BANCA SISTEMA Group

DISCLOSURE BY INSTITUTIONS PURSUANT TO REGULATION (EU) NO. 575/2013 "PILLAR 3"

31 December 2021

BANCA SISTEMA

CONTENTS

INTRODUCTION

Starting from 1 January 2014, the reforms of the Basel Committee accords ("Basel III") aimed at strengthening the capability of banks to absorb shocks deriving from financial and economic stress, regardless of their origin, improving risk management and governance, while increasing the transparency and disclosure of banks, were transposed into EU law. In doing so, the Committee has retained the three-pillar approach that underpinned the previous capital accord, known as "Basel II", while supplementing and strengthening it to increase the quantity and quality of capital available to intermediaries, as well as introducing countercyclical supervisory tools and rules on managing liquidity risk and containing the build-up of leverage. In particular, in order to encourage market discipline, Pillar 3, which concerns requirements for public disclosure of capital adequacy, risk exposure and the general characteristics of the relevant management and control systems, has also been revised. The amendments introduced, among other things, additional transparency requirements and increased disclosure on the composition of regulatory capital and on how the bank calculates its capital ratios.

In view of the above, the contents of "Basel III" have been transposed into two pieces of EU legislation:

- Regulation (EU) No. 575/2013 of 26 June 2013 (CRR)
- Directive 2013/36/EU (CRD IV); "Supervisory Provisions for Banks".

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" (Art. 431 – 455)
- Regulation (EU) 2021/637 of 15 March 2021.

Regarding the rules provided by the EBA, the reference guidelines are:

- European Banking Authority (EBA) Guidelines EBA/GL/2014/14 – on materiality, proprietary and confidentiality and on disclosure frequency under Articles 432(1) and (2), and 433 of the CRR, and Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013;
- Further EBA Guidelines regulating specific aspects of the Public Disclosure Requirements, including the Guidelines on Disclosure of Non-performing and Forborne Exposures (EBA/GL/2018/10).

In the context of the COVID-19 pandemic, European and national Supervisory Authorities have also issued measures and statutory requirements aimed at ensuring disclosure in the areas affected by the restrictive measures:

- EBA Guidelines (EBA/GL/2020/07) on exposures subject to measures applied in response to the COVID-19 crisis.
- EBA Guidelines (EBA/GL/2020/12) of 11 August 2020 amending Guidelines EBA/GL/2018/01 on uniform disclosures under Article 473a of Regulation (EU) No 575/2013 (CRR) on the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds to ensure compliance with the CRR 'quick fix' in response to the COVID-19 pandemic.

At 31 December 2021, the Banca Sistema Group comprises the Parent, Banca Sistema S.p.A., the subsidiaries ProntoPegno S.p.A., Largo Augusto Servizi e Sviluppo S.r.l., and Specialty Finance Trust Holdings Limited (a company incorporated under UK Law placed in liquidation in December), and the Spanish joint venture EBNSistema Finance S.L.

REFERENCE TO THE INFORMATION REQUIRED BY CRR2

CRR II Articles/EBA Guidelines	Pillar 3 Section reference
Risk management objectives and policies (Art. 435)	Section 1 - Risk management objectives and policies
Scope of application (Art. 436)	Section 2 - Scope of application
Own Funds (Art. 437)	Section 3 - Own funds
Own funds requirements and risk-weighted exposure amounts (Art. 438)	Section 4 - Capital adequacy
Exposure to counterparty credit risk (Art. 439)	Section 5 - Counterparty risk
Countercyclical capital buffers (Art. 440)	Section 6 - Capital buffers
Indicators of global systemic importance (Art. 441)	N/A
Disclosure of exposures to credit risk and dilution risk (Art. 442)	Section 8 - Credit risk
Encumbered and unencumbered assets (Art. 443 CRR)	Section 9 - Encumbered assets
Use of the standardised approach (Art. 444)	Section 10 - Credit risk: use of ECAIs
Exposure to market risk (Art. 445)	Section 11 - Market risk
Operational risk management (Art. 446)	Section 12 - Operational risk
Equity exposures not held in the trading book (Art. 447)	Section 13 - Equity exposures: disclosure of positions held in the banking book
Exposures to interest rate risk on positions not held in the trading book (Art. 448)	Section 14 - Exposures to interest rate risk on positions not held in the trading book
Exposures to securitisation positions (Art. 449)	Section 15 - Securitisations
Remuneration policy (Art. 450)	Section 16 - Remuneration and incentive systems and practices
Leverage ratio (Art. 451)	Section 17 – Leverage
Use of the IRB Approach to credit risk (Art. 452)	N/A
Use of credit risk mitigation techniques (Art. 453)	Section 19 - Risk mitigation techniques
Use of the Advanced Measurement Approaches to operational risk (Art. 454)	N/A
Use of Internal Market Risk Models (Art. 455)	N/A
Reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis (EBA/GL/2020/07)	Section 22 - Reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis (EBA/GL/2020/07)
Liquidity requirements (Art. 451a)	Section 23 - Liquidity risk

REFERENCE TO EBA REQUIREMENTS – REGULATION (EU) 637/2021, EBA/GL/2020/07

Pillar 3 Section reference	Tables	Type of Disclosure
Section 1 - Risk management objectives and policies	EU OVA/EU OVB/EU OVC	Qualitative
Section 2 - Scope of application	EU LI1, EU LI2, EU LI3, EU LIA, EU LIB	Qualitative & Quantitative
Section 3 - Own funds	EU CC1, EU CC2, EU CCA	Qualitative & Quantitative
Section 4 - Capital adequacy	EU KM1/EU OV1	Quantitative
Section 5 - Counterparty risk	EU CCRA- EU CCR1 – EU CCR3 – EU CCR5 - EUCCR8	Qualitative & Quantitative
Section 6 - Capital buffers	EU CCyB1, EU CCyB2	Qualitative
Section 8 - Credit risk	EU CRA- EU CQ1- EUCQ3-EUCQ5-EUCQ6-EUCR1-EUCR2-EUCR2a	Qualitative & Quantitative
Section 9 - Encumbered assets	EU AE1, EU AE2, EU AE3, EU AE4	Qualitative & Quantitative
Section 10 - Credit risk: use of ECAIs	EU CR4, EU CR5	Quantitative
Section 11 - Market risk	N/A	Qualitative
Section 12 - Operational risk	EU-OR1 – EU ORA	Qualitative & Quantitative
Section 13 - Equity exposures: disclosure of positions held in the banking book		Qualitative & Quantitative
Section 14 - Exposures to interest rate risk on positions not held in the trading book		Qualitative & Quantitative
Section 15 - Securitisations		Qualitative
Section 16 - Remuneration and incentive systems and practices	EU REMA, EU REM1, EU REM2, EU REM3 EU REM4, EU REM5	Qualitative & Quantitative
Section 17 - Leverage	EU LR1, EU LR2, EU LR3, EU LRA	Qualitative & Quantitative
Section 19 - Risk mitigation techniques	EU CR3, EU CRC	Qualitative & Quantitative
Section 22 - Reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis (EBA/GL/2020/07)		Quantitative
Section 23 - Liquidity risk	EU LIQ, EU LIQ2, EU LIQA, EU LIQB	Qualitative & Quantitative

In this document, the disclosure required by sections: 7 “Indicators of global systemic importance”, 18 “Use of the IRB Approach to credit risk”, 20 “Use of the Advanced Measurement Approaches to operational risk”, and 21 “Use of Internal Market Risk Models”, is not provided herein, since it does not regard the scope of operations, the assumed risks, and the methods used.

Banca Sistema publishes this public disclosure and any subsequent updates on its Internet site at the address www.bancasistema.it, in the Pillar 3 section of the Investor Relations area.

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

Subsequent to the obtainment of authorisation to dispose of treasury shares – as approved by the Bank's Shareholders' Meeting on 30 April 2021, and having obtained the required authorisation from the Bank of Italy, on 15 February 2022 the Bank initiated a plan for the repurchase of treasury shares with the aim of creating a "stock of treasury shares" for the sole purpose of paying a portion of the variable remuneration allocated to "key personnel" in shares, in line with the remuneration and incentive policies approved by the Shareholders' Meeting. The treasury share repurchase plan for the aforementioned purposes will end by 30 June 2022 and provides for the purchase of a maximum of 878,277 Banca Sistema ordinary shares, amounting to no more than € 2,300,000. On 9 February 2022, the Bank was notified of the outcome of a first sanctioning proceeding initiated by the Bank of Italy in relation to the following irregularities for which administrative sanctions may be applied:

- violation of the limit on large exposures (Article 395 of Regulation (EU) No. 575/2013-CRR; Articles 144 and 144-quinquies of the Consolidated Law on Banking; Part Two, Chapter 10, Section V of Circular no. 285/13);
- violation of disclosure obligations towards the Supervisory Authority (Article 51 of Legislative Decree 385/1993).

Regarding the aforementioned irregularities identified by the Supervisory Authority, despite the counter arguments presented by the Bank, the latter was ordered to pay fines amounting to € 100,000 for the violation referred to in point 1) and € 85,000 for the violation referred to in point 2). On 11 March 2022, Banca Sistema filed an appeal against both fines with the Rome Court of Appeal.

SECTION 1 – RISK MANAGEMENT OBJECTIVES AND POLICIES

The Banca Sistema Group ascribes great significance to risk management and control, as necessary conditions to guarantee the generation of sustainable value within a context of controlled risk.

Since 1 January 2014, the Bank has adopted 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.

In particular, as part of the RAF, the Risk Department establishes specific control parameters (Key Risk Indicators or KRI) grouped into uniform risk categories, to continuously monitor the maximum amount of risk that can be assumed. More specifically, the following indicators have been identified:

- *capital:* to verify the solidity of the Bank in terms of capital structure;
- *liquidity:* to deal with periods of stress on the various funding markets, both in the short term and in the medium/long term;
- *credit quality:* to assess any deterioration of the loans and receivables portfolio;
- *profitability:* to measure the possible effect of a decrease in profitability on own funds;
- *other indicators:* to monitor other risks that the Bank considers necessary to keep under control.

This framework is subject to annual review prior to the preparation of the annual Budget or the Group's Business Plan, and is periodically monitored by the Risk Department, whose findings are reported at least monthly to the CEO through the Risk and ALM Committee and quarterly to the Board of Directors through the Tableau de bord.

Consequently, the risk management strategy seeks to acquire a complete and coherent vision of the Bank's risks by continuously stimulating the development of risk culture in all of the Bank's functions as an essential tool for encouraging informed risk-taking.

The overall assessment of the Group's exposure to risks arising from its operations is performed annually within the ICLAAP, which constitutes the Bank's self-assessment process according to the Group's internal rules, the results of which are subject to analysis by the Supervisory Body. When conducting this process, the Risk Department first considers the risks indicated in the current provisions in matters of regulatory supervision.

The Group also prepares the Recovery Plan to identify stress scenarios that highlight the main vulnerabilities of the Group and its business model and to measure their potential impact on the Group's risk profile.

The Internal Control System

The Group's Internal Control System plays a central role in the corporate organisation. It is an essential element of knowledge for the management bodies ensuring full awareness of the situation and effective monitoring of corporate risks and how they are interrelated.

Consistent with the legal and regulatory provisions in force, the Bank adopts a three-level internal control system to monitor the risks it faces:

- **First level:** direct line controls to ensure the correct execution of the transactions, performed by the operational structures themselves (for example, hierarchical, systematic and test-checked controls), including by units dedicated exclusively to control duties that report to the managers of the operational structures – as far as possible – incorporated in IT procedures.

These controls are carried out by the operational, business, and support functions (the "first level functions"). The operational structures bear primary responsibility for the risk management process.

- **Second level:** risk and compliance controls. Their purpose includes ensuring:
  - proper implementation of the risk management process;
  - observance of the operational limits assigned to the various functions;
  - the statutory and regulatory compliance of business operations, including self-regulation.

  Second level controls are assigned to the Risk Department and the Compliance and Anti-Money Laundering Department.
- **Third level:** controls carried out through internal audits, focused on identifying the breaches of procedures and regulations, as well as on evaluating the completeness, adequacy, functionality, in terms of efficiency and effectiveness of the organisational structure of the other internal control system components and of the IT system (ICT audit), at regular intervals in relation to the nature and intensity of the risks. The third level controls are performed by the Internal Audit Department.

The main roles and responsibilities of the corporate bodies/functions concerned in the overall risk management and control activity, as defined in the most recent version of the "General Bank Rules", are summarised as follows.

The corporate bodies, the internal governance structures and the departments responsible for ensuring the completeness, adequacy and reliability of the internal control system are:

Governance bodies

- The Board of Directors, which relies on the following internal Board Committees:
  - Internal Control and Risk Management Committee
  - Appointments Committee
  - Remuneration Committee
  - Ethics Committee
- The CEO/General Manager, who draws on the assistance of the following company committees:
  - Group Committee (Management Committee)
  - Risk and ALM Committee
  - Technical-Organisational Committee
  - Crisis Management Committee
  - CEO Credit Committee (only cases exceeding the authority of the division heads);
  - Crisis Management Committee
  - Significant Transactions Committee

Control bodies

- Board of Statutory Auditors
- Supervisory Body pursuant to Italian Legislative Decree no. 231/01

Company control functions

- Risk Department
- Compliance and Anti-Money Laundering Department
- Internal Audit Department
- Manager in charge of financial reporting

Governance bodies: Board of Directors

The Board of Directors plays a central role both in the organisation of the Bank and in the management and coordination activities that the Bank exercises over the Banca Sistema Group, through strategic control over the development of the various business areas in which the Group operates and the risks identified in the activities carried out, management control aimed at ensuring the economic, financial and capital equilibrium is maintained by both the individual companies and the Group as a whole, and technical and operational control focused on assessing the various risk profiles attributed to the Group by the individual subsidiaries, as well as the Group's overall risks. To this end, the Bank's Board of Directors approves and periodically reviews the rules governing the management and coordination activities and verifies their proper implementation, promptly promoting any necessary corrective measures.

The Bank's Board of Directors is vested with all powers of ordinary and extraordinary management: it determines the overall governance structure of the Bank, establishes the strategic guidelines and objectives to be implemented by the Chief Executive Officer, oversees the system of controls necessary to monitor their implementation and performs the functions required under applicable legislation.

Within the scope of the internal control system, the Board of Directors, being a body with a supervisory function:

- defines and approves:
  - the business model, being mindful of the risks to which this model exposes the Bank and understanding the ways in which risks are identified and assessed;
  - the strategic guidelines and periodically reviews them in relation to changes in the Bank's business and the external context, in order to ensure their continued effectiveness;
  - risk appetite and risk governance policies;
  - the risk objectives ("Risk Appetite") and the threshold of risk tolerance when drawing up the Risk Appetite Framework (RAF), setting in advance the Bank's risk/return objectives and the associated operational limits;
  - guidelines for the internal control system, ensuring that the system is consistent with the set strategic guidelines and risk appetite and able to identify changes in company risks and any interaction between them;
  - the criteria for identifying the most significant transactions (MST) to be submitted for prior review by the Risk Department;
  - the general guidelines for the ICLAAP (Internal Capital and Liquidity Adequacy Assessment Process), ensuring consistency with the RAF and timely adaptation in the event of significant changes in the strategic guidelines, the organisational structure and the business environment; promotes the full use of ICLAAP findings both for strategic purposes and in business decisions; appoints and dismisses, subject to the mandatory opinion of the Board of Statutory Auditors, the Manager in charge of financial reporting and determines his/her powers and resources;

while it ensures that:

- the implementation of the RAF is consistent with the approved risk appetite and tolerance threshold, and periodically assesses the adequacy and effectiveness of the RAF and the compatibility between the actual risk and the risk objectives.

Internal board committees

To ensure an efficient system that provides the Board of Directors with an effective assessment of specific matters falling within its purview, Committees have been established that have been assigned powers and responsibilities with respect to various matters.

The Internal board Committees, established by the Board of Directors, are:

- Internal Control and Risk Management Committee;
- Appointments Committee;
- Remuneration Committee;
- Ethics Committee.

Governance bodies: CEO and General Manager

The Chief Executive Officer is responsible for implementing the Bank's strategic and management guidelines, oversees implementation of the strategic guidelines, the RAF and the risk governance policies defined by the Board of Directors, and is responsible for taking all necessary steps to ensure that the organisation and the internal control system conform to the principles and requirements set out in Sections I and III of Bank of Italy Circular 285/2013, and monitors compliance with these principles and requirements on an ongoing basis.

Non-board committees

Group Committee (or Management Committee)

The Group Committee (or Management Committee), is a non-board committee, representing the unifying body within the Group's divisional organisational structure. It has the duty of assisting the Chief Executive Officer in implementing the governance, management and coordination policies approved by the Board of Directors on behalf of the Group members, resolving any critical issues and sharing information regarding the Bank in its entirety, the individual Divisions and the ProntoPegno subsidiary.

Its purpose is to share the decisions taken by the Chief Executive Officer, in exercising his/her delegated powers, with the Bank's senior management. The Group Committee is convened at least once a month by the Chief Executive Officer, who sets the agenda for the meetings and reports on any relevant issues that emerge or are discussed by the Committee to the Board of Directors.

Risk and ALM Committee

The Risk and ALM Committee supports the CEO in defining the strategies, the risk policies, and the revenue objectives, proposing interventions and strategies, for adapting thereto; it monitors capital adequacy with respect to the risk/profitability objectives, taking into account the various types of risks and the correlations between them. At the Risk and ALM Committee meetings, updates of the KRI required under the RAF and the Recovery Plan are discussed, classifications of non-performing loans and any loans “returning to performing status” are assessed, the Impairment Document and the Credit Portfolio Report are discussed as are the assessments of the liquidity policies/Contingency Funding Plan (CFP) and their monitoring (Asset & Liability Management). More generally, all risk activities (IT risk, compliance risk, etc.) are monitored.

CEO Credit Committee

The CEO Credit Committee is a non-board committee that supports the CEO and Board of Directors in all decisions concerning credit transactions submitted that exceed the authority of the division heads or the CEO. It is chaired by the Head of Factoring Receivables in the capacity as Group Credit Supervisor. The Committee meets on an ad hoc basis and when there are specific business or organisational needs or requirements.

The CEO Credit Committee assesses and expresses a technical opinion on proposals concerning the granting and renewal of credit facilities.

Technical-Organisational Committee

The Technical-Organisational Committee supports the CEO in monitoring the organisation's technical and operational requirements, making proposals for intervention and improvement, and supervises over the setting up and development of the organisational model. It collects and examines the organisational proposals of the various functions, helping define corrective measures and coordinating new projects, defining their prioritisation and managing their implementation.

Crisis Management Committee

The Crisis Management Committee is the structure responsible for crisis management and, from its formation to its termination, it is the highest decision-making and governance body of the Bank during a crisis.

Significant Transactions Committee

The “Significant Transactions Committee” carries out a preliminary analysis of the “Most Significant Transactions” that exceed the powers of the CEO, to provide the latter with a non-binding opinion on whether it is appropriate to proceed with the next stages of negotiation, after assessing the general economic and financial impact of the proposed transaction and the overall interest in concluding it. Upon receiving the opinion, the CEO is responsible for confirming whether to proceed with the transaction. The CEO will then propose the transaction to the Board of Directors for approval, without prejudice to opinions requested by other committees and functions.

Control bodies: Board of Statutory Auditors

The Bank's Board of Statutory Auditors verifies that the Parent carries out its strategic and management control activities over the Group companies and works in close collaboration with the corresponding bodies of the subsidiaries.

The Board of Statutory Auditors is responsible for monitoring the completeness, adequacy, functionality, and reliability of the Internal Control System, the RAF and the ICLAAP process. It also supervises the observance of legal, regulatory, and statutory provisions, proper administration, the adequacy of the organisational and accounting structure, and the proper performance of the strategic and management control activities by the Bank.

