the European Union the standards defined by the Basel Committee on Banking Supervision (the so-called Basel 3 framework), and based on Bank of Italy Circulars no. 285 and no. 286 (enacted in 2013).

Reconciliation of Group equity and Own Funds

	31.12.2023	31.12.2023
Equity	264,063	245,707
Dividends distributed and other foreseeable expenses	(5,227)	(5,227)
Equity assuming dividends are distributed to shareholders	**258,836**	**240,480**
Regulatory adjustments	**(9,211)**	**3,202**
- Commitment to repurchase treasury shares	(386)	(735)
- Deduction of intangible assets	(3,935)	(3,957)
- Prudent valuation adjustment (1)	(754)	(583)
- Prudential filter for insufficient coverage of NPEs	(4,038)	(1,186)
- Prudential filter pursuant to art. 468	-	9,760
- Other adjustments	(98)	(97)
Equity instruments not eligible for inclusion in CET1	(45,500)	(45,500)
Common Equity Tier 1 (CET1)	**204,125**	**198,182**
Equity instruments eligible for inclusion in AT1	45,500	45,500
Additional Tier 1 (AT1) capital	**249,625**	**243,682**
Tier 2 Capital	**0**	**0**
Total Own Funds	**249,625**	**243,682**

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

A. Quantitative disclosure

	31.12.2023	31.12.2022
A. Common Equity Tier 1 (CET1) before application of prudential filters	218,563	200,207
of which CET 1 instruments covered by transitional measures	-	-
B. CET1 prudential filters (+/-)	-	-
C. CET1 including items to be deducted and the effects of the transitional regime (A+/-B)	**218,563**	**200,207**
D. Items to be deducted from CET1	14,438	11,785
E. Transitional regime - Impact on CET (+/-)	-	9,760
F. Total Common Equity Tier 1 (CET1) (C-D+/-E)	**204,125**	**198,182**
G. Additional Tier 1 (AT1) including items to be deducted and the effects of the transitional regime	45,500	45,500
of which AT1 instruments covered by transitional measures	-	-
H. Items to be deducted from AT1	-	-
I. Transitional regime - Impact on AT1 (+/-)	-	-
L. Total Additional Tier 1 (AT1) (G-H+/-I)	**45,500**	**45,500**
M. Tier 2 (T2) including items to be deducted and the effects of the transitional regime	-	-
of which T2 instruments covered by transitional measures	-	-
N. Items to be deducted from T2	-	-
O. Transitional regime - Impact on T2 (+/-)	-	-
P. Total Tier 2 (T2) (M-N+/-O)	**-**	**-**
Q. Total Own Funds (F+L+P)	**249,625**	**243,682**

2.2 Capital adequacy

A. Qualitative disclosure

Total own funds were € 249.6 million at 31 December 2023 and included the profit for the year, net of dividends estimated on the profit for the year which were equal to a pay-out of 37% of the Bank's profit.

	Unweighted amounts		Weighted amounts/requirements	
	31.12.2023	31.12.2022	31.12.2023	31.12.2022
A. EXPOSURES				
A.1 Credit and counterparty risk	5,395,317	6,420,146	1,200,148	1,186,648
1. Standardised approach	5,395,317	6,420,146	1,200,148	1,186,648
2. Internal ratings based approach				
2.1 Basic				
2.2 Advanced				
3. Securitisations				
B. CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			96,012	94,932
B.2 Credit valuation adjustment risk			28	157
B.3 Settlement risk				
B.4 Market risk			255	
1. Standard approach			255	
2. Internal models				
3. Concentration risk				
B.5 Operational risk			12,573	13,307
1. Standard approach			12,573	13,307
2. Internal models				
3. Concentration risk				
B.6 Other calculation elements				
B.7 Total prudential requirements			108,869	108,396
C. EXPOSURES AND CAPITAL RATIOS			**1,360,858**	**1,354,950**
C.1 Risk-weighted assets			1,360,858	1,354,950
C.2 CET1 capital/risk-weighted assets (CET1 Capital Ratio)			15.0%	14.6%
C.3 Tier 1 capital/risk-weighted assets (Tier 1 Capital Ratio)			18.3%	18.0%
C.4 Total Own Funds/risk-weighted assets (Total Capital Ratio)			18.3%	18.0%

PART G - BUSINESS COMBINATIONS

Section 1 - Transactions performed in the year

No transactions to report.

Section 2 - Transactions performed after the end of the year

No transactions to report.

Section 3 - Retrospective adjustments

No transactions to report.

PART H -RELATED PARTY TRANSACTIONS

Related party transactions, including the relevant authorisation and disclosure procedures, are governed by the "Procedure governing related party transactions" approved by the Board of Directors and published on the internet site of the Parent, Banca Sistema S.p.A.

Transactions between Group companies and related parties were carried out in the interests of the Bank, including within the scope of ordinary operations; these transactions were carried out in accordance with market conditions and, in any event, on the basis of mutual financial advantage and in compliance with all procedures.

With respect to transactions with parties who exercise management and control functions in accordance with art. 136 of the Consolidated Law on Banking, they are included in the Executive Committee resolution, specifically authorised by the Board of Directors and with the approval of the Statutory Auditors, subject to compliance with the obligations provided under the Italian Civil Code with respect to matters relating to the conflict of interest of directors.

Pursuant to IAS 24, the related parties of Banca Sistema include:

- shareholders with significant influence;
- companies belonging to the banking Group;
- companies subject to significant influence;
- key management personnel;
- the close relatives of key management personnel and the companies controlled by (or connected with) such personnel or their close relatives.

1. Disclosure on the remuneration of key management personnel

The following data show the remuneration of key management personnel, as per IAS 24 and Bank of Italy Circular no. 262 of 22 December 2005 as subsequently updated, which requires the inclusion of the members of the Board of Statutory Auditors.

In thousands of Euro	Board of Directors	Board of Statutory Auditors	Other managers	31.12.2022
Remuneration to Board of Directors and Board of Statutory Auditors	2,541	197	-	2,738
Short-term benefits for employees	-	-	2,938	2,938
Post-employment benefits	105	-	287	393
Other long-term benefits	270	-	63	333
Termination benefits	-	-	-	-
Share-based payments	240	-	46	286
Total	**3,156**	**197**	**3,334**	**6,686**

2. Disclosure on related party transactions

The following table shows the assets, liabilities, guarantees and commitments as at 31 December 2023, differentiated by type of related party with an indication of the impact on each individual caption.

In thousands of Euro	Subsidiaries	Directors, Board of Statutory Auditors and key management personnel	Other related parties	% of caption
Loans and receivables with customers	92,331	245	82,651	5.2%
Due to customers	3,304	1,942	53,621	1.7%
Other assets	-	-	-	0.0%
Other liabilities	81	-	-	0.0%

The following table indicates the costs and income for 2023, differentiated by type of related party.

In thousands of Euro	Subsidiaries	Directors, Board of Statutory Auditors and key management personnel	Other related parties	% of caption
Interest income	7,504	5	5	4.5%
Interest expense	59	98	643	0.7%
Other administrative expenses	731	-	-	2.5%

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

In thousands of Euro	Amount (Thousands of Euro)	Percentage (%)
ASSETS	**92,331**	**2.0%**
Loans and receivables with customers	**-**	**0.0%**
Kruso Kapital S.p.A.	70,728	2.1%
Largo Augusto Servizi E Sviluppo Srl	20,441	0.6%
ProntoPegno Greece	1,163	0.0%
Art-Rite	-	0.0%
LIABILITIES	**4,259**	**0.1%**
Due to customers	**-**	**0.0%**
Kruso Kapital S.p.A.	3,304	0.1%
Shareholders - SGBS	84	0.0%
Shareholders - Fondazione CR Alessandria	856	0.0%
Shareholders - Fondazione Sicilia	57	0.0%
Shareholders - Fondazione Pisa	5,375	0.2%
Other liabilities	-	0.0%
Kruso Kapital S.p.A.	6,927	4.0%
Largo Augusto Servizi E Sviluppo Srl	528	0.3%

In thousands of Euro	Amount (Thousands of Euro)	Percentage (%)
INCOME	**1,956**	**2.1%**
Interest income	**-**	**0.0%**
Kruso Kapital S.p.A.	6,927	4.2%
Largo Augusto Servizi E Sviluppo Srl	528	0.3%
ProntoPegno Greece	-	0.0%
COSTS	**878**	**2.2%**
Other administrative expenses	-	0.0%
Kruso Kapital	193	-0.7%
Largo Augusto Servizi E Sviluppo Srl	538	-1.9%

PART I - SHARE-BASED PAYMENT PLANS

Qualitative disclosure

As indicated in the 2023 Policies Document, Banca Sistema, having a four-year average of total assets of less than € 5 billion and not belonging to a group with assets worth more than € 30 billion, is considered to be a ''smaller and less complex bank''.

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

The Bank indicates 25% of average total remuneration of Italian high earners, as shown in the latest EBA report (published in January 2023) and relating to data processed at the end of 2021, as being a particularly high level of variable remuneration. The variable remuneration for "key personnel" relating to the performance of the year 2023 will be paid as follows, after the approval of the financial statements, subject to verification of compliance with the gates and the actual availability of the bonus pool according to the following methods:

- amounts equal to or lower than € 50,000 of variable remuneration, provided that this does not represent more than one third of the beneficiary's total annual remuneration: entirely up-front and in cash;
- amounts greater than € 50,000 and up to € 424,260 or where the condition referred to in the previous point is not met:
  - up-front and in cash for 70%;
  - for the remaining 30%: deferred in the first and second subsequent year, with payment according to the pro-rata criterion equal to 15%;
- for amounts greater than € 424,260:
  - up-front and in cash for 60%;
  - for the remaining 40%: deferred in the first and second subsequent year, with payment according to the pro-rata criterion equal to 20%.

Given the new provisions of the Bank of Italy Circular, which allow banks with assets of less than € 5 billion (as an average of the last four years) to neutralise the provisions relating to the disbursement of variable remuneration in financial instruments and to solely apply an "appropriate" deferral period, Banca Sistema intends to make use of this simplification and apply the abovementioned cash payment schemes for the payment of variable remuneration starting from 2023 (without prejudice to any regulatory updates and/or the achievement of the size thresholds indicated by Circular 285). The foregoing is without prejudice to the allocation of up-front and deferred portions in shares relating to past years in accordance with the rules set out in the relevant Policies of the same years.

Disclosure of the fees paid to the independent auditors

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

PART L - SEGMENT REPORTING

For the purposes of segment reporting as per IFRS 8, the income statement is broken down by segment as follows.

Breakdown by segment as at 31 December 2023

Income statement (€,000)	Factoring Division	CQ Division	Corporate Centre	Group Total
Net interest income	61,582	(4,600)	206	57,188
Net fee and commission income (expense)	6,966	(315)	484	7,136
Dividends and similar income	158	69	-	227
Net trading income (expense)	2,878	(101)	(5)	2,772
Gain from sales or repurchases of financial assets/liabilities	8,581	5,346	-	13,927
Net gain (loss) on other financial assets and liabilities measured at fair value through profit or loss	2,836	-	-	2,836
Total income	**83,001**	**399**	**685**	**84,085**
Net impairment losses on loans and receivables	(4,555)	42	(1)	(4,514)
Net financial income (expense)	**78,446**	**441**	**684**	**79,572**

Statement of Financial Position (€,000)	Factoring Division	CQ Division	Corporate Centre	Group Total
Cash and cash equivalents	172,470	74,905	-	247,376
Financial assets (HTS and HTCS)	409,658	177,918	-	587,576
Loans and receivables with banks	779	17	-	795
Loans and receivables with customers	2,492,472	874,273	1,279	3,368,024
loans and receivables with customers - loans	2,449,870	855,770	1,279	3,306,919
loans and receivables with customers - debt instruments	42,602	18,503	-	61,105
Due to banks	-	-	610,787	610,787
Due to customers	52,893	-	3,354,421	3,407,314

This segment reporting includes the following divisions:

- Factoring Division, which includes the business segment related to the origination of trade and tax receivables with and without recourse and the management and recovery of default interest. In addition, the division includes the business segment related to the origination of state-guaranteed loans to SMEs disbursed to factoring customers and the management and recovery of receivables on behalf of third parties;

- CQ Division, which includes the business segment related to the purchase of salary- and pension-backed loans (CQS/CQP) portfolios and salary- and pension-backed loans disbursed through the direct channel;
- Collateralised Lending Division, which includes the business segment related to collateral-backed loans;
- Corporate Division, which includes activities related to the management of the Group's financial resources and costs/income in support of the business activities. In particular, the cost of funding managed in the central treasury pool is allocated to the divisions via an internal transfer rate ("ITR"), while income from the management of the securities portfolio and income from liquidity management (the result of asset and liability management activities) is allocated entirely to the business divisions through a pre-defined set of drivers. The division also includes income from the management of SME loan run-offs.