When carrying out the necessary checks and inspections to fulfil this task, it calls upon the Bank's internal control structures and functions (Risks, Compliance and Internal Audit), from which it receives sufficient flows of information.

Supervisory Body pursuant to Italian Legislative Decree no. 231/2001

The Supervisory Body (or “SB”) is a corporate body charged with overseeing the operation, effectiveness and application of the Organisational and Management Model (or “OMM”) whose purpose is to prevent the offences specified in Italian Legislative Decree no. 231 of 8 June 2001. The SB also ensures that the OMM is continuously and promptly updated.

The SB is composed of 3 members appointed by the Board of Directors. The Chairperson of the Board of Statutory Auditors also chairs the SB; one member is chosen from independent directors and the third member is the Head of Internal Audit.

The SB's activities are governed by rules drawn up and approved by the SB itself.

Company control functions

The following organisational structures, which perform the activities prescribed for the company control functions, have been established within the Corporate Centre of Banca Sistema:

- The **Risk Department** reports directly to the CEO. It is tasked with the identification, management and monitoring of all risks to which the Bank is or may be exposed. The Risk Department collaborates in the formulation and implementation of the Risk Appetite Framework (RAF) and the related risk governance policies, and the various stages that make up the risk management process as well as in setting operational limits for the assumption of various types of risk.
- The **Compliance and Anti-Money Laundering Department**, which reports to the Board of Directors and is managed by the Chief Executive Officer, is responsible for managing compliance risk with regard to all the business activities, verifying that the internal procedures are suitable to prevent said risk. The Department collaborates with other departments of the Bank for the definition of methods for the assessment of compliance risks. This Department includes the Anti-Money Laundering Department, which is responsible for performing audits on the application of relevant laws and regulations using a risk-based approach.
- The **Internal Audit Department** reports directly to the Board of Directors and is managed by the CEO. The Internal Audit Department performs third level assessments of the overall functioning of the internal control system, bringing possible improvements to the attention of the Corporate bodies. In particular, the Department assesses the completeness, adequacy, functioning, and reliability of the components of the internal control system, of the risk management process, and of the company processes, also having regard to the capacity to identify errors and irregularities. In this context, among other things, it inspects the company risk control and compliance departments. The Head of the Internal Audit Department is also the delegated officer pursuant to Article 36 of Italian Legislative Decree No. 231/07 as well as the Data Protection Officer of Banca Sistema, in accordance with Regulation (EU) No. 679/2016.
- The **Manager in charge of financial reporting** sets policies, coordinates administration, and monitors the accounting and financial reporting internal control system within the Group. The Manager in charge of financial reporting also supervises the implementation of compliance measures according to the generally applicable rules of the Bank, as approved by the Board of Directors. The Manager in charge of financial reporting also receives the reporting package of the ProntoPegno S.p.A. subsidiary, as approved by the Board of Directors, and uses it to prepare the Group's consolidated financial statements.

The aforementioned Departments/Functions are organisationally separate from each other. Internal regulation defines the roles, responsibilities, tasks, operating procedures, reporting flows and planning of control activity at the corporate level.

In detail:

- Each year, the Risk Department and the Compliance and Anti-Money Laundering Department present the corporate bodies, each based on their respective areas of competence, an activity schedule that identifies and assesses the main risks to which the Bank is exposed and the relevant management measures. The intervention scheduling takes into account both any deficiencies observed in the inspections, and any new risks identified.
- Each year, the Internal Audit Department presents the corporate bodies an audit plan that indicates the scheduled auditing activities, taking into account the risks of the various activities and company structures. The plan contains a specific section relative to the auditing activity on the IT system (ICT auditing).

At the end of the management cycle, hence annually, said departments present the corporate bodies a report on the activities carried out, illustrating the audits performed, the results obtained, any weaknesses observed, and they propose interventions to be adopted to eliminate them; furthermore, each for the aspects relevant to their corresponding remit, they report on the completeness, adequacy, functionality, and reliability of the internal control system.

Disclosure of the governance system (Art. 435(2) CRR):

Pursuant to the Bank's Articles of Association, the Board of Directors can be composed of a minimum of 7 and a maximum of 11 members who:

- bring to the company the specific skills they possess;
- are aware of the tasks and responsibilities of their role and are in possession of the requirements set forth by law and regulations in force at the time;
- act and resolve with full knowledge of the facts and autonomously in pursuit of the aim of creating value for shareholders;
- only accept the position when they believe they are able to dedicate the time needed to diligently carry out their tasks, also being mindful of the number of positions of director or statutory auditor they have in other companies or bodies;
- keep the information acquired as a result of the office held as confidential.

The members of the management body shall remain in office for three financial years (their office shall end on the date of the Shareholders' Meeting called to approve the financial statements for the last year of their office) or for any shorter period which may be established by the Shareholders' Meeting at the time of appointment. Directors may be re-elected.

Pursuant to article 10.3 of the Articles of Association, the directors must meet the requirements of professionalism and integrity and any other requirement under the regulations in force and the Articles of Association.

The current members of the Board of Directors are listed below:

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

The following table summarises the number of positions held in other companies by members of the Board of Directors as at 31 December 2021:

Directors	Total number of positions held in other companies
Luitgard Spögler	2
Giovanni Puglisi	5
Gianluca Garbi	4
Carlotta De Franceschi	2
Daniele Pittatore	9
Marco Giovannini	6
Daniele Bonvicini	0
Maria Leddi	3
Francesca Granata	0

Risk management and hedging policies

Based on the analysis conducted, the Bank, considering its current and future operations, is exposed to the following risks at 31 December 2021:

Pillar 1 risks: typical banking risks, such as credit risk (which also includes counterparty risk), market risk and operational risk (which includes ICT risk). Following the introduction of the rules on liquidity risk management, short-term liquidity risk (Liquidity Coverage Ratio - LCR) and long-term liquidity risk (Net Stable Funding Ratio - NSFR) are also included.

Pillar 2 risks include:

- concentration risk;
- liquidity risk;
- excessive leverage risk;
- interest rate risk on the banking book;
- strategic risk;
- reputational risk;
- compliance risk.

Other Risks: these include country risk and Italy sovereign risk.

The Bank instead is not exposed to residual risks, participation risk, basis risk, transfer risk, or securitisation risk.

To determine the prudential capital requirement on Pillar 1 and 2 risks, the Bank uses standard methods, which will be more clearly described in the following paragraphs.

Pillar 1

Credit risk consists of the risk that the counterparty is unable to honour its contractual commitments, thus resulting in an unexpected loss thereto so as to place its financial stability at risk in the immediate future.

This is the biggest risk facing the Bank, covering about 77% of the allocated internal capital.

The principal types of Bank operations that originate credit risk are listed as follows:

- acquisition of receivables with and without recourse (factoring);
- purchases of loans granted in the form of salary- and pension-backed loans from other intermediaries;
- direct granting of loans in the form of salary- and pension-backed loans;
- collateralised lending (mainly secured by gold);
- medium-term corporate loans (with guarantee from SACE or the National Guarantee Fund - FNG);
- financial instruments held on its own account;
- loans to supervised brokers.

The core business of the Bank is represented by its factoring activity (especially with the Public Administrations), which features its own peculiar types of risk. This activity relies on a more complex evaluation process (debtors, assignors, and supply contract) and benefits from revolving credit.

Factoring activities make effective risk mitigation possible, through reviews of the financed transaction and observation of the assigned debtors' payment patterns.

The credit risks from factoring activities also include:

- "dilution risk", i.e. the possibility that the purchased loan or receivable is no longer fully enforceable at the due date due to offsets, abatements, disputes between the assigned debtor and the assignor. The Bank has obtained appropriate protection against this risk by implementing specific contractual clauses;
- "claw-back" risk: pursuant to Law 52/1991, when the assignment of a receivable is notified to the assigned debtor, the latter is still obligated to pay the factor for the amounts of the loan/receivable covered by the assignment agreement, even if the assignor goes bankrupt. The receiver bears the burden of proving that the factor was aware of the state of insolvency. If the receiver were to prove that the assignee was aware of the assignor's insolvency at the time of the assignment, the assignment itself would cease to be enforceable, and the payments received from the assigned debtor would have to be returned to the receiver.

Credit process and involvement of the control functions

The credit risk management process provides for the involvement of the various internal functions of each division. This organisation of activities allows, via the specialisation of the resources, a high degree of efficiency and standardisation in overseeing credit risk and monitoring individual positions.

In each Division, the credit risk generation process (the lending process) is broken down into different phases, which are summarised as follows:

- Commercial contact and preliminary activities: contact with potential customer and document gathering;
- Credit review process: analysis and assessment of the creditworthiness of the customer, the assigned debtor and the underlying asset;

- Decision and related activities: approval by the decision-making body on the factoring transaction agreed with the customer and commencement of activities to complete the transaction;
- Request for an insurance policy issued by an insurance company;
- Execution and completion: execution of the agreement and completion with disbursement of the loan;
- Management of collections: financing of the transaction and management of collections on the purchased receivable;
- Monitoring: continuous monitoring of the position for the management of any actions to be taken in the event of default (possible judicial recovery). In this regard, within the two Divisions, the Group has set up the Credit Monitoring and Reporting Function which monitors and supervises the Factoring product portfolios, and the Credit and After-Sales CQ Function which manages the part relating to the salary- and pension-backed loan portfolio.

The Risk Department participates in the credit review activities of compliance with the Key Risk Indicators (KRI) for Large exposures and in issuing opinions on compliance with the RAF in the event of More Significant Transactions (MST), while the Anti-Money Laundering and Compliance Department participates through monitoring customer due diligence.

The proposal for the classification of default positions is decided based on the delegated powers in effect at the time and formalised by the Risk and ALM Committee or by the Board of Directors depending on the level of delegated powers that have been conferred.

Finally, the Internal Audit Department performs a specific annual audit of the entire factoring process.

The credit risk management and mitigation controls specifically implemented to address the various transaction types are briefly discussed below.

a. **Acquisition of receivables with and without recourse (factoring):** Banca Sistema's policy predominantly consists in the purchase without recourse of business receivables owed by central administrations, territorial bodies, and, in general, by the Public Administration, and is characterised by the direct assumption of final debtor's credit risk.

   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.

   Credit risk is generated by a direct result of the definitive acquisition of credit from the customer company versus the insolvency of the assigned debtor.

b. **Salary- and Pension-Backed Loans (indirect channel):** Beginning in June 2014, Banca Sistema (“Assignee”) extended its own business to the purchase without recourse, from financial companies operating in this sector (“Assignor”), of receivables resulting from loans payable through:
   - salary-backed loans to employees in the public and private sector;
   - pension-backed loans;
   - salary deductions to public sector employees.

c. **Salary- and Pension-Backed Loans (direct channel):** Following the merger of Atlantide S.p.A., the Banca Sistema Group has expanded its retail offering with the direct origination of salary- and pension-backed loans and salary deductions through a new product, QuintoPuoi. QuintoPuoi is distributed through a network of single-company agents and specialised brokers located throughout Italy.

The Bank has started an un-brokered direct origination activity whereby bank employees engage in telemarketing to contact customers who may be interested in taking out a loan. These customers make their intentions known through specific internet searches which are collected and reported by specialist operators (leads) or by applying directly through the bank's portal. They are then contacted by telephone by a bank employee who offers them the possibility of taking out a loan. The activities tied to identifying/signing the loan can be carried out at a bank branch, through the agency network or using video recognition and electronic signatures.

d. **Collateralised loans:** Beginning in 2016, Banca Sistema extended its own business to opening credit lines on a current account secured by collateral. The loan is generally granted in exchange for an asset that is pledged as collateral (in the form of gold) that mitigates the risk. The duration of the loan varies from three to twelve months and may be renewed for a maximum of three years. On 1 August 2019, ProntoPegno S.p.A., a company wholly owned by the Parent Banca Sistema focused on collateralised lending, began operating.

   In July 2020, ProntoPegno, in line with its growth strategy within this business, acquired Intesa Sanpaolo Group's collateralised lending business unit which contributed € 55.3 million in loans at the acquisition date.

e. **Medium-term corporate loans (with guarantee from SACE or the National Guarantee Fund - FNG):** In response to the spread of the Coronavirus, starting in the third quarter of 2020, the Bank granted loans to businesses with a duration of no more than 6 years (including the possibility of deferring the repayment of the principal for up to 24 months). These loans are guaranteed either by the National Guarantee Fund for SMEs or by SACE.

f. **Financial instruments held on its own account:** Investments in Italian government securities for which the Bank has set up a specific system of limits, structured so as to guarantee a careful and balanced management of operational autonomies within the scope, among other things, of the transactions regarding financial instruments recorded in the banking book and held on its own account, are classified in this portfolio. Italian government security trading operations entail a credit risk exposure to central administrations.

g. **Loans to supervised brokers:** Any excess liquidity is for the most part placed in the interbank market, resulting in a credit risk exposure to supervised brokers. "Hot money" transactions, i.e. short-term loans to primary financial institutions also generate exposures to supervised brokers.

With regard to protecting against credit risks, the Parent's Risk Department:

- oversees, monitors and evaluates credit risks, assessing credit quality
- constantly monitors exposure to credit risk
- verifies, through second level controls, that the monitoring of the performance of individual exposures, especially non-performing exposures, is properly performed and assesses the consistency of classifications and the adequacy of provisions
- monitors exposure to concentration risk and the performance of exposures classified as Large Exposures

Always with respect to credit risk controls, 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. At the same time, on a monthly basis, the Credit Coordination Committee meets to summarise credit-related matters and critical issues concerning the individual divisions and the ProntoPegno subsidiary. Moreover, as part of the collection meetings for the two Factoring and CQ Divisions, assessments and checks are carried out on the loans and receivables portfolio according to the guidelines defined in the Collection Policy.

For the purpose of determining the internal capital with respect to credit risk, the Bank uses the standardised approach, provided for the determination of the regulatory requirements with respect to credit risk.

The internal capital with respect to credit risk is, therefore, equal to the capital requirements defined in accordance with Pillar 1 regulations. The capital requirement is constantly measured and reported quarterly to the Bank of Italy.

In general, continuous analyses and measurements aimed at classifying exposures among the credit quality risk categories are conducted for all credit risk exposures, where deemed expedient.

Counterparty risk is the risk that the counterparty of a transaction having as its subject matter specific financial instruments may be in default prior to the settlement of the transaction itself[1]. It differs from credit risk by virtue of the type of transactions to which it refers; typically, these can be attributed to transactions that generate an exposure equal to their positive fair value, that have a market value evolving over time based on underlying variables and generate an exchange of payments, financial instruments or commodities against payments. A distinctive feature of counterparty risk consists in determining a bilateral-type risk, for which both counterparties are exposed to the risk of incurring unforeseeable losses.

In relation to Banca Sistema's operations, the risk is generated mainly by repos having as the counterparty the Compensation and Guarantee Fund or other institutional counterparties. The comprehensive method is used to measure counterparty risk[2].

Market Risk consists in the downside risk to which a financial intermediary is exposed from conducting financial instrument trading transactions in markets. In particular, the risk of posting losses due to adverse trends in the reference market, that could cause an unexpected and unforeseeable reduction in the value of the instruments held.

These are risks generated by market trading transactions regarding financial instruments and currencies which are relevant to the following components:

- position risk, divided into generic risk, caused by an unfavourable price trend of the bulk of the instruments traded, and specific risk, due to factors related to the issuer's status;
- settlement risk, including the transactions not yet settled after the due date that expose the Bank to the downside risk deriving from non-settlement of the transaction;
- concentration risk, which calls for a capital requirement specific for the banks that, as an effect of the risk positions relative to the regulatory trading book, exceed the individual credit line limits;
- foreign exchange risk, which is the risk of incurring losses as a result of adverse changes in the prices of foreign currencies.

The internal capital with respect to market risk is determined in accordance with the standardised approach. This approach envisages the calculation of the requirement based on the so-called “building block approach”, according to which the overall requirement is given by the sum of the capital requirements determined for the individual market risks (position, settlement and concentration risk). This approach is prudential: by linearly summing the individual requirements, the benefits provided by diversification are ignored, thus obtaining a capital requirement greater than the risk assumed.

The Risk Department prepares specific reports for the Risk and ALM Committee, the CEO, and the Board of Directors.

As at 31 December 2021, the Bank was not exposed to market risk.

(1) See “Supervisory provisions for banks” – Bank of Italy, Circular no. 285 of 17 December 2013, Part II, Chapter 7, as amended.
(2) See Regulation (EU) 575/2013 Title II, Chapter 4.

Operational Risk is the risk of loss arising from inadequate or non-functioning internal processes, human resources or systems, or from external events.

In this context, the Bank implemented an operational risk management process (Operational Risk Framework) to identify, measure, and monitor the operational risk.

The information and communication technology (ICT) risk is the risk of incurring economic, 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 risks.

The Bank continuously monitors the ICT risks based on the continuous information flows between the functions affected by the ICT risk assessment, assuring consistency between the results deriving from the ICT risk assessment and what has emerged in the operational risk assessment.

As an additional protection against operational risk, the Bank:

- has stipulated an insurance policy on operational risks deriving from actions of third parties or caused to third parties, as well as suitable riders to cover the damages caused by suppliers of infrastructures and services, and it approved a Business Continuity Plan. Moreover, effective 31 December 2019, the Bank entered into a cyber risk policy to mitigate the impact stemming from possible cyber attacks for unauthorised access to corporate systems;
- has strengthened its security infrastructure by implementing security measures to increase the level of security for remote activities, contracting with market partners who are vertically specialised in this specific field for routine operations;
- has introduced tools to counter cyber attacks via e-mail (phishing);
- has promoted initiatives aimed at disseminating a culture of operational risk within the Group;
- has updated some of the ICT equipment to ensure greater control and resilience against ICT risks;
- has carried out preventive analyses of the operational and ICT risks associated with outsourcing activities to new third parties (significant outsourcing and critical and important functions/important operational functions) and has provided for a review of this analysis at least once a year;
- has carried out annually, in cooperation with the outsourcer of the CSE Core Banking platform, a specific analysis on the risks related to Payment Services which links Bank Products (e.g., bank transfers, debit cards) and Channels (e.g., e-banking, branches) with the level of Risk detected.

Basel III Ratios – Liquidity Coverage Ratio and Net Stable Funding Ratio: The LCR is a regulatory liquidity ratio that measures the short-term (30-day) liquidity position and is calculated as the ratio between the stock of High-Quality Liquid Assets (HQLA) and the net outflows over a 30-day period.

The monitoring of this ratio makes it possible to verify whether the Bank maintains a level of high-quality liquid non-term restricted assets, readily convertible into liquidity to satisfy the needs relative to a time interval of 30 days, during any particularly significant liquidity stress scenario. The stock of liquid assets should at least allow the Bank to honour its financial commitments over a time horizon of thirty days, a period within which it is supposed appropriate remedial actions on the part of the corporate bodies and/or by the Supervisory Authorities may be taken in order to rectify any deficit observed.

With regard thereto, Banca Sistema, prudentially, during 2021 constantly maintained a large quantity of securities and readily liquid assets hedging potential outflows of liquidity.

The Bank specifically monitors the short term Liquid Coverage Ratio (LCR) defined by the ratio between the stock of high-quality liquid assets (HQLA) and the net outflows over a time horizon of 30 days.

With reference to the structural liquidity ratio, the Bank uses the Net Stable Funding Ratio (NSFR) defined by the ratio between the available amount of stable funding and the required amount of stable funding. This ratio establishes a minimum acceptable amount of stable funding based on the liquidity characteristic of the assets and on the transactions of an institution over a time horizon of one year. Use of the NSFR should prevent an excessive recourse to short-term wholesale funding on the part of the Bank.

Pillar 2

The Bank is exposed to the following Pillar 2 risks.