The secondary disclosure by geographical segment has been omitted as immaterial, since the customers are mainly concentrated in the domestic market.

PART M - LEASE DISCLOSURE

SECTION 1 - LESSEE

Qualitative disclosures

The Bank has contracts that fall within the scope of IFRS 16 attributable to the following categories:

1. Property used for business and personal purposes;

2. Cars.

At 31 December 2023, there were 42 leases, 6 of which were property leases for a total right of use value of € 2.1 million, while 36 were for cars, for a total right of use value of € 0.6 million. Property leases, which refer to lease payments for buildings used for business purposes such as offices and for personal use, have terms exceeding 12 months and typically have renewal and termination options that may be exercised by the lessor and the lessee as provided for by law.

Contracts referring to other leases are long-term leases for cars which are generally used exclusively by the employees to whom they are assigned. These contracts have a maximum term of 5 years with monthly lease payments, no renewal option, and no option to purchase the asset.

Contracts with a term of less than 12 months or those for which the replacement value of the individual leased asset is low, i.e. less than € 20 thousand, are excluded from the application of the standard.

Quantitative disclosures

The following table provides a summary of the Statement of Financial Position items relating to leases expressed in Euro; for further information, please refer to Part B of the notes to the financial statements:

Type of contract	Right of use (*)	Lease liabilities
Property lease payments	1,469,794	1,499,574
Long-term car lease	519,321	528,893
Total	**1,989,115**	**2,028,467**

(*) This is the right of use value net of accumulated depreciation.

The following table provides a summary of the Income Statement items relating to leases; for further information, please refer to Part B of the notes to the financial statements:

Type of contract	Interest expense	Net impairment losses on property and equipment
Property lease payments	24,361	1,300,065
Long-term car lease	6,328	305,717
Total	**30,689**	**1,605,782**

SECTION 2 - LESSOR

Qualitative disclosures

At the reporting date, the Bank does not engage in leases as a lessor.

STATEMENTS ON THE SEPARATE FINANCIAL STATEMENTS

Statements on the separate financial statements in accordance with article 81-ter of Consob Regulation no. 11971 of 14 May 1999 as amended and supplemented

1. The undersigned, Gianluca Garbi, CEO, and Alexander Muz, Manager in charge of financial reporting of Banca Sistema S.p.A., hereby state, having taken into account the provisions of Art. 154-bis, paragraphs 3 and 4, of Legislative Decree no. 58 of 24 February 1998:

    - the suitability as regards the characteristics of the bank and
    - the effective application of the administrative and accounting procedures for the drafting of the separate financial statements during 2023.

2. Reference model

    The suitability of the administrative and accounting procedures for the drafting of the separate financial statements at 31 December 2023 was assessed based on an internal model defined by Banca Sistema S.p.A. that was designed in a manner consistent with the framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the Control Objectives for IT and Related Technology (COBIT) framework, which represent the reference standards for the internal control system generally accepted on an international level.

3. Moreover, the undersigned hereby state that:

    3.1 the separate financial statements:

    a) were drafted in accordance with the applicable international accounting standards endorsed by the European Union, pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
    b) match the accounting books and records;
    c) are suitable for providing a true and fair view of the financial position, results of operations and cash flows of the issuer.

    3.2 The Directors' report includes a reliable analysis of business performance and results, as well as of the position of the issuer, together with a description of the main risks and uncertainties to which it is exposed.

Milan, 8 March 2024

Gianluca Garbi
Chief Executive Officer

Alexander Muz
Manager in charge
of financial reporting

BOARD OF STATUTORY AUDITORS' REPORT

BANCA SISTEMA S.P.A.

BOARD OF STATUTORY AUDITORS' REPORT

TO THE SHAREHOLDERS' MEETING CALLED TO APPROVE

THE FINANCIAL STATEMENTS AT 31 DECEMBER 2023

IN ACCORDANCE WITH ARTICLE 153 OF LEGISLATIVE DECREE 58/1998 and ARTICLE 2429 OF THE ITALIAN CIVIL CODE

***

Part One: introduction

Dear Shareholders of Banca Sistema S.p.A. ("Bank"),

The Board of Statutory Auditors, also acting as the Internal Control and Audit Committee, is required to report to the Shareholders' Meeting of Banca Sistema S.p.A., convened to approve the Financial Statements for the year ended 31 December 2023, on the supervisory activities carried out during the year and on any other activities required by law.

Pursuant to Article 153 of Legislative Decree 58/1998 (Consolidated Law on Finance) and Legislative Decree 385/1993 (Consolidated Law on Banking) and special laws on the subject, as well as Articles 17 and 19 of Legislative Decree 39/2010 and Article 2429 of the Italian Civil Code, we give you this report on our supervisory activities during the calendar year and on the most significant events occurring after the end of the year, and also make proposals concerning the financial statements and their approval.

The Board of Statutory Auditors has taken into account the regulations issued by the authorities responsible for the supervision and control of banks and listed companies, in accordance with the Rules of Conduct for the Board of Statutory Auditors of Listed Companies issued by the National Board of Business Experts and Accountants.

The task of auditing the accounts was entrusted to the independent auditor BDO Italia S.p.A. ("BDO"), whose mandate was granted by the ordinary Shareholders' Meeting on the proposal of the Board of Statutory Auditors.

The function of Supervisory Body, as required by Legislative Decree No. 231/2001, has not been transferred to the Board of Statutory Auditors, but is performed by a separate body appointed by the Board of Directors on 12 May 2023.

The current Board of Statutory Auditors was appointed by the Shareholders' Meeting of 28 April 2023. Its term of office will expire with the Shareholders' Meeting convened to approve the financial statements for the year ended 31 December 2025 and is composed of the following members:

- Lucia Abati, Standing Auditor, who has been appointed Chairperson;

- Luigi Ruggiero, Standing Auditor;

- Daniela Toscano, Standing Auditor.

In order to regulate the composition, functioning and powers of the Board of Statutory Auditors in accordance with the principles laid down in the applicable laws and regulations and the Corporate Governance Code adopted by the Company, the Board of Statutory Auditors has adopted the "Rules of the Board of Statutory Auditors", last updated on 22 December 2022.

During the 2023 financial year, the Board of Statutory Auditors assessed, whenever necessary, the suitability of its members and the adequacy of the composition of the body, having regard to the requirements of professionalism, competence, integrity, fairness, independence and absence of any cause of incompatibility required by the regulations, as well as the availability of time and resources commensurate with the complexity of the task and its proper functioning, taking into account the size, complexity and activities of the intermediary. The members of the Board of Statutory Auditors complied with the limit on concurrent positions pursuant to Article *144-terdecies* of the Issuers' Regulation and Ministerial Decree No. 169/2020.

This report has been approved by the whole board and by the legal deadline pursuant to law.

We have examined the draft separate financial statements of Banca Sistema S.p.A. at 31 December 2023 (the "Financial Statements"), comprised of the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows and the Notes to the Financial Statements, and accompanied by the Directors' Report and complementary financial statements, showing profit for the year of € 14,129,372.

After approving the draft financial statements on 8 March 2024, the Board of Directors sent us the reporting package by the statutory deadline.

Between the meeting dedicated to drafting the previous report on the financial statements and today, the current Board of Statutory Auditors held 16 meetings (including the meeting concerning the preparation of this report), and over the course of 2023 participated, with at least one member, in all 24 meetings of the Board of Directors, the 17 meetings of Internal Control and Risk Management Committee and the Sustainability Committee, as confirmed by the documents provided to you in the package prepared for this Shareholders' Meeting.

We shall provide you with detailed information in this report about all of our activities.

Part Two: monitoring legal compliance and compliance with the Articles of Association

In this part we report on the activities performed by the Board of Statutory Auditors pursuant to Article 2403 of the Italian Civil Code.

During the financial year, the Board of Statutory Auditors monitored:

- compliance with the law, the memorandum of association;
- compliance with the principles of proper management;
- the adequacy of the organisational structure, the internal control system, the administrative-accounting system and the reliability of the latter in correctly reporting the affairs of the company;
- the adequacy of the instructions issued to the Subsidiaries pursuant to Article 114, paragraph 2 of Legislative Decree No. 58/1998 (Consolidated Law on Finance).

In addition to the meetings referred to above, the Board of Statutory Auditors participated in all meetings held in 2023 by the corporate bodies in compliance with the Articles of Association, the law and regulatory provisions that govern their proceedings. Therefore, we can reasonably assure that the adopted resolutions complied with the law and the Articles of Association, were not manifestly imprudent, reckless or potentially in conflict of interest or counter to the resolutions approved by the Shareholders' Meeting or of a nature that could compromise the solidity of the company assets.

In the course of performing its own duties at meetings, the Board of Statutory Auditors met periodically with the heads of the principal internal departments of the Company. It examined the documents submitted to it and performed its own analyses and assessments, as summarised in its own minutes. These did not reveal anything that could cast doubt on compliance with the law, the Articles of Association, and principles of proper management. It analysed the most significant operating, financial and equity transactions, verifying their compliance with the law and the memorandum of association, finding that they were not manifestly imprudent or reckless and/or in potential conflict of interest and/or in conflict with the resolutions passed by the Shareholders' Meeting and/or prejudicial to the operating, asset and liability, and financial performance of the Bank. It participated in working groups on specific matters, in training courses and held special meetings on particularly significant issues. The Board of Statutory Auditors has approved all examined transactions as being consistent with the corporate interest.

The Board of Statutory Auditors acknowledges that the key information concerning the Bank's transactions with related parties has been provided during the Board of Directors meetings and in the Financial Statements. In this regard, the Board of Statutory Auditors deems it appropriate to call the Shareholders' attention to the interpretation of the paragraphs in the Directors' Report and Notes to the Financial Statements where those events are described.

Among the significant events that occurred in 2023, we note:

- on 18 January 2023, the Bank of Italy, following the measure of 5 May 2022, by which the Bank was notified of additional capital requirements with respect to the minimum capital ratios required by current regulations, informed the Bank not to adopt a new decision on capital as a result of the 2022 SREP (Supervisory Review and Evaluation Process) cycle;
- on 27 January 2023, a member of the Internal Control and Risk Management Committee was replaced, with Mr Pier Angelo Taverna, an independent and non-executive director, being appointed to replace Ms Francesca Granata, an independent and non-executive director, who is already a member of the Appointments Committee and the Remuneration Committee;
- during the first quarter of 2023, the Bank of Italy conducted an inspection to verify the change in the Bank's liquidity risk exposure and related operational controls. At the end of June 2023, the Supervisory Authority issued the relative inspection report to the Board of Directors, but without initiating sanctioning procedures, accompanied by a notice in which it stated the need to prepare a plan to strengthen

operational liquidity management to address the findings of the inspection report and the control structure. At the end of July, the Board of Directors sent its response to the inspection report to the Bank of Italy, attaching a detailed Action Plan to address the findings identified in the report. The Bank's internal audit function periodically monitors the implementation of the planned remedial actions, periodically updating the corporate bodies and the Supervisory Authority. The timing and methods of the planned measures have thus far been adhered to and the activities currently underway should be completed within the 2024 financial year;

- on 4 August 2023, the Board of Statutory Auditors was audited by the Bank of Italy and provided the information requested by it;
- on 17 July 2023, the Board of Directors of the subsidiary Kruso Kapital S.p.A. (in which Banca Sistema holds a 75% equity interest) approved the start of the process to list the company on the Euronext Growth Market of Borsa Italiana S.p.A.
- on 23 November 2023, the subsidiary Kruso Kapital S.p.A. signed a binding agreement with the shareholders of Banco Invest S.A. for the purchase of the collateralised lending business of Banco Invest S.A. in Portugal.

The Board of Statutory Auditors also carried out the following activities during the year:

- the exchanges of correspondence with Supervisory Authorities concerning the clarifications requested as part of its ordinary control activities;
- the periodic exchanges of information with the Independent Auditor;
- the meeting with the Supervisory Body for the exchange of information;
- the examination of the Remuneration Policies Document;
- the analysis and monitoring of business activities in accordance with the Risk Appetite Framework;
- the meeting with the management and control bodies of the banking group companies;
- the verification of anti-money laundering compliance and procedures.

On 19 April 2023, the Board of Statutory Auditors issued its observations on the report, prepared by the Internal Audit Department on the controls carried out on the major outsourced departments, any deficiencies found and the consequent corrective measures adopted.