The relevant legislation with regard to prudential supervision (Bank of Italy Circular 285/13, as amended) defines **Concentration Risk** as the risk deriving from exposures to counterparties, groups of associated counterparties and counterparties of the same economic sector or that carry out the same activities or are in the same geographical segment.

The Bank measures geo-sectoral concentration risk following the proposed ABI approach. This allows the effects on the internal capital caused by changes of sectoral concentration to be assessed. Said effects are calculated using a benchmark with respect to which, by applying a mark-up coefficient, any adjustment of internal capital (Add-on) is quantified.

Furthermore, the bank measures the single-name concentration risk using the standard approach indicated by the Supervisory Authority[3]. This method triggers a capital add-on according to the Herfindahl index, which is calculated according to exposures, and a proportionality constant, calibrated according to the riskiness of the portfolio.

Interest Rate Risk represents the risk, current or prospective, of a decrease of value of the capital or a decrease of the net interest income deriving from the impacts of the adverse changes in the interest rate.

The exposure to interest rate risk on the banking book is calculated as provided for by current regulations, via the simplified regulatory approach[4].

In light of the proposed amendments to Circular 285/2013, the Risk Department has updated the simplified calculation approach based on the new regulatory provisions.

In this way, the Bank is able to monitor the impact of unexpected changes in market conditions on equity, thus identifying the relative mitigation measures to be implemented.

The company departments responsible for guaranteeing the correct management of the interest rate risk are the Treasury Department and the Risk Department, which are responsible for determining the most appropriate risk indicators and for monitoring the performance of the assets and liabilities, and management, which has the specific duty of annually presenting the Board of Directors with investment, funding, and interest rate risk management policies, as well as suggesting during the year any expedient interventions to ensure the performance of the activity consistent with the approved risk policies.

As at 31 December 2021, no interest rate risk hedging instruments were used.

(3) See "Supervisory provisions for banks" - Bank of Italy, Circular no. 285 of 17 December 2013 as amended, Part One - Title III, Chapter 1, Schedule B.
(4) See Circular no. 285/2013, Part One, Title III, Chapter 1, Schedule C

Liquidity Risk is defined as a form of default on the payment commitments and may be caused by:

- Funding Liquidity Risk: the inability to acquire funds or to honour one's own payment commitments at market cost, i.e. incurring high funding costs.
- Market Liquidity Risk: presence of limits to the sale of assets or of losses on the sale of the said assets.

In detail, the following distinctions can be made concerning liquidity risk:

- Mismatch liquidity risk: the risk deriving from the asymmetry between the amounts and/or the maturities of the incoming and outgoing flows deriving from the Bank's operations, with reference both to the contractual maturities and conduct.
- Contingency Liquidity Risk: the risk deriving from unexpected future events that may require an amount of liquidity greater than that currently considered to be necessary; it is the risk of not honouring sudden and unexpected short-term payments.

The method used by the Bank to measure liquidity risk is based on the liquidity gap approach indicated in the Bank of Italy guidelines.

Also in regard to the liquidity KRI, the Bank constantly monitors the level of **Readily Monetizable Assets**, i.e. the level of securities issued by Member States in the EMU that are denominated in Euro, not structured, and accepted as collateral for refinancing operations at the ECB, and by cash.

Furthermore, to guarantee an adequate level of protection against liquidity risk, the provisions issued by the Basel Committee in terms of the matters below were applied:

- the formalisation of liquidity risk governance policies, consistent with the characteristics and the size of the transactions;
- the assessment of net financial position;
- the performance of periodic stress tests (sensitivity analysis for class 3 Banks) to evaluate the impact of negative events on risk exposure and on the adequacy of the liquidity reserves;
- the constant retention of adequate liquidity reserves;
- the definition of operational limits;
- the definition of appropriate liquidity risk mitigation instruments, first by drafting an adequate Contingency Funding Plan, that guarantees the protection of capital in situations of liquidity drainage, via the preparation of crisis management strategies and procedures for acquiring funding sources in case of emergency.

In order to determine an adequate protection against Liquidity Risk, roles and responsibilities were identified, in particular:

- Treasury Department (first level protection) which represents the first line of protection in managing liquidity risk. The department calculates and monitors the risk indicators;
- Every month, the Risk Department (second level protection) conducts the second level controls in liquidity risk management and continuously assesses the adequacy and proper implementation of the Liquidity Policy and of the Contingency Funding Plan.

The liquidity situation is subject to careful, continuous monitoring by the Treasury Department and the Risk Department, inter alia at the Risk and ALM Committee meetings.

The Risk Department periodically submits reports on liquidity risk to the CEO and the Board of Directors.

Through the Liquidity Policy and the Contingency Funding Plan, the Bank has structured the liquidity management on three interconnected levels, which correspond to specific purposes:

- **Operational liquidity** (short term – up to 12 months), with the purposes of guaranteeing the Bank's capacity to honour its anticipated and unforeseen cash payment commitments for the next 12 months;
- **Structural liquidity** (medium/long term – beyond 12 months), meant to maintain an adequate ratio between overall liabilities and medium/long-term assets aimed at avoiding pressure on current and prospective sources in the short term;
- **Contingency Funding Plan** (CFP), which regulates the process, the roles and the responsibilities in case of liquidity crisis situations.

The liquidity management policy and the CFP provide for the following fundamentals:

- identifying tasks and responsibilities to be assigned to the company departments involved in the liquiditymanagement process;
- defining the operating processes associated with the activities to be carried out;
- determining the measurement tools;
- defining the Operational Limits, Warning Indicators, and Tolerance Thresholds.

Risk of Excessive Leverage means the risk that a level of debt particularly high with respect to the bank's own funds renders the Bank vulnerable, and corrective measures have to be adopted in its Business Plan, including distressed selling of assets which might result in losses or in impairment losses on its remaining assets.

The indicator is reported quarterly to the Bank of Italy for monitoring purposes. Throughout 2021, Banca Sistema has always maintained an indicator level above the regulatory limit proposed by the Basel Committee.

Following the entry into force of CRR II/CRD V, the leverage ratio has effectively become a Pillar 1 measure. In addition to the risk-based own funds requirements under Article 92 of the CRR, all institutions subject to the new regulatory framework are also required to consistently achieve a leverage ratio of 3%, which is calculated as the ratio of Tier 1 capital to the institution's overall exposure measured in accordance with Article 429(4) of the CRR.

Reputational Risk is the risk of incurring losses subsequent to events capable of worsening the image of the bank in the eyes of the various types of stakeholders (shareholders, customers, counterparties, investors, Supervisory Authorities). Said negative perception may be due as much to direct experiences of the considered parties, as to sensations thereof, not necessarily caused by concretely observable events.

Reputation is associated with the sum of factors whose value expresses the company's capacity to create "wealth" not only for its shareholders but, in a more extensive sense, for all the stakeholders.

Knowledge of the difficulties associated with quantifying reputational risks have driven the Bank to implement suitable measures to mitigate them, focusing its inquiries on the quality of the organisational and control structures.

Within this framework, the utmost consideration was given to profiles capable of guaranteeing substantial compliance with the correctness and professional competence requirements, with particular regard to:

- the level of awareness of the top management bodies regarding the relevance of this aspect;
- the promotion of a culture of ethics and correct conduct at all levels of the company;
- the suitable management of relations with all stakeholders;

- the suitability of the risk management and mitigation systems;
- the effectiveness of controlling action by the Supervisory Body.

Strategic Risk is the risk, current or prospective, of a decrease in earnings or capital, which can generally be attributed to four very specific cases:

- changes in the business environment;
- erroneous company decisions;
- inadequate implementation of decisions made;
- poor or erroneous reactivity to changes in the business environment (structural break).

The onset of strategic risk, therefore, can be attributed to a situation of discontinuity in the normal performance of business activities, whether due to internal or external changes to the company scope. Conversely, the risk in question may be considered substantially non-existent in the presence of presumable stability of the normal course of business management.

It would be advisable to place special emphasis on the fact that, as it is configured, this risk takes on a connotation of peculiar criticality, due to the elevated dynamism required by the decision-making bodies in defining adequate and prompt corrections consistent with the continuous changes in the macroeconomic context/business cycle characterising the market in which the Bank operates.

A few cases that may typically lead to strategic risk are listed below:

- acquisition transactions/partnerships;
- changes in the company structure;
- consolidation operations/growth in size meant to attain economies of scale;
- diversification of products and distribution channels;
- technological innovation and operational optimisation oriented towards increasing the quality of the services offered.

Compliance Risk is the risk of non-compliance with laws and regulations and of incurring judicial or administrative penalties, significant financial losses or damages to reputation as a consequence of violations of mandatory provisions (as prescribed by law or regulations) or also of self-regulation (for example articles of association, codes of conduct, corporate governance codes).

This risk affects all levels of the corporate structure, especially in connection with the operating lines. Prevention has to start where the risk is generated. Therefore, all personnel must be made adequately responsible for their actions.

Generally, the most significant regulations for the purpose of compliance risk are those regarding the performance of intermediation activity, the regulations to prevent money laundering, the management of conflicts of interest, the transparency with respect to customers and, more generally, consumer protection laws.

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.

The Bank is evaluating the possibility of also monitoring conduct risk. This risk is defined as the actual or prospective risk of loss resulting from an inappropriate offer of financial services and the resulting legal costs, including cases where conduct is intentionally improper or careless.

Other Risks

Country Risk represents the risk of losses caused by events occurring in a country other than Italy. The concept of country risk is broader than that of sovereign risk as it relates to all exposures regardless of the type of counterparty, be it an individual, a company, a bank, or public administration.

Country risk is an additional component of the insolvency risk of individual borrowers, measured within the Group's systems for controlling credit risk.

In general, country risk stems from the possibility of loss due to events that are not dependent on the solvency of the debtor, but are attributable to the country, considered in a broad sense, in which the debtor resides. Any international loan involves country risk because the debtor's ability and/or possibility of repaying the loan may be affected by economic, political, and social factors that go beyond the microeconomic aspects of the credit relationship. If the debtor is a private party, this risk takes the form of a series of political, economic and/or technical impediments for which the public authority is ultimately responsible. If, on the other hand, the debtor is the government of a country or any other public or publicly guaranteed entity (a sovereign debtor), this risk manifests itself in the direct inability (technical, economic, financial) or refusal of these entities to honour their commitments.

Most of the Banking Group's exposures are in Italy; the remaining exposures to non-domestic customers are mainly to counterparties resident in the European Union.

Italy's Sovereign Risk represents the risk that the Italian government will default on its financial obligations due to economic, financial, and political factors.

Reporting system

The Risk Department constantly informs the management bodies on the level of risk assumed by the Bank through a reporting system that follows a specific frequency according to the contents.

All the analyses performed by the Risk Department on the observed potential risk areas and on possible mitigation measures are formalised in the quarterly Tableau de Bord or on other specific analysis documents submitted to the attention of the Risk and ALM Committee, of the Internal Control and Risk Management Committee, and of the Board of Directors, together with the Board of Statutory Auditors.

The Risk Department also produces different reports for internal use and for distribution to other functions. The reports prepared, their scope, their recipients and their frequency are listed as follows:

Reporting/control	Description	Recipient	Frequency
Monitoring loans and receivables portfolio	Analysis of contingent risks of every portfolio to be purchased (e.g. Large Exposures, MST, etc.)	Risk Department	By event
Treasury position	Review of compliance with treasury powers delegated to the CEO	Risk Department	Daily
Credit Risk Report	Monitoring trend of Bank loans and receivables portfolio	Risk and ALM Committee	Monthly
RAF	Monitoring of risk indicators defined in the RAF	Risk and ALM Committee	Monthly
Risk Reporting	Report containing overall level of Bank risk	Risk and ALM Committee / Board of Directors Bank of Italy	Quarterly
Impairment	Generic and specific assessment of the loans and receivables portfolio	Risk and ALM Committee	Quarterly
Risk Management Report	Report on activity performed, reviews performed, results, measured weaknesses, and actions to be taken for their removal	Risk and ALM Committee/ Bank of Italy	Annual

In particular, Risk Reporting calls for reports on:

- Own Funds and Capital Adequacy
- RWA evolution
- Total Internal Capital
- RAF – Risk Appetite Framework
- Asset Quality
- Total Internal Capital and Stress scenario

With details on

- Credit and counterparty risk
- Pillar 2 risks
- Liquidity and Contingency Funding Plan

Stress testing

The Risk Department performs stress tests to assess the impacts on capital adequacy and other factors generated by a stress scenario.

The stress tests comprise a series of methods of varying complexity and sophistication which make it possible to simulate the sensitivity of the Bank to exceptional but plausible variations in one or more risk factors that could cause deterioration in the financial stability of the Bank.

These consist of:

a. sensitivity analyses, used to measure the adequacy of capital according to variations in just one risk factor;

b. scenario analyses, used to simulate the impact of an adverse shock on assets causing a set of risk factors to change simultaneously. The Risk Department monitors capital adequacy on a monthly basis, partly on the basis of the stress scenarios. The results of the stress scenarios are reported to top management.

Declarations by the Management Body, pursuant to Article 435(1)(e) and (f) of Regulation (EU) No. 575/2013

The Chief Executive Officer, as mandated by the Board of Directors, declares pursuant to Article 435(1)(e) and (f) of Regulation (EU) No. 575/2013 that:

- the risk management systems put in place within the Group, and described in the document "2021 Pillar 3 - Public Disclosure", are in line with the institution's profile and strategy;
- the aforementioned document provides a summary description of the Banking Group's overall risk profile.

Gianluca Garbi
Chief Executive Officer

SECTION 2 – SCOPE OF APPLICATION

QUALITATIVE DISCLOSURE

The public disclosure obligations reported in this document apply to Banca Sistema S.p.A. in accordance with Article 19 of Regulation (EU) 575/2013. That regulatory provision allows exempting companies from prudent consolidation if the total amount of assets and off-statement of financial position items involved is less than the lower of either € 10 million or 1% of the total amount of assets and off-statement of financial position items of the entity that owns the equity investment.

At 31 December 2021, the Banca Sistema Group comprised the Parent, Banca Sistema S.p.A., the subsidiaries ProntoPegno S.p.A., Largo Augusto Servizi e Sviluppo S.r.l., and Specialty Finance Trust Holdings Limited, a company incorporated under UK Law, and the Spanish joint venture EBNSistema Finance S.L.

All companies have been consolidated using the full line-by-line method except for the joint venture EBNSistema Finance S.L. which is consolidated using the equity method.

The scope of consolidation also includes 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.

The special purpose vehicle BS IVA has been consolidated using the full line-by-line method.

Compared to the situation as at 31 December 2020, the scope of consolidation has not changed. The liquidation of S.F. Trust Holdings Ltd was approved and it is therefore included among the assets held for sale.

QUANTITATIVE DISCLOSURE

TEMPLATE EU LI1: DIFFERENCES BETWEEN ACCOUNTING AND REGULATORY SCOPES OF CONSOLIDATION AND MAPPING OF FINANCIAL STATEMENT CATEGORIES WITH REGULATORY RISK CATEGORIES

(Amounts in thousands of Euro)

	Carrying amounts as reported in published financial statements	Carrying amounts under scope of regulatory consolidation	Carrying amounts of items				
			subject to the credit risk framework	subject to the CCR framework	subject to the securitisation framework	subject to the market risk framework	not subject to capital requirements or subject to deduction from capital
Breakdown by asset classes based on the statement of financial position in the published financial statements							
Cash and cash equivalents	175,835	175,835	175,835				
Financial assets measured at fair value through other comprehensive income	451,261	451,261	451,261				
Financial assets measured at amortised cost	2,954,174	2,954,174	2,954,174				
a) loans and receivables with banks	33,411	33,411	33,411				
b) loans and receivables with customers	2,920,763	2,920,763	2,920,763				
Equity investments	1,002	1,002	1,002				
Property and equipment	40,780	40,780	40,780				
Intangible assets	33,125	33,125	731				32,394
of which: goodwill	32,355	32,355	0				32,355
Tax assets	12,840	12,840	12,840				
a) current	812	812	812				
b) deferred	12,028	12,028	12,028				
Non-current assets held for sale and disposal groups	68	68	68				
Other assets	39,806	39,806	39,806				
Total assets	**3,708,891**	**3,708,891**	**3,676,497**	**0**	**0**	**0**	**32,394**

	Carrying amounts as reported in published financial statements	Carrying amounts under scope of regulatory consolidation	Carrying amounts of items				
			subject to the credit risk framework	subject to the CCR framework	subject to the securitisation framework	subject to the market risk framework	not subject to capital requirements or subject to deduction from capital
Breakdown by liability classes based on the statement of financial position in the published financial statements							
Financial liabilities measured at amortised cost	3,257,401	3,257,401		249,255.69			
a) due to banks	592,157	592,157					
b) due to customers	2,472,054	2,472,054		249,255.69			
c) securities issued	193,190	193,190					
Tax liabilities	14,981	14,981					
a) current	37	37					
b) deferred	14,944	14,944					
Liabilities associated with disposal groups	18	18					
Other liabilities	137,995	137,995					
Post-employment benefits	4,310	4,310					
Provisions for risks and charges	28,654	28,654					
a) commitments and guarantees issued	39	39					
c) other provisions for risks and charges	28,615	28,615					
Valuation reserves	-3,067	-3,067					-3,067
Equity instruments	45,500	45,500					45,500
Reserves	141,528	141,528					139,828
Share premium	39,100	39,100					39,100
Share capital	9,651	9,651					9,651
Treasury shares (-)							0
Equity attributable to non-controlling interests (+/-)	9,569	9,569					8,130
Profit for the year	23,251	23,251					17,461
Total liabilities and Equity	**3,708,891**	**3,708,891**	**0**	**249,256**	**0**	**0**	**256,603**

TEMPLATE EU LI2: MAIN SOURCES OF DIFFERENCES BETWEEN REGULATORY EXPOSURE AMOUNTS AND CARRYING AMOUNTS IN FINANCIAL STATEMENTS

(Amounts in thousands of Euro)

	Total	Items subject to credit risk framework	Items subject to securitisation framework	Items subject to CCR framework	Items subject to market risk framework
Assets carrying amount under the scope of regulatory consolidation (as per template EU LI1)	**3,676,497**	**3,676,497**	**0**	**0**	**0**
Liabilities carrying amount under the regulatory scope of consolidation (as per template EU LI1)	**249,256**		**0**	**249,256**	**0**
Total net amount under the regulatory scope of consolidation	**3,925,753**	**3,676,497**	**0**	**249,256**	**0**
Off-statement of financial position amounts	**398,203**	**245,088**		**153,115**	
Differences in valuations	-451	-451			
Differences due to different netting rules, other than those already included in row 2	0				
Differences due to the treatment of value adjustments	0				
Differences due to the use of credit risk mitigation (CRM) techniques	-480,278	-86,607		-393,671	
Differences due to credit conversion factors	-238,798	-238,798			
Differences due to securitisations involving risk transference	0				
Other differences	0				
Exposure amounts considered for regulatory purposes	**3,604,429**	**3,595,729**	**0**	**8,700**	

TEMPLATE EU LI3: OUTLINE OF THE DIFFERENCES IN THE SCOPES OF CONSOLIDATION (ENTITY BY ENTITY)

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation					Description of the entity
		Full consolidation	Proportional consolidation	Equity method	Neither consolidated nor deducted	Deducted	
S.F. Trust Holdings Ltd	Full consolidation	X					Società strumentale
Largo Augusto Servizi e Sviluppo S.r.l.	Full consolidation	X					Società strumentale
ProntoPegno S.p.A.	Full consolidation	X					Attività Bancaria
EBNSISTEMA Finance S.L.	Equity method			X			Joint Venture spagnola
BS IVA	Full consolidation	X					Società veicolo

SECTION 3 – OWN FUNDS

QUALITATIVE DISCLOSURE

Consolidated own funds, risk-weighted assets, and capital ratios as at 31 December 2021 were measured using the regulatory changes introduced by Directive 2019/878/EU (CRD V) and Regulation (EU) 876/2019 (CRR2), which amended the regulatory principles contained in Directive 2013/36/EU (CRD IV) and Regulation (EU) 575/2013 (CRR) and subsequent amendments, as transposed in Bank of Italy Circulars No. 285 and No. 286.