Finally, pursuant to Article 2408 of the Italian Civil Code, we declare that in 2023, no complaint from Shareholders or any other complaints were received, no wrongdoing or other significantly negative acts or omissions were reported by the Independent Auditors or others, that required reporting to the Bank of Italy.

Significant events after the reporting date.

Regarding significant events occurring after the reporting date, it should be noted that:

- on 24 January 2024, trading of the ordinary shares of the subsidiary Kruso Kapital S.p.A. commenced on the Professional Segment of Euronext Growth Milan, a multilateral trading system organised and managed by Borsa Italiana S.p.A.;
- on 19 March 2024, the Bank of Italy transmitted to the Bank the final measure of the capital decision process (SREP).

Part Three: Supervision of the financial statements

In this section we report on our control activities related to the preparation and drafting of the separate financial statements of Banca Sistema S.p.A. for the year ended 31 December 2023.

The Financial Statements have been drafted in accordance with the International Financial Reporting Standards (IAS/IFRS), as endorsed by the European Commission and transposed in Italy by Legislative Decree 38 of 28 February 2005, while also considering the instructions issued by the Bank of Italy with Circular 262 of 22 December 2005, as amended.

Pursuant to Legislative Decree 39/2010, the person or entity responsible for the statutory audit of the accounts must give an opinion on the financial statements as to whether they comply with the laws and regulations governing their preparation and whether they give a true and fair view of the capital and financial position, the cash flows and the profit and loss for the year. In this regard, BDO, exchanged material information with the Board of Statutory Auditors pursuant to the regulations in force, and today, issued its own audit report on the financial statements at 31 December 2023. The report does not contain any findings or exceptions or emphasis of matter.

Therefore, the Board of Statutory Auditors assumes that the financial data correspond to the data resulting from the internal accounts, which are regularly kept in compliance with the principles set out in current regulations.

That said, the Board of Statutory Auditors has monitored activities to ensure that the general process of preparing and drafting the financial statements complies with current laws and regulations.

Part Four: relations with the independent auditors

Material information was exchanged during the year with representatives of the Independent Auditors so that they could perform their duties during the periodic meetings held pursuant to the regulations in force. These did not reveal any critical and/or significant problems. In compliance with Article 6, paragraph 2), letter a) of European Regulation 537/2014 and paragraph 17 of international auditing standard (ISA Italia) No. 260, the Independent Auditors have certified that, during the period between 1 January 2023 and today, they found no situations compromising the independence of the Independent Auditors or causes for incompatibility.

Likewise, the Independent Auditors have informed the Board of Statutory Auditors that the legal audit carried out as at 31 December 2023 has not revealed significant shortcomings in the internal control system related to the financial reporting process that need to be brought to the attention of the Board of Statutory Auditors.

Part five: Acceptance of the Code of Conduct

The Bank adheres to the Code of Conduct of the Corporate Governance Committee for listed companies. Information about certain essential elements is provided as follows.

Internal Control, Risk Management and Sustainability Committee

Banca Sistema S.p.A. has its own Internal Control, Risk Management and Sustainability Committee, whose current members were appointed by the Board of Directors on 24 May 2021.

Other Committees

The Appointments Committee, the Remuneration Committee, and the Ethics Committee have been established.

Board of Directors

- The Board of Directors supervises general operating performance, dedicating special attention to situations exhibiting conflicts of interest, giving special consideration to the information received from the Chief Executive Officer and the Internal Control, Risk Management and Sustainability Committee, by periodically comparing the results achieved with those planned.
- The Board of Directors examines and approves transactions having a significant economic, asset and liability, and financial impact, especially in regard to related party transactions.
- The composition of the Board of Directors includes six independent directors.
- The Chairperson of the Board of Directors meets the independence requirement pursuant to art. 147-ter, paragraph 4, and art. 148, paragraph 3 of Legislative Decree no. 58 of 24 February 1998, but does not meet the provisions of art. 3, application criteria 3.c.1.b and 3.c.2 of the Code of Conduct issued by Borsa Italiana.
- The Chief Executive Officer makes periodic reports to the Board of Directors on his activities in the course of exercising his delegated authority.
- The Chief Executive Officer provides adequate information about the related party transactions whose examination is not reserved to the Board of Directors.

The number of Board of Directors, Internal Control, Risk Management and Sustainability Committee and all Board committee meetings, and the attendance by the members of the Board of Statutory Auditors are shown in the document "Report on Corporate Governance".

Part Six: Disclosure pursuant to Consob Communication no. 1025564 / 2001

This section presents the information required under Consob Communication no. 1025564 of 6 April 2001, as amended. In certain cases, that information has already been reported in other paragraphs of this Report.

- Significant transactions affecting the financial position, and assets and liabilities of the Bank were executed, and they have been illustrated in the financial statements. None of these transactions were considered manifestly imprudent or speculative, nor were they found to be in potential conflict of interest or contradictory to resolutions adopted by the Shareholders' Meeting, or to compromise the integrity of the company's assets.

- During the 2023 financial year, the Board of Statutory Auditors did not become aware of, nor did it receive any indication from the Board of Directors or the Independent Auditor of the existence of any unusual or atypical transactions with related parties, within the Group or with other parties. Information on related party transactions is detailed in the appropriate section of the Financial Statements.
- There are no findings or emphasis of matter in the Independent Auditors' Report.
- There were no notices or complaints pursuant to Article 2408 of the Italian Civil Code.
- At the date of these minutes, the Board of Statutory Auditors has issued the following opinions on the approval of non-audit services, requested by the Independent Auditors concerning:
    - the verification of the procedures and systems for managing bank loans used as collateral for Eurosystem financing operations;
    - *the* ISAE 3000 analysis of Kruso Kapital S.p.A.'s business plan;
    - assistance regarding contributions related to the listing process of Kruso Kapital S.p.A.;
    - tax assistance for activities related to the listing process of Kruso Kapital S.p.A.;
    - apool audit, that shall be carried out on the entire eligible CQS/CQP portfolio of the special purpose vehicle Quinto SEC 2019.
- No appointments were made to persons associated with the Independent auditors.
- No opinions pursuant to law were issued during the year.
- The information obtained during the year and summarised in this report enables the Board of Statutory Auditors to state that the transactions carried out were in accordance with the principles of sound administration, were decided upon and executed in compliance with the law and the Articles of Association and, at the same time, to rule out the possibility that manifestly imprudent or risky transactions have been carried out which are contrary to the resolutions adopted by the Bank or which could compromise the integrity of its assets.
- The Board of Statutory Auditors monitored the adequacy of the organisational structure, which is adequately supervised by the Board of Directors.