The Banca Sistema Group has not availed itself of the option provided for by Article 473a of Regulation (EU) 575/2013 (CRR), which concerns the transitional measures aimed at mitigating the impact of the introduction of IFRS 9.

Having met the conditions for inclusion provided for by art. 26(2) of Regulation (EU) no. 575 of 26 June 2013 (CRR), the profit for the year – net of the portion intended for dividends – was included in Common Equity Tier 1 capital, in accordance with board resolutions.

The following table summarises the terms and conditions of Common Equity Tier 1 instruments, Additional Tier 1 instruments and Tier 2 instruments.

The Banca Sistema Group publishes the information referred to in Article 437(b) and (c) of the CRR by preparing the template EU CCA: main features of regulatory own funds instruments and eligible liabilities instruments.

TEMPLATE EU CCA: MAIN FEATURES OF REGULATORY OWN FUNDS INSTRUMENTS AND ELIGIBLE LIABILITIES INSTRUMENTS

	Ordinary shares	Subordinated Tier 1 bonds	Subordinated Tier 1 bonds
Issuer	Banca Sistema S.p.A.	Banca Sistema S.p.A.	Banca Sistema S.p.A.
Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	IT0003173629	IT0004881444	IT0005450876
Public or private placement	Public	Public	Public
Governing law(s) of the instrument	Italian law	Italian law	Italian law
Contractual recognition of write down and conversion powers of resolution authorities	N/A	N/A	N/A
Regulatory treatment			
Current treatment taking into account, where applicable, transitional CRR rules	Common Equity Tier 1	Additional Tier 1 Capital	Additional Tier 1 Capital
Post-transitional CRR rules	Common Equity Tier 1	Additional Tier 1 Capital	Additional Tier 1 Capital
Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated	Individual entity and consolidated	Individual entity and consolidated	Individual entity and consolidated
Instrument type (types to be specified by each jurisdiction)	Ordinary shares art. 28 CRR	Debt instruments art. 52 CRR	Debt instruments art. 52 CRR
Amount recognised in regulatory capital or eligible liabilities (currency in million, as of most recent reporting date)	9.65	8	37.5
Nominal amount of instrument	N/A	8	37.5
Issue price	N/A	At par	100%
Redemption price	N/A	At par	100%
Accounting classification	Equity	Equity	Equity
Original date of issuance	N/A	- 5 million at 18/12/2012 - 3 million at 18/12/2013	28/06/2021
Perpetual or dated	N/A	Perpetual	Perpetual
Original maturity date	N/A	Date of dissolution or winding-up of Banca Sistema or due to the lapse of the term provided for by the articles of association (currently the articles of association of Banca Sistema envisage the date of 31 December 2100)	
Issuer call subject to prior supervisory approval	NO	Yes	options for issuer call: voluntary from year 10, tax event option and regulatory event option

	Ordinary shares	Subordinated Tier 1 bonds	Subordinated Tier 1 bonds
Optional call date, contingent call dates and redemption amount	N/A	The issuer reserves the right to call all or part of the residual nominal amount of the securities beginning on 18 December 2017. Moreover, call clauses connected with tax and/or regulatory events are also envisaged. Call is subject to prior authorisation by the Bank of Italy.	Issuer call: 28 June 2031 The other options may always be exercised, redemption amount equal to the "residual nominal amount"
Subsequent call dates, if applicable	N/A	Subsequent to the first call date, the issuer reserves the right to evaluate whether to proceed with the call on an annual basis	The option for issuer call can be exercised on each Reset Date (the first at year 10 and then every 5 years thereafter) Options for call due to tax and regulatory events may always be exercised
Coupons/dividends			
Fixed or floating dividend/coupon	N/A	Fixed then floating	Fixed then floating
Coupon rate and any related index	N/A	Fixed rate: 7% Floating rate: 6-month Euribor + 5%	Annual fixed rate (applicable until 28 June 2031) equal to 9%; floating rate (applicable from 28 June 2031) equal to IRS5Y+8.92%
Existence of a dividend stopper	NO	YES	Yes
Partially discretionary			
Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A	Loss absorption mechanisms that result in the cancellation of any accrued interest and unpaid interest and, if insufficient, a reduction of the residual nominal amount of the securities, are provided for.	Mechanisms for interruption and cancellation of interest payments are provided for
		These mechanisms are generated in those cases where a "capital event" occurs, or when a significant reduction in retained earnings or other reserves occur, thereby triggering a "capital event" in the opinion of the issuer or the supervisory body. The term "capital event" means: a) a reduction of the capital ratios below the minimum regulatory level; b) a drop of the Common Equity Tier 1 ratio below 5.125%. It is also envisaged that the securities be subject to loss absorption measures whenever the Bank of Italy, to the intents and purposes of the regulations in force at the time, deems said measure to be necessary.	
Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A	Partially discretionary	
Existence of step up or other incentive to redeem	N/A	NO	NO
Noncumulative or cumulative	N/A	Noncumulative	NO
Convertible or non-convertible	N/A	Non-convertible	NO
If convertible, conversion trigger(s)	N/A	N/A	Regulatory events related to the restructuring of the issuer ("point of non–viability")
If convertible, fully or partially	N/A	N/A	YES
If convertible, conversion rate	N/A	N/A	DISCRETIONARY

	Ordinary shares	Subordinated Tier 1 bonds	Subordinated Tier 1 bonds
If convertible, mandatory or optional conversion	N/A	N/A	DISCRETIONARY
If convertible, specify instrument type convertible into	N/A	N/A	DISCRETIONARY
If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A
Write-down features	N/A	Yes	Yes
If write-down, write-down trigger(s)	N/A	see item 220	Events envisaged under CRR for AT1 instruments
If write-down, full or partial	N/A	Fully or partially	Both are possible
If write-down, permanent or temporary	N/A	Permanent	Permanent
If temporary write-down, description of write-up mechanism	N/A	N/A	
Type of subordination (only for eligible liabilities)	N/A	N/A	
Ranking of the instrument in normal insolvency proceedings	N/A	N/A	
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A	If Banca Sistema is liquidated or subject to insolvency proceedings, the Securities and related rights for principal and interest are (i) subordinated to all unsubordinated creditors of Banca Sistema (including depositors) or those having a lower level of subordination than the level of subordination of the Securities as Tier 2 instruments, (ii) pari passu among them and in relation to additional Tier 1 instruments and other debt exposures of Banca Sistema that do not have a level of subordination that is higher or lower than the Securities, and (iii) senior to the ordinary shares and every class (including any preferred shares and savings shares) of Banca Sistema stock.	
Non-compliant transitioned features	N/A	NO	
If yes, specify non-compliant features	N/A	N/A	
Link to the full term and conditions of the instrument (signposting)	N/A	N/A	

QUANTITATIVE DISCLOSURE

The following tables show:

- the amount of Own Funds according to the Template EU CC1: composition of regulatory own funds under Regulation 2021/637
- the reconciliation between the items of Own Funds and the Statement of Financial Position in the audited Consolidated Financial Statements of the Banca Sistema Group (Template EU CC2 under Reg. 2021/637)

In reference to Own Funds, it is noted that Banca Sistema shares have been traded on the Mercato Telematico Azionario – Italian Equities Market (MTA) of Borsa Italiana, STAR segment, since 2 July 2015.

TEMPLATE EU CC1: COMPOSITION OF REGULATORY OWN FUNDS

(Amounts in thousands of Euro)

Capital items	2021	Source based on reference numbers/letters of the statement of financial position under the regulatory scope of consolidation
Capital instruments and the related share premium accounts	48,751	160/170
Retained earnings	137,586	150
Accumulated other comprehensive income (and other reserves, including unrealised gains and losses pursuant to the applicable accounting regulation)	-825	150 - 120
Minority interests (amount allowed in consolidated Common Equity Tier 1)	8,017	190
Independently reviewed interim profits net of any foreseeable charge or dividend	17,461	200
Common Equity Tier 1 (CET1) capital before regulatory adjustments	210,989	
Additional value adjustments	-451	
Intangible assets (net of the relevant tax liabilities) (negative amount)	-32,415	100
Own Common Equity Tier 1 instruments held directly or indirectly by the issuer (negative amount)	-45	180/30
Total adjustments	-2,001	
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**-34,913**	
COMMON EQUITY TIER 1 (CET1)	**176,076**	
Capital instruments and the related share premium accounts	45,500	
of which classified as liabilities pursuant to the applicable accounting regulation	45,500	
Additional Tier 1 (AT1) capital before regulatory adjustments	**45,500**	
Additional Tier 1 (AT1) capital	**45,500**	
Tier 1 Capital (T1=CET1+AT1)	**221,576**	
Capital instruments and the related share premium accounts	0	10
Eligible own funds instruments included in Common Equity Tier 2	113	190
Tier 2 (T2) capital before regulatory adjustments	**113**	
Tier 2 (T2) capital	**113**	
Total Capital (TC = T1 + T2)	**221,690**	
Total risk-weighted assets	**1,517,568**	
Common Equity Tier 1 (as a percentage of risk exposure)	11.60%	
Tier 1 capital (as a percentage of risk exposure)	14.60%	
Total capital (as a percentage of risk exposure)	14.61%	
Institution CET1 overall capital requirements	7,75%	
of which: capital conservation buffer requirement	2.50%	
of which: countercyclical capital buffer requirement	0,0006%	
Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements	3,85%	

TEMPLATE EU CC2: RECONCILIATION OF REGULATORY OWN FUNDS TO STATEMENT OF FINANCIAL POSITION IN THE AUDITED FINANCIAL STATEMENTS

(Amounts in thousands of Euro)

Assets	Accounting Data	Amount Relevant to Own Funds
Intangible assets	-33,125	-32,415
- of which: goodwill	-32,355	-32,355
- of which: other intangible assets	-770	-60
Liabilities	**Accounting Data**	**Amount Relevant to Own Funds**
Valuation reserves	-3,067	-3,067
- of which: valuation reserves on securities available for sale	-2,720	-2,720
- of which: other valuation reserves	-347	-347
Equity instruments	45,500	45,500
Reserves	141,528	139,828
Share premium	39,100	39,100
Share capital	9,651	9,651
Treasury Shares	0	0
Equity attributable to non-controlling interests	9,569	8,130
Profit (loss) for the period	23,251	17,461
- of which: profit for the period net of dividend distributed for the year	17,461	
Other own funds reconciling items of which:		
Calendar Provisioning filter		-1,908
Filter for Commitment to purchase treasury shares		-45
Supervisory adjustments (Prudent valuation)		-451
Other deductions		-94
Total Own Funds at 31 December 2021		**221,690**

SECTION 4 – CAPITAL ADEQUACY

QUALITATIVE DISCLOSURE

According to the provisions of Pillar 2, banks must periodically assess their capital adequacy, current and prospective, expanding the variety of the risks to be calculated with respect to Pillar 1.

This activity is performed as part of the ICAAP/ILAAP process (Internal Capital Liquidity Adequacy Assessment Process), whose responsibility is assigned entirely to the "body responsible for strategic supervision", which independently defines the design and organisation according to its own responsibilities and prerogatives.

The results of the process are subject to analysis on the part of the Supervisory Authorities within the scope of the SREP (Supervisory Review and Evaluation Process).

For the sake of completeness, please note that Directive 2013/36/EU (CRD IV) establishes the obligation for the designated national authorities to activate an operational framework for the definition of the countercyclical capital buffer ratio (CCyB) starting from 1 January 2016. The ratio is subject to quarterly review. The European regulation was implemented in Italy with Circular no. 285 of the Bank of Italy, which contains specific rules applying to CCyB.

The benchmark ratio materially reflects the credit cycle and the risks deriving from excessive growth of credit in Italy, also taking into account the specific nature of the domestic economy. It is based on the deviation from the long-term trend in the ratio between credit and Gross Domestic Product.

The ratio is expressed as a percentage of the total risk exposure of banks that have significant credit exposures on national territory. It is between 0% and 2.5% and is fixed in intervals of 0.25 percentage points or multiples of 0.25. Using the benchmark ratio, the general approach taken by the ESRB, and any other ratio signalling the emergence of systemic risks, the Bank of Italy may set an internal countercyclical ratio higher than 2.5%.

Given the economic and credit situation in Italy, the Supervisory Authority decided to keep the aforementioned ratio at zero also for all of 2021.

For the purposes of a concrete application of the principle of proportionality, the Bank of Italy subdivided the banks into three different classes based on operational size and complexity. Banca Sistema currently falls in class 3, consisting of "banking groups and banks that use standardised approaches, with consolidated or individual assets, respectively, amounting to € 4 billion or less".

The following Pillar 1 and 2 risks are included in the reference scope for the purposes of ICAAP/ILAAP with the relative approaches indicated in the table below:

CATEGORY	TYPE OF RISK	APPROACH
Pillar 1	Credit risk	Standardised Approach
	Counterparty Risk	Standardised Approach (exposure: CRM comprehensive method with supervisory volatility adjustments)
	Market Risk	Standardised Approach
	Operational Risk	Basic Indicator Approach Qualitative Assessment (self-assessment)
	Liquidity Risk	Basel III Indicators (LCR and NSFR)
Pillar 2	Concentration Risk	Granularity Adjustment / Single name ABI-PwC /Geo-Sectoral
	Interest Rate Risk	Standard Approach
	Liquidity Risk	Net financial position
	Reputational Risk	Qualitative Assessment
	Risk of Excessive Leverage	Leverage Ratio
	Strategic Risk	Qualitative Assessment
	Compliance Risk	Qualitative Assessment

The ICAAP/ILAAP is divided into five sub-activities described in detail on the following pages:

1. **Identification and management of material risks:** the competent organisational structures implement the identification process for the risks to which the Bank could be exposed taking into consideration various elements:
    - measuring the statement of financial position aggregates;
    - the Strategic Business Plan, within which the top management illustrates both the short- and medium-term investment policies and objectives;
    - the changed market environment, new opportunities or significant dimensional variations (absolute or relative) of the business components so as to influence positioning in the market and the resulting initial risk assessments;
    - the introduction of new products or services;
    - economic context.
2. **Measurement/assessment of the observed risks and calculation of the relative internal capital:** the Bank defines the risk measurement, assessment and management approaches.

    With reference to Pillar 1 risks, the measurement approaches adopted are those used for prudential supervision purposes.

With reference to the hard-to-quantify Pillar 2 risks, a judgemental type analysis is performed aimed at defining the valuation and mitigation techniques for the risk considered, in concert with the Bank's other departments.

3. **Calculation of total internal capital and reconciliation with the regulatory capital:** adhering to the provisions of relevant legislation, the Bank calculates the total internal capital in accordance with the building block approach, which consists in adding any internal capital relative to other material risks noted in Pillar 2 to the regulatory requirements in relation to Pillar 1 risks.

   The Bank then conducts the reconciliation operations between total internal capital and regulatory requirements.

4. **Determination of total capital and reconciliation with Own Funds:** the Bank analyses all the statement of financial position items available in order to quantify the total capital available. The following activity consists in reconciling Own Funds and Total Capital.

5. **Management and maintenance of the ICAAP/ILAAP:** the Bank verifies that the total capital is sufficient to cover the previously determined Total Internal Capital requirements. If a situation of insufficiency emerges, the company's top management is promptly informed.

Upon conclusion of the Process, the analysis of capital adequacy is submitted to the attention of the Internal Audit and, for approval, to the Board of Directors.

Upon completion of the ICAAP/ILAAP, the Internal Audit Department issues an opinion that the ICAAP/ILAAP report does not contain material errors with respect to regulatory requirements, while highlighting any anomalies or areas for improvement in a special report that is submitted for approval to the Board of Directors and, afterwards, is sent to the Bank of Italy as an integral part of the documentation supporting the ICAAP/ILAAP.

The Supervisory Authority, for the current year, with its Communication of 14 March 2022 – ICAAP/ILAAP requirements for the start of the 2022 SREP cycle – requested the submission of the ICAAP/ILAAP report on figures as at 31 December 2021 by 30 April 2022 as required by the deadline set out in Bank of Italy Circular No. 285.

In addition to the report, the templates specified in the same communication must also be completed.

QUANTITATIVE DISCLOSURE

The table below lists the main regulatory metrics for the Banca Sistema Group. More specifically, it provides the statement of financial position aggregates, the value of risk-weighted assets as well as the various capital ratios and regulatory requirements that the Bank is required to comply with. It also provides the main liquidity indicators, namely the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) and their components.

TEMPLATE EU KM1: KEY METRICS TEMPLATE

(Amounts in thousands of Euro)

	June 2021	December 2021
Available own funds (amounts)		
Common Equity Tier 1 (CET1) capital	170,771	176,077
Tier 1 Capital	216,271	221,577
Total capital	216,392	221,690
Risk-weighted exposure amounts		
Total risk exposure amount	1,394,363	1,517,540
Capital ratios (as a percentage of risk-weighted exposure amount)		
Common Equity Tier 1 ratio (%)	12.2472%	11.6028%
Tier 1 ratio (%)	15.5103%	14.6010%
Total capital ratio (%)	15.5191%	14.6085%
Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)		
Additional own funds requirements to address risks other than the risk of excessive leverage (%)	1.4000%	1.4000%
of which: to be made up of CET1 capital (percentage points)	0.7500%	0.7500%
of which: to be made up of Tier 1 capital (percentage points)	1.0500%	1.0500%
Total SREP own funds requirements (%)	9.4000%	9.4000%
Combined buffer requirement (as a percentage of risk-weighted exposure amount)		
Capital conservation buffer (%)	2.5000%	2.5000%
Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	0.0000%	0.0000%
Institution specific countercyclical capital buffer (%)	0.0006%	0.0006%
Systemic risk buffer (%)	0.0000%	0.0000%
Global Systemically Important Institution buffer (%)	0.0000%	0.0000%
Other Systemically Important Institution buffer (%)	0.0000%	0.0000%
Combined buffer requirement (%)	2.5006%	2.5006%
Overall capital requirements (%)	11.9006%	11.9006%
CET1 available after meeting the total SREP own funds requirements (%)	62	58

	June 2021	December 2021
Leverage ratio		
Total exposure measure	3,419,032	3,709,841
Leverage ratio (%)	6.3255%	5.9727%
Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)		
Additional own funds requirements to address the risk of excessive leverage (%)	0.0000%	0.0000%
of which: to be made up of CET1 capital (percentage points)	0.0000%	0.0000%
Total SREP leverage ratio requirements (%)	0.0000%	0.0000%
Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)		
Leverage ratio buffer requirement (%)	0.0000%	0.0000%
Overall leverage ratio requirement (%)	0.0000%	0.0000%
Liquidity Coverage Ratio		
Total high-quality liquid assets (HQLA) (Weighted value – average)	340,886	433,089
Cash outflows - Total weighted value	148,514	347,676
Cash inflows - Total weighted value	319,368	182,048
Total net cash outflows (adjusted value)	170,853	165,629
Liquidity coverage ratio (%)	199.5196%	261.4814%
Net Stable Funding Ratio		
Total available stable funding	2,394,160	2,746,427
Total required stable funding	1,879,137	1,936,880
NSFR ratio (%)	127.4074%	141.7965%

TEMPLATE EU OV1: OVERVIEW OF TOTAL RISK EXPOSURE AMOUNTS

The following table shows the composition of the RWA as at 31 December 2021 and 31 December 2020 and the related own funds requirements as at 31 December 2021.