The Bank's organisational chart clearly shows the lines of responsibility down to the most operational functions. The organisational chart also shows the functions of the various structures, which are reflected in the remits and responsibilities assigned to each level.

The Board of Statutory Auditors is of the opinion that the Bank's organisational structure is generally appropriate to its size and operational characteristics, also in the light of the previous sections of this report. However, close monitoring is required to identify improvements in line with business development plans and the associated risks to which the Bank is exposed.

- The Board of Statutory Auditors met periodically with the company's control functions (Internal Audit, Compliance & AML, Risk & Sustainability), the Manager in charge of financial reporting and the Independent Auditors, and participated in the work of the Internal Control, Risk Management and Sustainability Committee.

  The Bank's regulatory framework and the constant updating of internal regulations are also of particular importance in the internal control system.

  The Board of Statutory Auditors also took note of the activities of the Supervisory Body, appointed to ensure the adequacy, compliance and updating of the organisational and management model pursuant to Legislative Decree 231/01. It reviewed the effectiveness and independence of the body, exchanged information on the Bank's supervision, the controls carried out and their results, and confirmed the accuracy and timeliness of the information flows it was required to receive.

  The Board of Statutory Auditors also verified the Bank's compliance with the obligations to correspond and send communications to the Supervisory Authorities.

  During the year, the Internal Audit Department monitored the adoption of the corrective actions set out in the action plan drawn up following the Bank of Italy's inspection report on the activity carried out between March and June 2021. The action plan was completed by 31 December 2023.

  Following the inspections carried out between February and March 2023, the Bank of Italy issued an inspection report assessing the changes in the Bank's exposure to liquidity risk, the related operational safeguards and the measures to be implemented.

  The action plan drawn up in July 2023 to address the issues raised is being continuously monitored by the Bank's Internal Audit Department. The timelines and methods of the planned actions have been met to date and are expected to be completed by the end of 2024.

In particular, the ICT solution was identified to support the Risk and Sustainability Department in building the maturity ladder, which is scheduled to be implemented by the end of 2024, while the controls and monitoring performed by the Risk and Sustainability Department and the Internal Audit Department were strengthened.

In terms of how the TLTRO III facility, which expires at the end of 2024, will be replaced, it will primarily be replaced by alternative forms of funding, including direct funding of deposit accounts. The Board highlights that part of the TLTRO has already been repaid.

Therefore, based on the activities carried out and the information obtained, including through regular meetings with the control functions, the Board of Statutory Auditors is of the opinion that, overall, there are no significant critical issues that affect the structure of the internal control system. However, the evident and proven improvements in the corporate governance system and the strengthening of internal control functions need to be confirmed and further implemented in order to improve the checks and balances.
Finally, in the context of the activities of the Compliance & Anti-Money Laundering Department, the Board of Statutory Auditors has continuously monitored the activities and the results of the ex-post controls carried out in relation to the regulations on money laundering and the financing of terrorism, in respect of which no particularly critical issues have been reported.

- The administrative and accounting system was considered reliable in providing a fair presentation of operations.
- The Board of Statutory Auditors has exchanged the required information with the corporate bodies of the subsidiaries with no significant issues having arisen. In addition, the Board of Statutory Auditors verified the adequacy of the instructions given to the subsidiaries pursuant to Article 11, paragraph 2 of Legislative Decree 58/1998 (Consolidated Law on Finance).
- During the meetings held with the auditors pursuant to Article 150, paragraph 2 of Legislative Decree 58/1998 (Consolidated Law on Finance), no critical and/or negative issues emerged.
- The Bank has adopted the Corporate Governance Code promulgated by Borsa Italiana S.p.A.
- Remuneration is governed by the Remuneration Policy, which aims to achieve, in the interests of all stakeholders, a remuneration system that is aligned with the company's values, long-term strategies

and objectives, and which is linked to the company's results. The Policy is drafted in accordance with the provisions of Part One, Title IV, Chapter 2, Section I, Paragraph 7 of Circular 285, as last updated on 24 November 2021 (37th update).

The current Policy, which is available on the Bank's website and to which we refer, was approved by the Shareholders' Meeting on 28 April 2023 with the predefined formulas for determining the amounts recognised under employee agreements.

The Internal Audit Department, in accordance with the Supervisory Regulations, carried out a specific audit to verify the compliance of remuneration and incentive practices with the Remuneration Policies Document adopted by the Group. Based on its findings, which were formally presented in a specific report to the Shareholders' Meeting on 28 April 2023, the Internal Audit Department concluded that the remuneration policies for the 2022 financial year was correctly applied.

The Board of Statutory Auditors has noted the accuracy of the process of drafting the Report on the remuneration policy, which is part of the disclosure required by Article 123-ter of Legislative Decree No. 58/1998 and Article 84-quater of the Issuers' Regulation, which is divided into two sections:

- the first section, containing the Banca Sistema Banking Group's 2024 Remuneration Policy, which will be submitted for approval at the next Shareholders' Meeting;
- the second section, which describes how the 2023 remuneration policy was implemented.

The Compliance and Anti-Money Laundering Department presented its assessment of the remuneration policies of the Banca Sistema Group for the 2024 financial year and found it to be consistent with the objective of ensuring compliance with the Bank's Articles of Association and Code of Ethics.

The Internal Audit Department will issue a report on the proper application of the 2023 Remuneration Policies.

- No omissions, wrongdoing or irregularities have been found during supervisory activity.
- It is not considered necessary to make proposals to the Shareholders' Meeting in regard to the financial statements and their approval, aside from those approved by the Board of Directors and transcribed in the "summary and conclusions".
- The Board of Statutory Auditors has not had to exercise its powers to call the Shareholders' Meeting or the Board of Directors.

Summary and conclusions

Dear Shareholders of Banca Sistema S.p.A.,

On the basis of the foregoing report and given what has been brought to the attention of the Board of Statutory Auditors, and what has been confirmed by its periodic controls, it is believed that no reasons exist not to approve the draft financial statements of Banca Sistema at 31 December 2023, as drafted and proposed to you by the Board of Directors, and the proposed allocation of the profit for the year.