(Amounts in thousands of Euro)

	Risk weighted exposure amounts (RWEAs)		Total own funds requirements
	31.12.2021	31.12.2020	31.12.2021
Credit risk (excluding CCR)	1,332,402	1,119,730	106,592
Of which the standardised approach	1,332,402	1,119,730	106,732
Of which the Foundation IRB (F-IRB) approach	0	0	0
Of which: slotting approach	0	0	0
Of which: equities under the simple risk-weighted approach	0	0	0
Of which the Advanced IRB (A-IRB) approach	0	0	0
Counterparty credit risk - CCR	1774	682	142
Of which the standardised approach	1740	422	139.2
Of which internal model method (IMM)	0	0	0
Of which exposures to a CCP	34	260	3
Of which credit valuation adjustment - CVA	0	0	0
Of which other CCR	0	0	0
Not applicable	0	0	0
Not applicable	0	0	0
Not applicable	0	0	0
Not applicable	0	0	0
Not applicable	0	0	0
Settlement risk	0	0	0
Securitisation exposures in the non-trading book (after the cap)	0	0	0
Of which SEC-IRBA approach	0	0	0
Of which SEC-ERBA (including IAA)	0	0	0
Of which SEC-SA approach	0	0	0
Of which 1250%/ deduction	0	0	0
Position, foreign exchange and commodities risks (Market risk)	0	0.052	0
Of which the standardised approach	0	0.052	0
Of which IMA	0	0	0
Large exposures	0	0	0
Operational risk	183,392	176,843	14,671
Of which basic indicator approach	183,392	176,843	14,671
Of which the standardised approach	0	0	0
Of which advanced measurement approach	0	0	0
Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)	0	0	0
Not applicable	0	0	0
Not applicable	0	0	0
Not applicable	0	0	0
Not applicable	0	0	0
Total	**1,517,568**	**1,297,255**	**121,405**

Under the Supervisory Review and Evaluation Process ("2019 SREP Decision"), to ensure compliance with binding provisions even in the face of an economic and financial downturn, the Banca Sistema Group, as at 31.12.2021, is required to comply with the following capital ratios at consolidated level:

- **CET1 Ratio** of 7.75%, which consists of a binding component of 5.25% (of which 4.5% for the minimum regulatory requirements and 0.75% to cover the additional requirements determined upon completion of the SREP) and, for the remainder, of the capital conservation buffer component
- **Tier 1 Ratio** of 9.55%, which consists of a binding component of 7.05% (of which 6% for the minimum regulatory requirements and 1.05% to cover the additional requirements determined upon completion of the SREP) and, for the remainder, of the capital conservation buffer component
- **Total Capital Ratio** of 11.90%, which consists of a binding component of 9.40% (of which 8% for the minimum regulatory requirements and 1.40% to cover the additional requirements determined upon completion of the SREP) and, for the remainder, of the capital conservation buffer component.

Effective 30.06.2022, under the Supervisory Review and Evaluation Process ("2021 SREP Decision"), the Banca Sistema Group is required to comply with the following capital ratios at consolidated level:

- **CET1 Ratio** of 9%, which consists of a binding component of 6.5% (of which 4.5% for the minimum regulatory requirements and 2% to cover the additional requirements determined upon completion of the SREP) and, for the remainder, of the capital conservation buffer component
- **Tier 1 Ratio** of 10.5%, which consists of a binding component of 8% (of which 6% for the minimum regulatory requirements and 2% to cover the additional requirements determined upon completion of the SREP) and, for the remainder, of the capital conservation buffer component
- **Total Capital Ratio** of 12.50%, which consists of a binding component of 10% (of which 8% for the minimum regulatory requirements and 2% to cover the additional requirements determined upon completion of the SREP) and, for the remainder, of the capital conservation buffer component.

These capital ratios correspond to the Overall Capital Requirement (OCR) ratios as defined in the Guidelines and represent the sum of the binding provisions (Total SREP Capital Requirement ratio – TSCR) and the combined buffer requirement.

Moreover, the Banca Sistema Group has not exercised the right granted under Art. 473a of Regulation (EU) no. 575/2013 (CRR), which concerns the transitional provisions aimed at mitigating the impact of the introduction of IFRS 9. Consequently, it has not filled out the "IFRS 9-FL Template", whose purpose is to give a comparison between own funds, CET1, Tier 1 Capital, risk-weighted assets, the CET1 Ratio, the Tier 1 Ratio, the Total Capital Ratio, and the Leverage Ratio of institutions, with and without application of the transitional provisions for IFRS 9 or similar expected losses on loans.

SECTION 5 – COUNTERPARTY RISK

QUALITATIVE DISCLOSURE

The Bank pays adequate attention to counterparty risk understood as the risk that the counterparty of a transaction – regarding specific financial instruments such as over the counter derivatives, repurchase agreements and reverse repurchase agreements on securities or commodities, security or commodity borrowing or lending transactions and Security Financing Transactions, transactions with long-term settlement in which one of the counterparties pledges to sell or purchase a security, a commodity, a foreign currency against the collection or payment of cash on a contractually established settlement date after that defined by market practice for transactions of same type – may default.

This particular type of credit risk generates a bilateral-type exposure, due to which both counterparties are exposed to the risk of incurring unforeseeable losses.

The Bank conducts a careful and balanced counterparty risk management, establishing an adequate system of limits in terms of consistency and composition of its securities portfolio. With reference to the repurchase agreement positions, the Bank operates having as its counterparty the Compensation and Guarantee Fund (being an indirect participant, Banca Sistema avails itself of the clearing system provided by the depositary bank) or institutional counterparties.

As at 31 December 2021, only repurchase agreements are outstanding with the Compensation and Guarantee Fund.

QUANTITATIVE DISCLOSURE

TEMPLATE EU CCR1: ANALYSIS OF CCR EXPOSURE BY APPROACH

(Amounts in thousands of Euro)

	Replacement Cost (RC)	Potential future exposure (PFE)	Effective EPE	Alpha used for computing regulatory exposure value	Exposure value pre-CRM	Exposure value post-CRM	Exposure value	RWEA
EU - Original exposure method (for derivatives)	0	0		1.4	0	0	0	0
EU - Simplified SA-CCR (for derivatives)	0	0		1.4	0	0	0	0
SA-CCR (for derivatives)	0	0		1.4	0	0	0	0
IMM (for derivatives and SFTs)			0	0	0	0	0	0
of which securities financing transactions netting sets			0		0	0	0	0
of which derivatives and long settlement transactions netting sets			0		0	0	0	0
of which from contractual cross-product netting sets			0		0	0	0	0
Financial collateral simple method (for SFTs)					0	0	0	0
Financial collateral comprehensive method (for SFTs)					400,986	8,700	8,700	1,740
VaR for SFTs					0	0	0	0
Total					**400,986**	**8,700**	**8,700**	**1,740**

TEMPLATE EU CCR3: STANDARDISED APPROACH – CCR EXPOSURES BY REGULATORY EXPOSURE CLASS AND RISK WEIGHTS

(Amounts in thousands of Euro)

Exposure classes	Risk weight										
	0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Other
Central governments or central banks	0	0	0	0	0	0	0	0	0	0	0
Regional government or local authorities	0	0	0	0	0	0	0	0	0	0	0
Public sector entities	0	0	0	0	0	0	0	0	0	0	0
Multilateral development banks	0	0	0	0	0	0	0	0	0	0	0
International organisations	0	0	0	0	0	0	0	0	0	0	0
Institutions	0	0	0	0	8,700	0	0	0	0	0	0
Corporates	0	0	0	0	0	0	0	0	0	0	0
Retail	0	0	0	0	0	0	0	0	0	0	0
Institutions and corporates with a short-term credit assessment	0	0	0	0	0	0	0	0	0	0	0
Other items	0	0	0	0	0	0	0	0	0	0	0
Overall exposure value	0	0	0	0	8,700	0	0	0	0	0	0

TEMPLATE EU CCR5: COMPOSITION OF COLLATERAL FOR EXPOSURES TO CCR

(Amounts in thousands of Euro)

Collateral type	Collateral used in derivative transactions				Collateral used in SFTs			
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received		Fair value of posted collateral	
	Segregated	Unsegregated	Segregated	Unsegregated	Segregated	Unsegregated	Segregated	Unsegregated
Cash - national currency	0	0	0	0	0	0	0	0
Cash - other currencies	0	0	0	0	0	0	0	0
Sovereign national debt	0	0	0	0	0	0	0	400,986
Other sovereign debt	0	0	0	0	0	0	0	0
Public agency debt	0	0	0	0	0	0	0	0
Corporate bonds	0	0	0	0	0	0	0	0
Equity instruments	0	0	0	0	0	0	0	0
Other collateral	0	0	0	0	0	0	0	0
Total	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**400,986**

TEMPLATE EU CCR8: EXPOSURES TO CCPS

(Amounts in thousands of Euro)

	Exposure value	RWEA
Exposures to QCCPs (total)		3,548
Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which:	8,700	1,740
i) OTC derivatives	0	0
ii) exchange-traded derivatives	0	0
iii) SFTs	8,700	1,740
iv) netting sets where cross-product netting has been approved	0	0
Segregated initial margin	0	
Non-segregated initial margin	0	0
Prefunded default fund contributions	1,707	34
Unfunded default fund contributions	0	1,774
Exposures to non-QCCPs (total)		1,740
Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which:	0	0
i) OTC derivatives	0	0
ii) exchange-traded derivatives	0	0
iii) SFTs	0	0
iv) netting sets where cross-product netting has been approved	0	0
Segregated initial margin	0	
Non-segregated initial margin	0	0
Prefunded default fund contributions	0	0
Unfunded default fund contributions	8,700	1,740

SECTION 6 – CAPITAL BUFFERS

QUALITATIVE DISCLOSURE

Information is provided below relating to the "Countercyclical capital buffer", prepared on the basis of the applicable ratios at December 31, 2019 and Delegated Regulation (EU) 2015/1555 of May 28, 2015, supplementing the CRR with regard to regulatory technical standards for the disclosure of information in relation to the compliance of institutions with the requirement for a countercyclical capital buffer in accordance with Article 440 of the CRR. As established by Article 140(1) of Directive 2013/36/EU ("CRD IV"), the institutionspecific countercyclical capital buffer rate consists of the weighted average of the countercyclical buffer rates that apply in the jurisdictions where the relevant credit exposures of the institution are located. The CRD IV requires designated national authorities to activate an operational framework for the definition of the countercyclical capital buffer (CCyB) rate starting from January 1, 2016. The rate is subject to quarterly review. The European regulation was implemented in Italy with Bank of Italy Circular No. 285, containing dedicated rules on the CCyB. On the basis of the analysis of the reference indicators, the Bank of Italy has decided to set the countercyclical rate (relating to exposures to Italian counterparties) at 0% again for the first quarter of 2022.

QUANTITATIVE DISCLOSURE

TEMPLATE EU CCYB1 - GEOGRAPHICAL DISTRIBUTION OF CREDIT EXPOSURES RELEVANT FOR THE CALCULATION OF THE COUNTERCYCLICAL BUFFER

(Amounts in thousands of Euro)

Breakdown by country:	General credit exposures		Relevant credit exposures – Market risk				Own fund requirement						
	Exposure value under the standardised approach	Exposure value under the IRB approach	Sum of long and short positions of trading book exposures for SA	Value of trading book exposures for internal models	Securitisation exposures Exposure value for non-trading book	Total exposure value	Relevant credit risk exposures - Credit risk	Relevant credit exposures – Market risk	Relevant credit exposures – Securitisation positions in the non-trading book	Total	Risk-weighted exposure amounts	Own fund requirements weights (%)	Counter-cyclical buffer rate (%)
country: AE	2,505	-	-	-	-	2,505	153	-	-	153	1,908	0.16%	-
country: AL	10	-	-	-	-	10	0	-	-	0	4	0.00%	-
country: AU	124	-	-	-	-	124	10	-	-	10	124	0.01%	-
country: BE	1,000	-	-	-	-	1,000	80	-	-	80	1,000	0.09%	-
country: BG	7	-	-	-	-	7	0	-	-	0	3	0.00%	0.50%
country: CA	172	-	-	-	-	172	14	-	-	14	172	0.01%	-
country: CH	7,463	-	-	-	-	7,463	597	-	-	597	7,463	0.64%	-
country: CN	63	-	-	-	-	63	5	-	-	5	63	0.01%	-
country: CZ	233	-	-	-	-	233	19	-	-	19	233	0.02%	0.50%
country: DE	2,413	-	-	-	-	2,413	193	-	-	193	2,413	0.21%	-
country: DK	83	-	-	-	-	83	7	-	-	7	83	0.01%	-
country: ES	17,236	-	-	-	-	17,236	1,309	-	-	1,309	16,366	1.41%	-
country: FR	3,899	-	-	-	-	3,899	312	-	-	312	3,899	0.34%	-
country: GB	13,542	-	-	-	-	13,542	1,083	-	-	1,083	13,542	1.17%	-
country: GR	7	-	-	-	-	7	1	-	-	1	11	0.00%	
country: HK	-	-	-	-		-	-	-	-	-	-	0.00%	1.00%
country: HU	24	-	-	-	-	24	2	-	-	2	24	0.00%	-
country: IE	1	-	-	-	-	1	0	-	-	0	1	0.00%	-
country: IL	38	-	-	-	-	38	3	-	-	3	38	0.00%	-

country: IT	1,793,871	-	0	-	-	1,793,871	88,958	0	-	88,958	1,111,971	95.73%	-
country: LU	25	-	-	-	-	25	2	-	-	2	25	0.00%	0.50%
country: Lv	5	-	-	-	-	5	0	-	-	0	5	0.00%	-
country: NL	6	-	-	-	-	6	0	-	-	0	6	0.00%	
country: NO	489	-	-	-	-	489	39	-	-	39	489	0.04%	1.00%
country: PL	3	-	-	-	-	3	0	-	-	0	4	0.00%	
country: RO	42	-	-	-	-	42,392	1	-	-	1	15	0.00%	
country: SE	6	-	-	-	-	6	0	-	-	0	6	0.00%	
country: SI	11	-	-	-	-	11	1	-	-	1	11	0.00%	
country: SK	-	-	-	-	-	-	-	-	-	-	-	-	1.00%
country: TR	1,699	-	-	-	-	1,699	136	-	-	136	1,699	0.15%	
country: US	4,079	-	-	-	-	4,079	0	-	-	0	4	0.35%	
Total	**1,849,058**	**-**	**0**	**-**	**-**	**1,849,058**	**92,926**	**0**	**-**	**92,926**	**1,161,580**		

TEMPLATE EU CCYB2 - AMOUNT OF INSTITUTION-SPECIFIC COUNTERCYCLICAL CAPITAL BUFFER

(Amounts in thousands of Euro)

Total risk exposure amount	1,517,568
Institution specific countercyclical capital buffer rate	0.0006%
Institution specific countercyclical capital buffer requirement	9

SECTION 8 – CREDIT RISK

QUALITATIVE DISCLOSURE

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 policy is being reviewed in accordance with the provisions of update no. 13 of the aforementioned circular, which transposes the European regulations on the new definition of default[5].

The Supervisory Provisions for Banks impose specific obligations on intermediaries for the monitoring and classification of loans:

"The compliance measures adopted by operating units while the disbursed loan is being monitored must be derived from internal regulations. 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.

The key definitions are shown as follows.

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.

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.

(5) Commission Delegated Regulation (EU) 171/2018 of 19 October 2017 with regard to the materiality threshold for credit obligations past due and Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013 (EBA/GL/2016/07).

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 as indicated below.

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.

The Banca Sistema Group adopts an individual debtor approach to identify non-performing exposures, meaning that it is the individual counterparty that is assessed and subsequently classified, and not the individual credit lines granted to the same counterparty.

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.

During 2014, the IASB issued the new financial reporting standard "IFRS9: Financial Instruments", replacing IAS 39 and in force from 1 January 2018. The final version of the new IFRS9 requires that banks revise their financial instrument management processes and criteria in terms of:

- "Classification and Measurement": a new classification method based on analysis of the business model for the management of financial assets and related contractual cash flows. According to the results of those analyses, the assets are measured at: Amortised cost, fair value through other comprehensive income (FVOCI); fair value through profit or loss (FVTPL). In this case, reference should be made to the Business Model Policy issued by the Bank.
- "Impairment", whose principal changes concern:
    a. the introduction of an impairment model based on expected credit loss, with the adoption of a forward looking approach;
    b. the classification of financial instruments into three stages of credit quality and the consequent need to establish a specific "Stage Assignment Framework";
    c. the calculation of impairment losses according to the assigned credit quality stage.
- "Hedge Accounting".

The Stage Assignment Framework adopted by Banca Sistema sets out the requirements needed to classify financial instruments on the basis of supervening "deterioration" in credit quality, in accordance with the requirements of IFRS9, i.e.

with a method that is consistent among the various portfolios and within the Bank. The classification into growing stages of risk is assessed by using all the significant information contained in current processes, including credit monitoring (i.e. "reasonable and supportable information that is available without undue cost and effort"), in addition to any updates.

The method consists in the classification of financial assets in three stages of increasing risk, which correspond to the different methods for measuring impairment losses according to the uniform concept of "expected credit losses" (ECL). For this purpose, Banca Sistema has implemented a model for the calculation of provisions covering expected losses on financial instruments based on:

- the portion of lifetime ECL resulting from possible default events within the 12 months after the reporting date, or over a shorter period when the expected contractual duration is shorter (Stage 1);
- the estimate of the lifetime ECL, when the credit risk of the credit instrument is deemed to have increased significantly after initial recognition (Stage 2).

So, the Stage Assignment Framework requires classifying the performing financial instruments in two different stages, with each one representing an increasing level of risk:

- Stage 1 contains all performing loans that, whether originated or purchased, have not undergone an "SICR" or, although their credit risk has changed over time, they are characterised by a low level of credit risk at the reporting date;
- Stage 2 contains the loans and receivables which, at the reporting date, have had an SICR since their initial recognition and that risk level is no longer considered to be low.

Classification in Stage 3 is instead required for all relationships in default at the reporting date according to the definition of non-performing loan given in current regulatory instructions, and thus aligned with the 7th update to Bank of Italy Circular no. 272 of 30 July 2008, i.e. those which have the characteristics mentioned in paragraph B5.5.37 of IFRS9, which correspond to the "FINAL draft Implementing Technical Standards" ("ITS") containing the implementing technical standards on forbearance (FBE) and non-performing exposures (EBA/ITS /2013/03/rev1 24/7/2014). Moreover, Stage 3 maintains without any changes the classification into administrative stages of credit quality pursuant to Bank of Italy regulations.

The loans and receivables measurement process is carried out in the following steps:

- **identification**, in the loans and receivables portfolio, of objective evidence of *impairment (in Stage 3) or a supervening significant increase in credit risk (in Stage 2);*
- **analysis** of the significance of the individual asset subject to impairment. In particular, after having found objective evidence of impairment of the loans and receivables portfolio, the measurement process must determine whether that evidence refers to: a single significant exposure, which necessarily has to be subject to an individual measurement process;
- **measurement** of the impairment on an individual basis (**individual measurement**) or by uniform classes of assets (**collective measurement**).

The loans and receivables that do not show objective evidence of impairment, and as such are not subject to individual measurement, or the loans and receivables for which the individual measurement process produces a forecast of full recovery, must undergo a collective measurement process (Stage 1 or Stage 2 scope).

The accounting standard requires that in the case of non-performing loans, including those for which the measurement process produces a forecast of full recovery, are subject to individual impairment, which is determined individually or through the use of predetermined percentages.

The loans and receivables classified in Stage 3 and in the following risk classes defined in Bank of Italy Circular no. 272/08 are subject to individual impairment:

- Bad exposures
- Unlikely to pay
- More than 90 days past due

QUANTITATIVE DISCLOSURE

TEMPLATE EU CQ1: CREDIT QUALITY OF FORBORNE EXPOSURES AT 31 DECEMBER 2021

(Amounts in thousands of Euro)

	Gross carrying amount/ Nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collaterals received and financial guarantees received on forborne exposures	
	Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures		Of which: Collateral and financial guarantees received on non-performing exposures with forbearance measures
			Of which defaulted	Of which impaired				
Cash balances at central banks and other demand deposits								
Loans and advances	1,062	1,822	1,822	1,822	-8	-639		
- Central banks								
- General governments		1,097	1,097	1,097		-131		
- Credit institutions								
- Other financial corporations								
- Non-financial corporations	1,062	726	726	726		-508		
- Households								
Debt securities								
Loan commitments given								
Total	**1,062**	**1,822**	**1,822**	**1,822**	**-8**	**-639**		

TEMPLATE EU CQ3: CREDIT QUALITY OF PERFORMING AND NON-PERFORMING EXPOSURES BY PAST DUE DAYS AT 31 DECEMBER 2021

(Amounts in thousands of Euro)

	Gross amount											
	Performing exposures			Non-performing exposures								
		Not past due or Past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which: defaulted
Cash balances at central banks and other demand deposits												
Loans and advances	2,503,133	2,210,998	292,135	315,072	70,946	4,467	6,158	9,699	131,947	47,496	44,360	315,072
- Central banks	149	145	4	0	0	0	0	0	0	0	0	0
- General governments	943,287	660,216	283,072	221,592	56,338	1,973	3,442	5,461	87,357	33,669	33,353	221,592
- Credit institutions	14,989	14,989	0	0	0	0	0	0	0	0	0	0
- Other financial corporations	20,936	20,934	2	1	0	0	0	1	0	0	0	1
- Non-financial corporations	477,726	474,211	3,515	76,815	9,141	345	125	2,042	41,971	12,184	11,007	76,815
- Of which: SMEs	145,827	145,787	40	23,346	3,080	217	53	745	8,511	1,340	9,400	23,346
- Households	1,046,046	1,040,503	5,543	16,664	5,467	2,150	2,590	2,195	2,619	1,643	0	16,664
Debt securities	445,982	445,982	0	0	0	0	0	0	0	0	0	0
- Central banks	0	0	0	0	0	0	0	0	0	0	0	0
- General governments	630,096	630,096	0	0	0	0	0	0	0	0	0	0
- Credit institutions	0	0	0	0	0	0	0	0	0	0	0	0
- Other financial corporations	0	0	0	0	0	0	0	0	0	0	0	0
- Non-financial corporations	0	0	0	0	0	0	0	0	0	0	0	0
Off-statement of financial position exposures	255,207			3,096								3,096
- Central banks	0			0								0
- General governments	20			0								0
- Credit institutions	2,446			0								0
- Other financial corporations	190,033			0								0
- Non-financial corporations	60,760			3,096								3,096
- Households	1,947			0								0
Total	**2,758,340**	**2,210,998**	**292,135**	**318,168**	**70,946**	**4,467**	**6,158**	**9,699**	**131,947**	**47,496**	**44,360**	**318,168**

TEMPLATE EU CQ5: CREDIT QUALITY OF LOANS AND ADVANCES TO NON-FINANCIAL CORPORATIONS BY INDUSTRY

(Amounts in thousands of Euro)

	Gross carrying amount				Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
		of which: non-performing		of which: loans and advances subject to impairment		
			of which: defaulted			
Agriculture, forestry and fishing	5,078	3,297	3,297	5,078	-1,019	0
Mining and quarrying	144	0	0	144	-0.654	0
Manufacturing	37,328	10,238	10,238	37,328	-8,528	0
Electricity, gas, steam and air conditioning supply	21,123	0	0	21,123	-93	0
Water supply	30,752	15,456	15,456	30,752	-5,736	0
Construction	49,594	14,828	14,828	49,594	-3,293	0
Wholesale and retail trade	84,555	14,355	14,355	84,555	-12,617	0
Transport and storage	8,178	1,337	1,337	8,178	-1,074	0
Accommodation and food service activities	10,166	939	939	10,166	-571	0
Information and communication	7,646	667	667	7,646	-523	0
Financial and insurance activities	30	22	22	30	-2	0
Real estate activities	790	207	207	790	-12	0
Professional, scientific and technical activities	11,818	8,326	8,326	11,818	-7,575	0
Administrative and support service activities	33,926	2,584	2,584	33,926	-2,354	0
Public administration and defence, compulsory social security	9	0	0	9	-0	0
Education	2,726	63	63	2,726	-13	0
Human health services and social work activities	27,717	1,785	1,785	27,717	-1,073	0
Arts, entertainment and recreation	184,587	2,688	2,688	184,587	-1,339	0
Other services	38,374	22	22	38,374	-177	0
Total	**554,532**	**76,815**	**76,815**	**554,532**	**46,000**	**0**

TEMPLATE EU CQ6: COLLATERAL VALUATION – LOANS AND ADVANCES

(Amounts in thousands of Euro)

	Loans and advances											
		Performing		Non-performing								
						Past due > 90 days						
			of which past due > 30 days <= 90 days		Unlikely to pay that are not past due or past due <= 90 days		of which Past due > 90 days <= 180 days	of which Past due > 180 days <= 1 year	of which Past due > 1 year <=2 years	of which Past due > 2 years <=5 years	of which Past due > 5 years <=7 years	of which Past due > 7 years
Gross carrying amount	2,818,205	2,503,133	292,135	315,072	70,946	244,126	4,467	6,158	9,699	131,947	47,496	44,360
- Of which: secured	1,335,665	1,312,839	3,885	22,827	5,165	17,661	2,382	2,569	2,106	10,604	-	-
- Of which: secured with Immovable property	2,249	2,249	-	0	-	-	-	-	-	-	-	-
- Of which: instruments with LTV higher than 60% and lower or equal to 80%	1,011	1,011	-	-	-							
- Of which: instruments with LTV higher than 80% and lower or equal to 100%	-	-		-	-	-						
- Of which: instruments with LTV higher than 100%	-	-		-	-	-						
Accumulated impairment for secured assets	-	-	-	-	-	-	-	-	-	-	-	-
Collateral												
- Of which value capped at the value of exposure	1,011,188	1,000,067	3,845	11,121	3,892	7,229	2,044	2,445	1,985	755	-	-
- Of which: Immovable property	2,245	2,245	-	-	-	-	-	-	-	-	-	-
- Of which value above the cap	47,767	47,733	-	33	33	-	-	-	-	-	-	-
- Of which: Immovable property	1,717	1,717	-	-	-	-	-	-	-	-	-	-
Financial guarantees received	196,993	190,852	25	6,140	484	5,657	218	-	-	5,439	-	-
Accumulated partial write-off	-	-	-	-	-	-	-	-	-	-	-	-

NON-PERFORMING AND PERFORMING EXPOSURES AND RELATED ADJUSTMENTS AND PROVISIONS AT 31 DECEMBER 2021 (EU CR1 UNDER REG. 2021/637)

(Amounts in thousands of Euro)

	Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collaterals and financial guarantees received	
	Performing			Non-performing			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				on performing exposures	on non-performing exposures
		Of which Stage 1	Of which Stage 2		Of which Stage 2	Of which Stage 3		Of which Stage 1	Of which Stage 2		Of which Stage 2	Of which Stage 3			
Cash balances at central banks and other demand deposits															
Loans and advances	2,503,133	2,400,269	102,865	315,072	-	315,071	-6,870	-6,310	-560	-59,520	-	-59,520		190,852	6,140
- Central banks	149	149	-	-	-	-	-0.1	-0.1	-	-	-	-		-	-
- General governments	943,287	943,177	110	221,592	-	221,592	-3,099	-3,099	-0.189	-12,728	-	-12,728		-	-
- Credit institutions	14,989	14,989		-	-	-	-44	-44	-	-	-	-		-	-
- Other financial corporations	20,936	20,936	0.264	0.589	-	0.589	-59	-59	-0.001	-	-	-		-	-
- Non-financial corporations	477,726	472,768	4,958	76,815	-	76,815	-2,010	-1,983	-26	-43,990	-	-43,990		188,602	6,140
- Of which: SMEs	145,827	143,318	2,509	23,346	-	23,346	-600	-588	-12	-13,536	-	-13,536		66,265	194
- Households	1,046,046	948,249	97,797	16,664	-	16,664	-1,657	-1,124	-533	-2,802	-	-2,802		2,250	-
Debt securities	630,0976	630,096	-	-	-	-	-250	-250	-	-	-	-	-	-	-
- Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- General governments	630,096	630,096	-	-	-	-	-250	-250	-	-	-	-	-	-	-
- Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Other financial corporations	-	-	-	-	-	-	-	-	-		-	-	-	-	-
- Non-financial corporations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Off-statement of financial position exposures	255,207	255,207	-	3,096	-	3,096	39	39	-	-	-	-			-
- Central banks	-	-	-	-	-	-	-	-	-	-	-	-			-
- General governments	20	20	-	-	-	-	0.001	0.001	-	-	-	-			-
- Credit institutions	2,446	2,446	-	-	-	-	0.138	0.138	-	-	-	-			-
- Other financial corporations	190,033	190,033	-	-	-	-	0.002	0.002	-	-	-	-			-
- Non-financial corporations	60,760	60,760	-	3,096	-	3,096	39	39	-	-	-	-			-
- Households	1,947	1,947	-	-	-	-	0.209	0.209	-	-	-	-			-
Total	**3,388,436**	**3,285,572**	**102,865**	**318,168**	**-**	**318,167**	**-7,081**	**-6,521**	**-560**	**-59,520**	**-**	**-59,520**	**-**	**190,852**	**6,140**

TEMPLATE EU CR2: CHANGES IN THE STOCK OF NON-PERFORMING LOANS AND ADVANCES

(Amounts in thousands of Euro)

	Gross carrying amount
Initial stock of non-performing loans and advances	**296,234**
Inflows to non-performing portfolios	65,333
Outflows from non-performing portfolios	-46,496
- Outflows due to write-offs	-
- Outflow due to other situations	-46,496
Final stock of non-performing loans and advances	**315,072**

TEMPLATE EU CR2A: CHANGES IN THE STOCK OF NON-PERFORMING LOANS AND ADVANCES AND RELATED NET ACCUMULATED RECOVERIES

(Amounts in thousands of Euro)

	Gross carrying amount	Related net cumulated recoveries
Initial stock of non-performing loans and advances	**296,234**	
Inflows to non-performing portfolios	65,333	
Outflows from non-performing portfolios	-46,496	
- Outflow to performing portfolio	-21,838	
- Outflow due to loan repayment, partial or total	-24,657	
- Outflow due to collateral liquidations	-	-
- Outflow due to taking possession of collateral	-	-
- Outflow due to sale of instruments	-	-
- Outflow due to risk transfers	-	-
- Outflows due to write-offs	-	
- Outflow due to other situations	-	
- Outflow due to reclassification as held for sale	-	
Final stock of non-performing loans and advances	**315,072**	

At 31 December 2021, the Large Exposures of the Parent (exposures equal to or greater than 10% of Own Funds) consist of 16 positions for a sum of:

a. Carrying amount € 1,894,697 (in thousands)

b. Weighted value € 217,107 (in thousands)

SECTION 9 – ENCUMBERED ASSETS

QUALITATIVE DISCLOSURE

The encumbered assets of the Bank include debt instruments pledged as security for refinancing operations at the ECB and debt instruments used as collateral in repurchase agreements. The encumbered assets also include trade receivables as security c/o the Central Bank via ABACO.

In order to avoid excessive recourse to overcollateralisation of the securities available, the Bank, starting from 2016, consistent with the prudential supervisory provisions, established, within the purview of the Risk Appetite Framework, that an adequate level of readily monetizable assets be available in line with the business outlook, as forecast by the 2021 budget.

As at 31 December 2021, encumbered debt instruments amounted to approximately € 304.2 million, while other encumbered assets mainly included the carrying amount of receivables in ABACO, securitised receivables with reference to the special purpose vehicles Quinto Sistema Sec. 2019 S.r.l./Quinto Sistema Sec. 2017 S.r.l. and BS IVA, and the security deposit with the Compensation and Guarantee Fund.

Lastly, Table AE3 shows the amount of liabilities associated with the encumbered assets and guarantees received in connection with repurchase agreements, ECB loans and ABS securities issued by the Group.

QUANTITATIVE DISCLOSURE

TEMPLATE AE1: ENCUMBERED AND UNENCUMBERED ASSETS

(Amounts in thousands of Euro)

	Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
		of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		Of which EHQLA and HQLA		Of which EHQLA and HQLA
Assets of the reporting institution	1,253,816	304,172			2,455,075	327,203		
Equity instruments	0	0	0	0	5,457	0	5,457	0
Debt securities	304,172	304,172	304,172	304,172	327,203	327,203	327,203	327,203
of which covered bonds	0	0	0	0	0	0	0	0
of which securitisations	0	0	0	0	0	0	0	0
of which issued by general governments	304,172	304,172	304,172	304,172	327,203	327,203	327,203	327,203
of which issued by financial corporations	0	0	0	0	0	0	0	0
of which issued by non-financial corporations	0	0	0	0	0	0	0	0
Other assets	949,644	0			2,122,415	0		

TEMPLATE AE2: COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED

(Amounts in thousands of Euro)

	Fair value of encumbered collateral received or own debt securities issued		Unencumbered	
			Fair value of collateral received or own debt securities issued available for encumbrance	
		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA
Collateral received by the reporting institution	**0**	**0**	**0**	**0**
Loans on demand	0	0	0	0
Equity instruments	0	0	0	0
Debt securities	0	0	0	0
- of which: covered bonds	0	0	0	0
- of which: securitisations	0	0	0	0
- of which: issued by general governments	0	0	0	0
- of which: issued by financial corporations	0	0	0	0
- of which: issued by non-financial corporations	0	0	0	0
Loans and advances other than loans on demand	0	0	0	0
Other collateral received	0	0	0	0
Own debt securities issued other than own covered bonds or securitisations	**0**	**0**	**0**	**0**
Own covered bonds and asset-backed securities issued and not yet pledged			**0**	**0**
TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	**1,253,816**	**304,172**		

TEMPLATE AE3: SOURCES OF ENCUMBRANCE

(Amounts in thousands of Euro)

	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered
Carrying amount of selected financial liabilities	1,123,170	1,006,030

SECTION 10 – CREDIT RISK: USE OF ECAIS

QUALITATIVE DISCLOSURE

Banca Sistema calculates the capital requirement with respect to credit risk based on the standardised approach.

As at 31 December 2021, the Bank availed itself of the rating issued by the ECAI:

- "Dominion Bond Rating Service" (DBRS), for exposures to: central authorities and central banks; supervised brokers; public sector institutions and territorial entities;
- "Fitch Ratings", with regard to exposures to businesses and other parties.

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.

QUANTITATIVE DISCLOSURE

TEMPLATE EU CR4: STANDARDISED APPROACH – CREDIT RISK EXPOSURE AND CRM EFFECTS

(Amounts in thousands of Euro)

Exposure classes	Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
	On-statement of financial position exposures	Off-statement of financial position exposures	On-statement of financial position exposures	Off-statement of financial position exposures	RWEA	RWEA density (%)
Central governments or central banks	1,146,778	0	1,286,967	0	25,786	0%
Regional government or local authorities	297,421	0	297,421	0	58,188	20%
Public sector entities	291,388	20	291,388	0	69,330	24%
Multilateral development banks	0	0	0	0	0	0%
International organisations	0	0	0	0	0	0%
Institutions	87,805	81,000	87,805	0	17,561	20%
Corporates	501,978	146,836	371,000	6,026	350,938	93%
Retail	1,021,199	18,846	931,126	265	361,245	39%
Secured by mortgages on immovable property	2,245	0	2,245	0	786	35%
Exposures in default	255,554	3,096	254,519	0	369,058	145%
Exposures associated with particularly high risk	0	0	0	0	0	0%
Covered bonds	0	0	0	0	0	0%
Institutions and corporates with a short-term credit assessment	0	0	0	0	0	0%
Collective investment undertakings	0	0	0	0	0	0%
Equity instruments	5,457	0	5,457	0	5,457	100%
Other items	77,049	0	77,049	0	74,053	96%
Total	**3,686,875**	**249,798**	**2,319,297**	**6,291**	**1,306,642**	**56%**

TEMPLATE EU CR5 – STANDARDISED APPROACH

(Amounts in thousands of Euro)

Exposure classes	Risk weight															
	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Other	Total	of which unrated
Central governments or central banks	1,274,940	0	0	0	0	0	0	0	0	2,856	0	9,172	0	0	0	1,286,967	1,286,967
Regional government or local authorities	6,481	0	0	0	290,940	0	0	0	0	0	0	0	0	0	0	297,421	297,421
Public sector entities	27,929	0	0	0	242,660	0	0	0	0	20,798	0	0	0	0	0	291,388	291,388
Multilateral development banks	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
International organisations	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Institutions	0	0	0	0	96,505	0	0	0	0	0	0	0	0	0	0	96,505	96,505
Corporates	0	0	0	0	11,765	0	0	0	0	365,255	7	0	0	0	0	377,026	365,262
Retail exposures	0	0	0	0	0	837,247	0	0	94,144	0	0	0	0	0	0	931,391	931,391
Secured by mortgages of immovable properties	0	0	0	0	0	2,245	0	0	0	0	0	0	0	0	0	2,245	2,245
Exposures in default	0	0	0	0	0	0	0	0	0	25,442	229,077	0	0	0	0	254,519	254,519
Exposures associated with particularly high risk	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Covered bonds	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Exposures to institutions and corporates with a short-term credit assessment	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Units or shares in collective investment undertakings	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Exposures in equity instruments	0	0	0	0	0	0	0	0	0	5,457	0	0	0	0	0	5,457	5,457
Other items	2,908	0	0	0	110	0	0	0	0	74,031	0	0	0	0	0	77,049	77,049
Total	**1,312,257**	**0**	**0**	**0**	**641,980**	**839,491**	**0**	**0**	**94,144**	**493,839**	**229,084**	**9,172**	**0**	**0**	**0**	**3,619,968**	**3,619,968**

SECTION 11 – MARKET RISK

QUALITATIVE DISCLOSURE

Market risk represents the downside risk deriving from adverse changes in market prices (stock prices, interest rates, exchange rates, commodity prices, risk factor volatility, etc.) related to the regulatory trading book (position, regulatory and concentration risks) and to the entire accounts of the Bank (foreign exchange risk and commodity position risk).

Banca Sistema calculates the capital requirement with respect to market risk based on the standardised approach.

The regulation identifies and governs the treatment of different types of market risk related to the regulatory trading book.

As at 31 December 2021, the Bank was not exposed to market risk.

SECTION 12 – OPERATIONAL RISK

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 the following events:

- fraud;
- human errors;
- business disruption;
- unavailability of systems;
- inadequate execution of processes;
- breaches of contract;
- natural catastrophes etc.

Operational risk includes legal risk, whereas it does not include strategic risks and reputational risks. 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.

In order to determine the capital requirement to hedge operational risk, the Bank adopts the Basic Indicator Approach, which envisages that the capital requirement be calculated applying a regulatory coefficient equal to 15% of the three-year average of the relevant indicator established in article 316 of Regulation (EU) no. 575/2013.