Likewise, the Board of Statutory Auditors has taken note of and brings to your attention the contents of the report of the Independent Auditors BDO Italia S.p.A., issued pursuant to Articles 14 of Legislative Decree 39/2010 and Article 10 of Regulation (EU) no. 537 of 16 April 2014, which shows that the financial statements have been clearly written and give a true and fair view of the operating result, assets and liabilities, financial position and cash flows of the Bank, and the "additional report" prepared in accordance with Article 11 of Regulation (EU) no. 537/2014, in which BDO has confirmed its own independence, has not found material errors, believes that the books are properly kept, and confirms that there are no material aspects requiring a report to the governance bodies.

Consequently, and notwithstanding all the references to the individual paragraphs of the Financial Statements previously made in this Report, the Board of Statutory Auditors reports that the proposal of the Board of Directors of Banca Sistema S.p.A. regarding the allocation of the profit for the year is as follows:

- *a dividend of € 5,227,368.38;*
- *the remainder of € 8,902,003.61 to retained earnings.*

An allocation to the Legal Reserve was not made since the limits set out in Article 2430 of the Italian Civil Code were reached."

In light of the above, the Board of Statutory Auditors invites the Shareholders' Meeting to approve the financial statements at 31 December 2023 as prepared by the Board of Directors, and the proposed allocation of the profit for the year.

Milan, 29 March 2024

Board of Statutory Auditors

Lucia Abati	Luigi Ruggiero	Daniela Toscano
Chairperson	*Standing Auditor*	*Standing Auditor*

INDEPENDENT AUDITORS' REPORT

BANCA SISTEMA S.P.A.

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated January 27 2010 and article 10 of EU Regulation n. 537/2014

Financial statements as at December 31, 2023

AMZ/FGR/fbs - RC043882023BD1092

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Viale Abruzzi, 94
20131 Milano

Independent auditor’s Report
pursuant to article 14 of Legislative Decree n. 39, dated January 27 2010 and article 10 of EU Regulation n. 537/2014

To the shareholders of Banca Sistema S.p.A.

Report on the financial statements

Opinion

We have audited the financial statements of Banca Sistema S.p.A. (the Company), which comprise the balance sheet as at December 31, 2023, the profit and loss account, the statement of other comprehensive income, statement of changes in net equity, the cash flow statement for the year then ended and notes and comments to the financial statements which includes relevant information on applicable accounting standards.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2023 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as the regulation issued to implement article 9 of Legislative Decree NO. 38/05 as well and article 43 of Legislative Decree NO. 136/15.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical and independence requirements applicable in Italy to the audit of financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	Audit responses

CLASSIFICATION AND MEASUREMENT OF LOANS AND RECEIVABLES WITH CUSTOMERS BOOKED UNDER THE FINANCIAL ASSETS MEASURED AT AMORTISED COST

Notes to the separate financial statements: Part A) Accounting policies - paragraph A.2, “Information on the main items of the separate financial statements”: “Financial assets measured at amortised cost”; Part B) Information on the statement of financial position, Assets - Section 4 “Financial assets measured at amortised cost”; Part C) Information on the income statement - Section 8.1 “Net impairment losses due to credit risk related to financial assets measured at amortised cost: breakdown”; Part E) Information concerning risk and related hedging policies - Section 1 “Credit risk”

Loans and receivables with customers, which are booked under the financial assets measured at amortised cost as of December 31, 2023, are equal to Euro 3.368 million and represent the 75% of the Company’s total assets.

The acquisition by the Company of non-impaired loans claimed by companies supplying goods and services, mainly towards the public administration (the “factoring credits”) and origination of credits relating to the sector of the transfers of salary or pension backed loans (the “CQS/CQP credits”) represents the Company's main activities.

Factoring credits and CQS/CQP credits as of December 31, 2023, are equal to, respectively, Euro 2.032 million and Euro 799 million.

For classification purposes, the directors of the Company carry out analyses, sometimes complex, aimed at identifying the positions which, after the disbursement and / or acquisition, show evidence of a possible impairment, considering both internal information related to the trend credit positions, and external information related to the sector of reference or to the overall exposure of such debtors to the banking system.

The evaluation of loans and receivables with customers is a complex estimation activity, characterized by a high degree of uncertainty and subjectivity, in which the Company's directors use evaluation models that take into consideration numerous quantitative and qualitative elements such as, among others, historical data relating to collections, expected cash flows and related recovery times, the existence of indicators of possible impairment, the assessment of any guarantee, the impact of macroeconomic variables,

Our main audit procedures carried out in response to the key audit matter relating to the classification and measurement of loans and receivables with customers, also carried out with the support of our specialists, concerned the following activities:

- analysis of the procedures and processes related to the item and verification of the effectiveness of controls to monitor these procedures and processes;
- analysis of the adequacy of the IT environment related to IT applications that are relevant to the process of evaluating loans to banks and customers;
- procedures for reconciling data between management systems and information reported in the financial statements;
- comparative analysis procedures and analysis of the results with the management involved;
- analysis of the criteria and methods for the evaluation of credits (analytical and collective) and verification on a sample basis of the reasonableness of the assumptions and of the components used for the assessment and the relative results;
- examination on a sample basis of the classification and valuation in the financial statements in accordance with the IFRS adopted by the European Union and the provisions issued pursuant to Article 43 of Legislative Decree 136/2015;
- examination of the disclosures provided in the explanatory notes.

future scenarios and risks of the sectors in which the Company's customers operate.

For these reasons, we have considered the classification and evaluation of loans and receivables with customers booked under financial assets valued at amortized cost, a significant key matter in the context of our audit.

DETECTION OF DEFAULT INTEREST PURSUANT AND COMPENSATION FEES FOR RECOVERY EXPENSES TO LEGISLATIVE DECREE NO. 231 OF 9 OCTOBER 2002 ON PERFORMING RECEIVABLES ACQUIRED WITHOUT RECOURSE

Notes to the separate financial statements: Part A) Accounting policies - paragraph A.2., “Information on the main items of the separate financial statements”; Part C) Information on the income statement - Section 1 “interest - item 10 and 20”; Part E) Information concerning risk and related hedging policies - Section 1 “Credit risk”

The Company accounts for accrued default interest pursuant and, beginning in 2023, compensation fees for recovery expenses to legislative decree no. 231 of 9 October 2002 on performing receivables acquired without recourse.

The credits recognized on an accrual basis and compensation fees for recovery expenses and reported in the individual balance sheet as at December 31, 2023 amount to Euro 78 million. The default interest recognized on an accrual basis as at December 31, 2023, equals to Euro 36,5 million and will be collected in the forthcoming years. This amount includes Euro 18,7 million recognized on an accrual basis from current estimates, Euro 1,2 million due to the update on the recovery estimates and Euro 6,5 million represented by collections in excess with respect to the revenues already recorded on an accrual basis in the previous years, Euro 6,4 million as a result of ECB benchmark rate hikes, Euro 3,7 million resulting from current estimates of compensation fees for recovery expenses.