As an additional protection against operational risk, the Bank:

- provides for tools to counter cyber attacks via e-mail (phishing);
- has updated the ICT equipment to ensure greater control and resilience against ICT risks;
- has strengthened its security infrastructure by implementing security measures to increase the level of security for remote activities, contracting with market partners who are vertically specialised in this specific field for routine operations;
- has strengthened perimeter security structures and related safeguards;
- has introduced user geolocation mechanisms to enforce two-factor authentication for users connecting from abroad;
- provides for the management of an adequate back-up plan with the help of specialised providers;
- provides for the separation of the back-up environment from the production environment, including to mitigate the effects of a possible ransomware attack;
- has defined capacity planning for IT platforms to deal with work peaks;
- has verified that its suppliers implement the required measures to mitigate the risks associated with the so-called log4j threat;
- provides for the simulation of phishing attacks to assess the ability of users to respond;
- has introduced targeted training on cyber risks for the entire Bank in order to increase the level of awareness and provide operational guidance to mitigate such risks;
- has stipulated an insurance policy on operational risks deriving from actions of third parties or caused to third parties, as well as suitable riders to cover the damages caused by suppliers of infrastructures and services. Moreover, effective 31 December 2019, the Bank entered into a cyber risk policy to mitigate the impact stemming from possible cyber attacks for unauthorised access to corporate systems;
- has planned an update of the Business Continuity Plan;
- has planned a periodic update of the IT security policy;
- has planned a review of the operational plan of IT initiatives.

The Group, in continuation of what was done in 2020 in response to the health emergency, maintained the flexible and remote operational model that was implemented to ensure business continuity. Excluded from this operational model were employees of the Banking and Collateralised Lending branches in direct contact with customers and those working in the departments having the greatest impact on managing the emergency, namely ICT, Logistics, Human Capital, and Treasury. Along with all safety and precautionary measures, which were in any case maintained and strengthened also with the timely and widespread control of green passes, all activities were reorganised and managed remotely with a total of over 50% of annual workdays performed outside the Bank's premises. Gradually, since July, and in line with national and regional health provisions to prevent and counter the spread of the Covid-19 virus, a more balanced remote working schedule has been organised, with two days of remote work and three days of work on site at the Bank's premises each week. The remote medical counselling programme for all Group employees, which had been organised back in 2020 to respond to possible difficulties in accessing advice and initial medical assistance, was extended for another year.

QUANTITATIVE DISCLOSURE

On the basis of the approach illustrated above, the capital requirement covering operational risk at 31 December 2021 was € 14.7 million.

TEMPLATE EU OR1: OPERATIONAL RISK OWN FUNDS REQUIREMENTS AND RISK-WEIGHTED EXPOSURE AMOUNTS

(Amounts in thousands of Euro)

	Relevant indicator			Own funds requirements	Risk weighted exposure amount
	Year -3	Year -2	Last year		
Banking activities subject to basic indicator approach (BIA)	98,235	93,992	101,199	14,671	183,392
Banking activities subject to standardised (TSA) / alternative standardised (ASA) approaches	0	0	0	0	0
- Subject to TSA	0	0	0		
- Subject to ASA	0	0	0		
Banking activities subject to advanced measurement approaches (AMA)	0	0	0	0	0

SECTION 13 – EQUITY EXPOSURES:
DISCLOSURE OF POSITIONS HELD IN THE BANKING BOOK

QUALITATIVE DISCLOSURE

Investments in equity instruments, included in the banking book, pursue a plurality of objectives such as: strategic, institutional, financial investment and support for operations.

Accounting techniques: The exposures in equity instruments included in the banking book are classified in the financial statement items Equity investments and **Financial assets measured at fair value through other comprehensive income.**

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.

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.

Equity investments – accounting policies

- **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**

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. At the end of each financial year or interim report date, an assessment is performed to determine if any objective evidence exists that an investment has been impaired. The recoverable value is then calculated taking into account the present value of the future cash flows that the investment will be able to generate, including the final disposal value of the investment. Any lower value, compared to the carrying amount, resulting from this calculation is charged to 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 "240 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 "280 Gains (losses) on sales of investments".

QUANTITATIVE DISCLOSURE

(Amounts in thousands of Euro)

Type of exposure/amounts	Carrying amount			Fair Value			Market value	Realised Gains/ Losses and impairment		Unrealised Gains/Losses recognised in the Statement of Financial Position	
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Gain	Loss	Gains (+)	Losses (-)
Financial assets measured at fair value through other comprehensive income	618		5,000	457		5,000					
Financial assets at fair value through profit or loss											
Equity investments			1,002			1,002					
Goodwill											

The value reported in Financial assets measured at fair value through other comprehensive income includes the purchase for 200 units with a total value of € 5 million.

Equity investments amount to € 1,002 thousand and relate to Banca Sistema entering into an equal partnership with EBN Banco de Negocios S.A., taking a stake in the capital of EBNSISTEMA Finance S.L., and thereby entering the Spanish factoring market. Banca Sistema acquired an equity investment in EBNSISTEMA through a capital increase of € 1 million which gave Banca Sistema a 50% stake in the Madrid-based company.

SECTION 14 – EXPOSURES TO INTEREST RATE RISK ON POSITIONS NOT HELD IN THE TRADING BOOK

QUALITATIVE DISCLOSURE

The banking book consists of all the asset and liability-based financial instruments not included in the trading book. As already shown in this document, this risk on the positions included in the banking book consists of the possibility of negative changes in the cash flows or in the market value of Bank assets and liabilities due to adverse and unexpected movements of market rates.

Customer deposits on savings accounts and current accounts are at a fixed rate, as interbank funding transactions are predominantly at a fixed rate and with very short duration.

The interest rate risk connected with the funding transactions carried out by the Treasury Department is assumed in accordance with the policies and limits set by the Board of Directors.

Interest rate risk is monitored by identifying the most appropriate indicators for monitoring the changes in assets and liabilities with respect to the limits, investment and funding policies, and interest rate risk management policies, and any appropriate measures to ensure that the activity is carried out in accordance with the risk policies.

As at 31 December 2021, no interest rate risk hedging instruments were used.

QUANTITATIVE DISCLOSURE

In accordance with the guidelines given in Bank of Italy Circular no. 285/2013, which transposes the recommendations issued by the Basel Committee and the EBA Guidelines, the Internal Capital used to cover interest rate risk is calculated according to a simplified approach that breaks down the assets and liabilities in the banking book of Banks into 19 time buckets according to their residual lifetime. Variable-rate assets and liabilities are assigned to the various time buckets according to the interest rate repricing date.

Based on this model, assets and liabilities are entered in the payment schedule book in accordance with the criteria provided for in Bank of Italy Circular no. 272 “Manual for filling out the Accounts Matrix” and in Circular no. 115 “Instructions for filling out the supervisory reports of credit institutions on a consolidated basis”, with the exception of:

- current accounts with positive balances, classified in the “On demand” bucket;
- overdraft accounts and demand deposits to be classified in accordance with the following instructions:
  - in the “On demand” bucket, by convention, a fixed share of 25% (the so-called “non-core component”) for retail counterparties and 50% for wholesale counterparties. Where it is not possible to distinguish between the two types of counterparty, the application of a single fixed share of at least 35% is recommended;
  - for the remaining amount (the so-called “core component”) in the subsequent eight time buckets (from “up to 1 month” to “4-5 years”), in proportion to the number of months contained therein.

Furthermore, the Bank models its savings product “Conto Deposito” by considering the embedded option of early redemption. In particular, the historical percentage of recorded early redemptions is calculated for that item; said value is applied to the entire savings and deposits from the product and the relevant share is entered in the bucket at 1 day. The remaining sums are “bucketised” as a function of the contractual maturity chosen by the customer.

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.

To calculate the interest rate risk of the banking book, the Bank of Italy requires that when determining internal capital under normal conditions, the annual interest rate changes recorded over a 6-year observation period may be used as a reference, using the 1st percentile (decrease) or 99th percentile (increase) as an alternative and other shock scenarios chosen by the bank, based on the indications contained in subsection 4.4.3 “Interest rate shock scenarios for ongoing management” in EBA/GL/2018/02.To provide a more granular representation of the economic conditions of the banking book, rates of return between 0.5% and 5% can be used to differentiate the level of profitability of assets and liabilities.

With regard to the determination of internal capital under stressed conditions, institutions should assess the impact on economic value of a hypothetical change in rates of +/-200 basis points and the six EBA scenarios, considering the provisions of EBA GL 2018-02, while applying the EBA floor for negative shocks.

The table below shows the change in economic value under ordinary stress and the application of the six EBA scenarios (parallel and non-parallel scenarios) using the methodology set out in Annex C of Circular 285 and the related Internal Capital. The table below also indicates that the risk indicator (based on the Supervisory outlier test) is well below the regulatory limit of 20%.

Risk Management also calculates and monitors the exposure to interest rate risk in relation to changes in net interest income, which is lower than the change in economic value.

(Amounts in thousands of Euro)

Exposure to interest rate risk	Amounts at 31/12/2021
Internal capital for interest rate risk	5,099
Own funds	221,690
Risk indicator	2.3
Threshold limit defined by the regulation	20%

SECTION 15 – SECURITISATIONS

QUALITATIVE DISCLOSURE

The securitisation of loans and receivables is a financial technique that permits transformation of illiquid “assets” (loans and receivables, properties, other rights) into credit securities negotiable on the “bond” market. It is also a tool for funding and transferring risk.

Starting in 2016, Banca Sistema structured five securitisation transactions as originator and/or sponsor (while also acting as Master Servicer). These transactions are described as follows:

- Quinto Sistema Sec 2016 (redeemed in 2019), Quinto Sistema Sec 2017 (currently outstanding, rated, listed and whose senior securities are eligible as collateral for Eurosystem refinancing transactions) and Quinto Sistema Sec 2019. All three transactions involved loans and receivables portfolios deriving from salary- and pension-backed loans.
- BS IVA SPV: securitisation of factored VAT receivables.

Objectives of the Quinto Sistema Sec. transactions

The securitisation of salary- and pension-backed loans has the following objectives:

- Expansion of the sources of financing, by reaching investors “different” from those with which the Bank normally has relations, as institutional investors specialising in senior and mezzanine risk classes.
- Reduction of funding costs through the use of ABS as collateral for ECB loans and bilateral transactions.
- Taking advantage, where market conditions so allow, of opportunities to optimise regulatory capital: the creation of ABS securities (senior, mezzanine, and junior) allows, at higher and higher costs, the possibility of considering the sale of higher risk securities on the market, in compliance with the CRR, to realise the goal of freeing up the desired portion of any regulatory capital absorbed by the portfolio of salary-backed loans.
- Strategy of dynamic maintenance of balance between investments (Receivables deriving from salary-backed loans) and bank funding sources (specific funding). A typical characteristic of ABS securities is to be perfectly “self-repaying”, with perfect matching between the duration of the investment and the duration of the funding, without any refinancing risk. Therefore, the duration contribution of the ABS is always proportionate to the duration of the securitised asset.

BS IVA SPV Objectives

The Bank has set up a platform that is entirely dedicated to the refinancing of VAT receivables. The securitisation makes Banca Sistema the direct assignee of the receivables from its customers, in addition to its role as Servicer pursuant to Law 130, as well as its role as Programme and Administration Agent (the entity in charge of implementing and coordinating the purchases by the SPV).

Securitisation risks

Securitisation risks refer to various types of risk that substantially relate to three specific roles/circumstances involving Banca Sistema:

- Investor in the ABS securities resulting from its own securitisation. When the portfolio is derecognised, and when certain securities continue to be recognised in the financial statements, the “ABS securities”, and no longer the “loans and receivables”, will have to be measured for financial reporting and prudential purposes;
- Servicer or other roles involved in the securitisation, with the natural Operational Risks that already existed before securitisation but which assume the nature of contractual and regulatory risks;

- Originator and/o Sponsor of the transaction. In addition to the foregoing, the Bank ultimately runs a reputational risk on the market in general, due to the greater transparency of the performance of the securitised portfolio (periodically analysed by rating agencies and investors) and the general performance of the securitisation.

The bank reports the securitised portfolios as loans in its statement of financial position and supervisory reports, as if the exposures had never been securitised.

The standardised approach is applied to these exposures.

The Bank does not hold third-party securitised exposures in its banking book.

ECAI

As previously done for the preceding transaction on the Quinto Sistema Sec 2016 salary- and pension-backed loan assets, the rating agencies for Quinto Sistema Sec 2017 are Moody's and DBRS insofar as:

- two ratings are needed to render the senior ABS securities eligible for refinancing operations with the ECB;
- they are the only two agencies that use an established method for rating a securitisation transaction involving salary-backed loans (other agencies, such as Fitch and S&P, while having a methodology, are not used by issuers for reasons related to cost and the conditioning of the "sovereign rating" on the rating that can be achieved for this type of transaction).

SECTION 16 – REMUNERATION AND INCENTIVE SYSTEMS AND PRACTICES

QUALITATIVE DISCLOSURE

The remuneration and incentive policies of the Banca Sistema Banking Group have been defined with the ultimate aim of achieving – in the interests of all stakeholders – remuneration systems that are consistent with the company's long-term goals, values and strategies, which are linked to company results and appropriately adjusted to take into account all risks assumed by the Group. In particular, the systems are to be consistent with the levels of capital and liquidity required to run the business to avoid incentive distortions of the type which encourage recipients to breach the provisions or expose the Group to take on excessive risks.

The specific disclosures required by Article 450 of the CRR – Remuneration Policy Disclosures are provided below.

TABLE EU REMA: REMUNERATION POLICY

a.1) Name, composition and mandate of the main body (management body or remuneration committee as applicable) overseeing the remuneration policy and the number of meetings held by that main body during the financial year.

The following main bodies supervise the Group's remuneration and incentive policies (hereinafter "the Group Policies" or "the Policies") and perform the following functions:

The **Board of Directors** formulates and approves the Bank's Remuneration Policy, submits it to the Shareholders' Meeting, and reviews it at least once a year, and is responsible for its correct implementation. It also approves the results of any procedure for the exclusion of "key personnel" and periodically reviews the relevant criteria for exclusion.

Within its sphere of influence, the **Remuneration Committee** has advisory and proposal-making duties vis-à-vis the Board of Directors. More specifically, the Committee has a proposal-making and preliminary investigation duty in respect of the Board of Directors, with regard to defining the Policy.

The Remuneration Committee comprises three non-executive directors of which two meet the independence requirements set out by applicable legislation and regulations, and in the Bank's Articles of Association.

At least two Committee members must have adequate knowledge and experience in financial or remuneration policy matters, without prejudice to the Bank adopting appropriate training programmes to ensure that all Committee members carry out their role with due cognisance.

The current Remuneration Committee was appointed on 24 May 2021 and comprises three non-executive directors of which two meet the independence requirements:

- Marco Giovannini (Chairperson of the Committee, independent Director, non-executive),
- Giovanni Antonino Puglisi (Director and Deputy Chairperson of the Bank, non-executive),
- Francesca Granata (independent Director, non-executive).

The Committee meets at the intervals needed to carry out its functions, and at any time deemed appropriate by the Chairperson of the Committee, or in the cases specified in the latest Committee regulation adopted on 25 January 2019.

In 2021, the Remuneration Committee met 9 times.

a.2) External consultants whose advice has been sought, the body by which they were commissioned, and in which areas of the remuneration framework.

During the Financial Year, the Remuneration Committee was supported by consultants from Willis Towers Watson specialised in the sector, with whom it held in-depth discussions on the review of the 2022 Remuneration Policies to adapt them to the new reference regulations, in particular with regard to the variable incentive system, with the relevant documentation obtained for its assessments.

a.3) A description of the scope of the institution's remuneration policy (e.g. by regions, business lines), including the extent to which it is applicable to subsidiaries and branches located in third countries.

The Policies apply to all Group personnel with specific rules and application guidelines relating to the variable incentive systems in place for key personnel and key management personnel as well as for the remaining personnel.

a.4) A description of the staff or categories of staff whose professional activities have a material impact on institutions' risk profile (key personnel).

Banca Sistema identifies key personnel on an annual basis and with the involvement of various corporate bodies.

In this context, for the purposes of determining key personnel, agents in financial activities and other credit intermediaries that the Bank may use to distribute its products are also considered. Assessing the importance of these persons is based both on economic/quantitative criteria and on the possible attribution of specific coordination and control roles to some of these persons (area managers, divisional managers, etc.).

The Human Capital Department then prepares a list of persons who could be classified as "key personnel" (the "List"), accompanied by a brief evaluation of the aforementioned criteria, the number of persons identified for the first time, the roles and responsibilities of such personnel, and the comparison with the results of previous evaluations conducted for the previous year, which shall be promptly transmitted to the Risk Department, the Compliance Department, the Internal Audit Department and, together with any observations made by them, to the Remuneration Committee, in order to collect any amendment proposals. The process of identification of "key personnel" conducted by the Bank shall actively involve the Group's companies, which shall provide the necessary information and comply with the instructions received. Once the control departments' contributions have been received, together with those of the Remuneration Committee, said contributions shall be processed and formalised by the Human Capital Department in a single document containing the proposed List. The proposed List is then sent by the Remuneration Committee to the Board of Directors to be duly assessed and decided on. The Bank's Board of Directors:

- approves the List, re-examines it regularly, and approves any derogations;
- is involved in, and constantly monitors, the process.

In this respect, the "key personnel" category includes key management personnel, namely, those persons who have direct or indirect powers and responsibilities over the planning, management and control of the Bank's business activity. Key management personnel includes the Bank's directors (executive and non-executive). In accordance with the quantitative and qualitative criteria set out in the RTS, the further criteria described above, and on the basis of an evaluation of the various risk levels regarding the Group's different business activities, a total of 45 persons have been identified for 2021, as detailed in Annex 1 of the 2021 Remuneration Policies Document.

b. Information relating to the design and structure of the remuneration system for key personnel

b.1) An overview of the key features and objectives of remuneration policy, and information about the decision-making process used for determining the remuneration policy and the role of the relevant stakeholders (for example, the Shareholders' Meeting).

The Group Policy – which does not have an established duration but is nevertheless reviewed annually – pursues the following aims:

- to direct the efforts of executive directors and employees towards the priorities and objectives established at Bank and Group level, supporting the creation of value over the medium and long term;
- to attract and retain highly qualified personnel, also through external remuneration competitiveness;
- to motivate personnel, by recognising merit and encouraging the development of professional skills;
- to develop and improve the quality of the services provided to customers;
- to ensure sound and prudent management of the Bank and its risk profile;

- to ensure remuneration fairness – also with respect to gender neutrality – rewarding individual employees for their contribution, the responsibilities given and their specific working conditions;
- to ensure conduct that is consistent with the Code of Ethics of the Group (hereinafter the “Code of Ethics”), the Group’s internal regulations and the legislative and regulatory provisions applicable to Banca Sistema and the Group.

The Policies are defined and reviewed in accordance with the process described below, in compliance with the Provisions and with Banca Sistema’s Articles of Association, which are in effect consistent with said Provisions.

The following company bodies and departments are involved in establishing the Policies, according to the remits and responsibilities described hereinafter:

The Board of Directors (or the "Board"): formulates and approves the Bank’s Policies, submits them to the Shareholders’ Meeting, and reviews them at least once a year, and is responsible for their correct implementation;

- approves the results of any procedure for the exclusion of “key personnel” referred to in Paragraph 4 and in Annex 1 to the Policies, and periodically reviews the criteria for such exclusion;
- ensures that the Remuneration Policies are duly documented and accessible within the company, and that personnel are aware of the consequences of any breach of the provisions contained in these Policies; it defines the incentive plan for those persons within the “key personnel” category (see Paragraph 4 below and Annex 1), as well as for all other Group employees;
- also ensures that the Bank’s Policies are effectively implemented and that they are consistent with the Bank’s overall corporate governance, corporate culture, risk appetite, their actual application with respect to gender neutrality and the specific working conditions, as well as the associated governance processes, and ensures that the granting, payment and accrual of variable remuneration do not negatively affect the need to maintain a strong capital base;
- analyses, with the support of the Remuneration Committee, the gender neutrality of remuneration policies, verifying the gender pay gap and its evolution over time;
- approves, in compliance with the principles set out in these Policies and in implementing the rules in the Provisions on “Transparency of banking and financial transactions and services”, the criteria for the remuneration of personnel who offer products to customers, interacting with the latter, personnel they report to hierarchically and credit intermediaries, as well as personnel in charge of assessing creditworthiness and personnel responsible for handling complaints; it submits a clear and complete information document concerning the Policies to be adopted, to the Shareholders’ Meeting. The purpose of this information document is to illustrate: the reasons, aims and means of implementation of the Policies; the controls carried out in regard to said Policies; the characteristics of the remuneration system; the consistency of such characteristics with the established guidelines and objectives; compliance with applicable law; the principal information regarding the process of identification of “key personnel” and the corresponding outcomes, including any exclusions (see Paragraph 4 below and Annex 1); any changes to systems and processes that have already been approved; the evolution of the dynamics of remuneration, also compared to the trend within the sector.