The default interest and compensation fees for recovery expenses deemed recoverable by the directors of the Bank is estimated by using models based on the analysis of the time series concerning the recovery percentages and actual collection times observed internally.

These analyses are periodically updated following the progressive consolidation of the time series.

The aforementioned estimate, characterized by a high degree of uncertainty and subjectivity, is made through models that take into account numerous quantitative and qualitative elements

The main audit procedures carried out in response to the key audit matter relating to the detection of default interest pursuant and compensation fees for recovery expenses to legislative decree no. 231 of 9 october 2002 on performing receivables acquired without recourse, also carried out with the support of our specialists, concerned the following activities:

- analysis of the procedures and processes related to the item and verification of the effectiveness of controls to monitor these procedures and processes;
- analysis of the adequacy of the IT environment related to IT applications that are relevant to the process of detection of default interest;
- procedures for reconciling data between management systems and information reported in the financial statements;
- comparative analysis procedures and analysis of the results with the management involved;
- analysis of the models used to estimate default interest and examination of the reasonableness of the main assumptions contained in them;
- analysis of the adequacy of the information provided in the explanatory notes.

such as, among others, the historical data relating to collections, expected cash flows, the relative times collection costs and the impact of the risks associated with the geographical areas in which the Company's customers operate.

For these reasons, we have considered the detection of default interest pursuant and compensation fees for recovery expenses to legislative decree no. 231 of 9 October 2002 on performing receivables acquired without recourse a significant key matter in the context of our audit.

VALUATION OF EQUITY INVESTMENT HELD IN THE CONTROLLED COMPANY KRUSO KAPITAL S.P.A.

Notes to the separate financial statements: Part A) Accounting policies – paragraph A.2, "Information on the main items of the separate financial statements": "Equity investments"; Part B) Information on the statement of financial position, Assets – Section 7 "Equity investments"

The Company recorded Euro 29 million as the value of the equity investment held in the controlled company Kruso Kapital S.p.A. as of December 31, 2023.

The impairment test performed by the Company according to and using the DDM methodology with the variant "excess of capital", has highlighted an overestimate of the "value in use" of the CGU if compared to its net accounting value, confirming the recoverability of the goodwill accounted for in the financial statements.

We focused on this area due to the significance of its amount and the significant judgement and complexity of the evaluation process; the impairment test is based on the realisation of the assumptions of the plan, discount rates and expected future growth rates and other subjective assumptions.

Our main audit procedures performed in response to the key audit matter regarding the valuation of equity investments held in the controlled company Kruso Kapital S.p.A., also carried out with the support of our specialists, included the following:

- we challenged the reasonableness of the key underlying assumptions of the plan;
- we assessed and challenged the adequacy of the impairment model adopted;
- we assessed the main key underlying assumptions for the impairment model, in particular the ones related to cash flow projections, discount rates, long term growth rates;
- we verified the clerical accuracy of the impairment model adopted;
- we performed sensitivity analysis of the control model of impairment when key assumptions change;
- we verified the disclosures provided in the explanatory notes.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, as well as the regulation issued to implement art. 9 of Legislative Decree NO. 38/05, as well as the regulation issued to implement article 9 of Legislative Decree NO. 38/05 and article 43 of Legislative Decree NO. 136/15 and, within the terms provided by the law, for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also have:

- Identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We have communicated with those charged with governance, as properly identified in accordance with ISA Italia, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have also provided those charged with governance with a statement that we have complied with relevant ethical and independence requirements applicable in Italy, and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate relevant risks or the safeguards measures applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We described those matters in the auditor's report.

Other information communicated pursuant to article 10 of Regulation (EU) 537/2014

We were initially engaged by the shareholders meeting of Banca Sistema S.p.A. on April 18, 2019 to perform the audit of the separate and the consolidated financial statements of each fiscal year starting from December 31, 2019 to December 31, 2027.

We declare that we did not provide prohibited non audit services, referred to article 5, paragraph 1, of Regulation (EU) 537/2014, and that we remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements included in this audit report is consistent with the content of the additional report prepared in accordance with article 11 of the EU Regulation n.537/2014, submitted to those charged with governance.

Report on other legal and regulatory requirements

Opinion on the compliance to the requirements of the Delegated Regulation (EU) 2019/815

The directors of Banca Sistema S.p.A. are responsible for the application of the requirements of Delegated Regulation (EU) 2019/815 of European Commission regarding the regulatory technical standards pertaining the electronic reporting format specifications (ESEF – European Single Electronic Format) (hereinafter the "Delegated Regulation") to the financial statements.

We have performed the procedures required under audit standard (SA Italia) no. 700B in order to express an opinion on the compliance of the financial statements at December 31,2023 to the requirements of the Delegated Regulation.

In our opinion, the financial statements at December 31, 2023 have been prepared in XHTML format in compliance to the requirements of Delegated Regulation.

Opinion pursuant to article 14, paragraph 2, letter e), of Legislative Decree n. 39/10 and of article 123-bis of Legislative Decree n. 58/98.

The directors of Banca Sistema S.p.A. are responsible for the preparation of the report on operations and of the corporate governance report of Banca Sistema S.p.A. as at December 31, 2023, including their consistency with the financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and of specific information of the corporate governance report as provided by article 123-bis, paragraph. 4, of Legislative Decree n. 58/98, with the financial statements of Banca Sistema S.p.A. as at December 31, 2023 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the report on operations and the above mentioned specific information of the corporate governance report are consistent with the financial statements of Banca Sistema S.p.A. as at December 31, 2023 and are compliant with applicable laws and regulations.

With reference to the assessment pursuant to article 14, paragraph. 2, letter e), of Legislative Decree n. 39/10 based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Milan, March 29, 2024

BDO Italia S.p.A.

(signed in the original)
Andrea Mezzadra
Partner

As disclosed by the Directors, the accompanying financial statements of Banca Sistema S.p.A. constitute a non-official version which is not compliant with the provisions of the Commission Delegated Regulation (EU) 2019/815. This independent auditor's report has been translated into the English language solely for the convenience of international readers. Accordingly, only the original text in Italian language is authoritative.