The Board of Directors discharges its duties with the support of the following company departments:

- the Human Capital Department, which coordinates the Policies definition process and contributes to the drawing up of the Policies, providing the required information also in relation to the organisational structure, the remuneration levels and the incentive systems. In particular, the Human Capital Department provides its support to the Compliance Department in verifying compliance with the regulations. Among other things, it ensures consistency between the Policies and the various human resource management procedures (skills assessment system, technical, professional and managerial development, HR administration) and the remuneration and incentive systems of the Bank;

- the Risk Department, which is involved in identifying events that could potentially affect the Company's business, analysing the impacts of such events in relation to acceptable levels of risk, and periodically monitoring the effects of implementation of the remuneration policies on the Group's risk profiles. The Risk Department is invited to meetings of the Remuneration Committee to discuss the drawing up, implementation and monitoring of the Policies; in particular, it helps to ensure compliance with the reference framework for measuring risk appetite and with the risk control and management policies defined in the Risk Appetite Framework (RAF), also by establishing risk indicators to be used for (ex ante and ex post) adjustment mechanisms; it also expresses its opinion on the correct use of these mechanisms. Based on the data supplied by the Manager in charge of financial reporting, the Risk Department performs the necessary controls and checks concerning the achievement of the corporate access conditions and criteria and the consequent establishment of the "bonus pool" (as defined below) and the performance indicators, and highlights any possible impacts which these factors may have on the conduct of employees and/or in terms of the riskiness of the activities undertaken;
- the Compliance and Anti-Money Laundering Department, which verifies ex ante the compliance of the Policies and checks, on an annual basis, that the remuneration policies are consistent with the applicable legal framework and the internal policies, including the Group's Code of Ethics so as to take into account legal and reputational risks present, in particular, in relations with customers. The Compliance and Anti-Money Laundering Department informs the Board of Directors of any findings with a specific assessment on the compliance of the Policies with the regulatory framework in order that due account may be taken of such assessment by the Board when approving and assessing the Policies;
- the Internal Audit Department, which assesses, among other things, at least yearly, whether the remuneration practices are consistent with the approved policies and with the current provisions of law. The outcome of the assessment, brought to the attention of the Board of Directors, is submitted to the Shareholders' Meeting;
- the Finance Department, which verifies the compliance of the Policies with the Bank's medium and long term objectives and strategies, so as to ensure financial sustainability over the medium to long term through the definition of the final level of the "gate" parameters and access criteria to define the bonus pool payable for each financial year.
- the Manager in charge of financial reporting, who verifies the compliance and consistency of the Policies with accounting and company documents, and in particular their accuracy with respect to the approved accounting entries. The Manager in charge of financial reporting confirms the level of satisfaction of the corporate access conditions and criteria, as defined in this Document, and sends them to the Risk Department for the relevant controls and checks and to the Human Capital Department for the application of the Policies for the year and for the assessment of any "malus" condition relating to deferred portions from previous years, and the level of achievement of the targets assigned.

The Remuneration Committee assists the Board of Directors in reviewing the Policies to be submitted to the Shareholders' Meeting, with support also from the previously specified company departments, and has the following responsibilities:

- to make proposals on the remuneration paid to "key personnel" and evaluate the overall application of the Policies for the remaining personnel as well;
- to provide advice in determining the remuneration criteria for "key personnel";
- to offer its opinion, also on the basis of the information received from the relevant company departments, regarding the outcome of the process of identification of "key personnel", including any exclusions pursuant to paragraph 4 and to Annex 1 of the Policies;

- to support the Board of Directors in monitoring gender neutrality in the application of remuneration policies; in this activity it is in turn supported by the Human Capital Department and by specialist external consultants;
- to carefully monitor due application of the rules on the remuneration of the managers in charge of the corporate control departments, in close coordination with the Board of Statutory Auditors;
- to prepare the documentation to be submitted to the body tasked with the strategic supervision of the related decisions;
- to cooperate with the other committees within the Board of Directors, in particular with the Internal Control and Risk Management Committee;
- to ensure that all appointed departments are involved in the process of preparing and monitoring the Policies;
- to provide input, based also on the information received from the corporate departments concerned, on the achievement of the performance targets to which the incentive plans are subject and to verify the other requirements for payment of the remuneration;
- to assess the need to make ex-post adjustments to the variable remuneration (malus and claw-back) and to submit proposals in this respect to the Board of Directors;
- to provide adequate feedback on the activities carried out to the corporate bodies, including the Shareholders' Meeting, checking the adequacy of the information to be provided to shareholders in relation to the Policies, particularly concerning any proposals to exceed the variable-fixed remuneration ratio of 1:1;
- to make proposals to the Board of Directors concerning the use of external experts specialised in Remuneration and Incentive Policies;
- to check that the existing remuneration policy is up-to-date, and to propose any required amendments.

In order to perform its duties effectively and responsibly, the Remuneration Committee is given access to all data and information associated with the Board of Directors' decision-making process in relation to the preparation, implementation, monitoring and review of the Policies. The Committee is also provided with the necessary resources, and has unconditional access to all information and data produced by the control departments; it interacts with said control departments and with other relevant departments (e.g. the Human Capital, Legal and Finance Departments), whose resources may be asked to attend the Committee's meetings.

The Remuneration Committee adopts specific measures and practices to evaluate any external consultants that may be necessary for identifying and managing conflicts of interest, which are described in the Internal Regulation on the operation of the Committee.

The Internal Control and Risk Management Committee ascertains that the incentives underlying Banca Sistema's remuneration and incentive system are consistent with the RAF, notwithstanding the powers of the Remuneration Committee, checking, in the absence of the Director responsible for the Internal Control and Risk Management System, that the remuneration of the Head of the Internal Audit Department and of the Head of the Compliance Department is defined consistently with the Company's policies.

The Shareholders' Meeting approves:

- the Policies applicable to Group employees and "key personnel";
- any remuneration plans based on financial instruments (for example, stock option and stock grant plans);
- the criteria for determining any compensation to be paid in the event of early termination of employment or early exit from office, including the limits upon such compensation in terms of the number of years of fixed remuneration and the maximum amount resulting from application of such criteria (so-called golden parachute).

On approving the Policies, the Shareholders' Meeting also resolves on any proposal to cap the ratio between the variable and fixed remuneration paid to individual staff members at more than 1:1, but not in excess of the maximum limit of 2:1.

For the current year, only with reference to the Chief Executive Officer, a maximum limit of 2:1 on the ratio between variable and fixed remuneration is envisaged. Therefore, for the remaining personnel the general limit of 1:1 is envisaged, without prejudice to what is specified below with reference to certain specific categories of personnel (see Chapter 7.3).

The Group companies are also given the opportunity to cap the ratio between the variable and fixed remuneration paid to individual employees at more than 1:1, but not in excess of the maximum limit of 2:1. In this regard, being a Group, the Shareholders' Meeting empowered to decide on the proposal to set a ratio of more than 1:1 is that of the Group company in which the personnel to whom the decision refers are employed. Banca Sistema may vote in favour of the proposal to increase the limit submitted for approval to the Shareholders' Meeting of a Group company.

The Board of Statutory Auditors has an advisory function and monitors the proper application of the remuneration policies based on the provisions and regulations in force at the time.

Banca Sistema's control departments, together with those of the Group companies, cooperate and exchange all relevant information.

b.2) Information on the criteria used for performance measurement and ex-ante and ex-post risk adjustment.

In order to align the incentive systems with prudent risk management policies and ensure long-term business solidity and continuity, the annual Incentive Systems take into account the Group's Risk Appetite and Risk Tolerance as expressed in the RAF. The payable Bonus Pool is linked to the verification of the achievement of some indicators referred to as "gates", without which no bonus can be paid. Profitability, risk and capital requirements targets are also identified and assigned in the sheets of the main management roles.

b.3) Whether the management body or the remuneration committee where established reviewed the institution's remuneration policy during the past year, and if so, an overview of any changes that were made, the reasons for those changes and their impact on remuneration.

The 2021 Group Policies have been drawn up in accordance with Part One, Title IV, Chapter 2 of Bank of Italy Circular No. 285 of 17 December 2013, as subsequently amended and supplemented concerning "Remuneration and incentive policies and practices" ("Circular 285"), implementing Directive 2013/36/EU ("CRD IV"), and with the guidelines of the European Banking Authority ("EBA") on sound remuneration policies (hereinafter, the "Guidelines", and jointly the "Provisions"). The Policy also takes into account the technical standards and regulations agreed at international level, including those issued by the EBA, the Financial Stability Board ("FSB"), as well as those governing related party transactions.

In light of the developments in the regulatory framework, the context in which the Group operates and the objectives for sustainable growth over the long term, this document provides for the following main changes with respect to the previous version of 2021:

- adoption of new payout schemes for the variable component of remuneration, connected to the concept of principle of proportionality arising from the regulatory changes introduced by the 37th update of Bank of Italy Circular no. 285/2013 (paragraph 6.4.2);
- identification of "Key Personnel" through the adoption of the criteria laid down in the update of the EBA RTS of June 2020 and the consequent Delegated Regulation (EU) 2021/923 of 25/03/21;

- review of the Policy regarding the remuneration agreed in view of or on the occasion of the early termination of employment or early exit from office;
- introduction of specific gender neutrality provisions in the Bank's Remuneration Policies;
- strengthening of ESG factors as part of the annual performance management process;
- as regards the non-financial objectives, already included in the previous versions, the Bank: (i) opted for the preparation of voluntary non-financial reporting, thus preparing the Sustainability Report also for the year 2021, drafted in line with the GRI standards; (ii) will, at the same time, cover the areas of reporting under Italian Legislative Decree 254/2016, which will therefore add value to the base of the parameters, including the identification of additional non-financial objectives in particular to ensure a long-term approach and the convergence of the interests of all the stakeholders;
- update to the amount of particularly high variable remuneration of Italian high earners, as indicated in the latest EBA report published in August 2021 with reference to 2019 remuneration.

b.4) Information of how the institution ensures that staff in internal control functions are remunerated independently of the businesses they oversee.

In the case of personnel employed in the Bank's Control Departments, the variable component of remuneration is limited, and granting of the bonus is subject to the achievement of targets consistent with the duties assigned to the departments, in particular with corporate sustainability targets (e.g. cost containment, strengthening of capital, etc.) provided that they do not result in possible conflicts of interest, that are in no way linked to the Bank's financial performance and are independent of the results achieved by those areas under their control.

For key personnel in the Control Departments, fixed remuneration is commensurate with key responsibilities and with the commitment associated with the role performed.

The variable component of the remuneration payable to key personnel of control departments may not exceed the limit of 1/3 (one-third) of the fixed component.

The Bank's control departments include the Internal Audit Department, the Risk Department, and the Compliance and Anti-Money Laundering Department.

b.5) Policies and criteria applied for the award of guaranteed variable remuneration and severance payments.

Details regarding the golden parachutes in place for the year 2021 and also valid for 2022 are provided in chapter 6.6 "Severance Policy", paragraph 6.6.1 Golden Parachutes of the Remuneration Policies.

c. Description of the ways in which current and future risks are taken into account in the remuneration processes. Disclosures shall include an overview of the key risks, their measurement and how these measures affect remuneration.

The total amount of the variable component to be paid to the Bank's personnel ("Bonus Pool") is based on actual, long-term results and also takes into account financial and non-financial qualitative and quantitative targets, including those established by the business plan approved by the Board of Directors and indicated by the annual budgets, and the RAF.

Banca Sistema has defined a structured funding process for the variable component of remuneration, as defined in paragraph 6.4, in order to ensure its sustainability on a capital and financial level.

Specifically, the bonus pool for 2021 can only be distributed if the Bank's gross earnings are positive. The "gross earnings" considered in this respect are the consolidated gross earnings of the Group for the year (if necessary adjusted to ensure their comparability with previous years' figures) as represented in the Directors' Report submitted to the Bank's Board of Directors ("**Gross Earnings**").

Furthermore, the indicators of company-level performance – to which the distribution of the variable component under the Bonus Pool is subject – are as follows:

- **CONDITION FOR DISTRIBUTION** – distribution of the Bonus Pool is subject to the achievement of positive Consolidated Gross Earnings;
- **CONDITION FOR ACCESS** – satisfying the Key Risk Indicators ("KRI"), which are envisaged in the RAF for the reference year, defined as first-level threshold of the **Common Equity Tier 1 – CET1** and the **Liquidity Coverage Ratio – LCR**.

Failure to reach the first-level threshold, as indicated in the RAF, for even just one of the aforementioned 2 KRI shall result in the Bank not distributing any Bonus.

The achievement of company-level performance targets is assessed by the Board of Directors, with input from the Remuneration Committee, in accordance with the procedures described in the Policies.

The Bonus Pool is calculated as a set percentage (not exceeding 10% of Gross Earnings), when the Bank's annual budget is defined, and is approved each year by the Bank's Board of Directors, together with approval of the budget for the year, upon the proposal of the CEO, following consultation with the CFO, the Manager in charge of financial reporting, the Head of the Risk Department and the Head of the Compliance Department. The CEO's proposal shall be assessed by the Remuneration Committee, which in turn shall submit its opinion to the Board of Directors.

Calculation of the Bonus Pool is also subject to adjustment mechanisms that may result in a reduction, even of a substantial nature, or in the zeroing of the variable remuneration, particularly in the event of much worse results than those established, or of negative results, or if the Bank is not capable of maintaining or recovering a sound capital base. In particular, the Bonus Pool is subject to ex-post adjustment according to the value of the Return on Risk Adjusted Capital ("RORAC") given in the preceding year's RAF, as detailed below:

- should the RORAC achieved the previous year exceed the target as set out in the RAF, the Bonus Pool shall be distributable in the amount of 150% (the RORAC, CET1 and LCR may not fall below this target, as a result of said greater amount);
- if the RORAC value for the period exceeds the first-level threshold specified in the RAF, 100% of the Bonus Pool is distributed;
- if the RORAC value for the period is between the first- and second-level threshold, 80% of the Bonus Pool is distributed;
- if the RORAC value is below the second-level threshold specified in the RAF, the Bank's Board of Directors shall decide not to pay the Bonuses.

d. The ratios between fixed and variable remuneration set in accordance with point (g) of Article 94(1) CRD

The ratio between the fixed and variable components of remuneration is accurately determined and carefully evaluated in relation to the characteristics of the Bank and of the various categories of personnel. As a rule, the variable component of remuneration may not exceed 100% of the fixed component (ratio of 1:1). However, as permitted under the applicable legislation and in the Bank's Articles of Association, the Board of Directors may request the Shareholders' Meeting to grant to one or more "key personnel" positions or uniform categories of personnel a variable remuneration in excess of 100% but not exceeding 200% of the fixed remuneration (ratio of 2:1). This applies only in exceptional cases and the reasons for the proposal to exceed the aforementioned ratio must be clearly stated, with indication also of the current and future implications on the Bank's ability to continue to comply with all prudential rules. The Shareholders' Meeting may however decide, at any time, on a reduction of the limit exceeding 1:1, on the basis of the majorities envisaged for the ordinary Shareholders' Meeting. Within five days of the Shareholders' Meeting's decision, the Bank shall inform the Bank of Italy of the decision taken. Currently, exceeding the 1:1 ratio between variable and fixed remuneration is authorised only for the Chief Executive Officer and General Manager.

e. Description of the ways in which the institution seeks to link performance during a performance measurement period with levels of remuneration. Disclosures shall include:

e.1) an overview of main performance criteria and metrics for institution, business lines and individuals.

The indicators of company-level performance – to which the distribution of the variable component under the Bonus Pool is subject – are as follows:

- **CONDITION FOR DISTRIBUTION** – distribution of the Bonus Pool is subject to the achievement of positive Consolidated Gross Earnings;
- **CONDITION FOR ACCESS** – satisfying the Key Risk Indicators ("KRI"), which are envisaged in the RAF for the reference year, defined as first-level threshold of the Common Equity Tier 1 – CET1 and the Liquidity Coverage Ratio – LCR.

Failure to meet even one of the aforementioned parameters will prevent access to the Bonus Pool and consequently no bonus will be allocated.

The fulfilment of the aforesaid Conditions for access is assessed by the Board of Directors, with input from the Remuneration Committee, in accordance with the procedure described in the Policies.

e.2) an overview of how amounts of individual variable remuneration are linked to institution-wide and individual performance.

After verifying the satisfaction of the conditions for access, the bonuses will be calculated on the basis of the results actually achieved relative to each target set in the bonus sheet defined for each member of key personnel in the year considered.

In fact, at the beginning of the year, all beneficiaries of the incentive system are assigned specific quantitative and qualitative "Business" targets linked to their Department and/or Business Line/Division.

The performance appraisal process is carried out yearly as follows: the Bank's employees log onto their personal account on the Banca Sistema HR portal and share the quantitative and qualitative targets for the year with their direct heads.

Each quantitative and qualitative target is assigned a percentage weight, indicating its importance, and includes a precise description of the performance standards in terms of methods, timeframes and content so as to enable the accurate appraisal of the results achieved.

e.3) information on the criteria used to determine the balance between different types of instruments awarded including shares, equivalent ownership interest, options and other instruments.

Banca Sistema falls into the category of "medium size" banks in 2021 since its total assets are above € 3.5 billion at both individual and consolidated level under Circular 285, Title IV, Chapter 2.

As a medium size bank, therefore, and in accordance with the principle of proportionality, it shall apply the provisions relating to key personnel subject to percentages and to deferral and retention periods that may be reduced to less than half of those set out in the applicable legislation, but in doing so it shall weigh up a prudential 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, that are thus extended to all Key Personnel.

The Bank also indicates 25% of average total remuneration of Italian high earners, as indicated in the latest EBA report published and relating to data processed at the end of 2018, as being a particularly high level of variable remuneration ([6]).

In 2020, the variable component of remuneration for "key personnel" will be paid as follows upon approval of the financial statements:

- for amounts equal to or lower than € 30,000, variable remuneration shall be paid entirely up-front and in cash, subject to the necessary approval of the Board of Directors and of the Shareholders' Meeting provided for in these Policies;
- for amounts greater than € 30,000 and up to € 438,000, 70% of the variable remuneration shall be paid up-front (50% in cash and 50% in shares of the Bank), and the remaining 30% (50% in cash and 50% in shares of the Bank) shall be deferred and paid at the end of the three-year deferral period;
- for amounts greater than € 438,000, 60% of the variable remuneration shall be paid up-front (50% in cash and 50% in shares of the Bank) and the remaining 40% (24% in cash and 76% in shares of the Bank) shall be deferred and paid at the end of the three-year deferral period.

e.4) information of the measures the institution will implement to adjust variable remuneration in the event that performance metrics are weak, including the institution's criteria for determining "weak" performance metrics.

Failure to meet even one of the aforementioned parameters and access criteria (''gates'') referred to in point e.1 above will prevent access to the Bonus Pool and consequently no bonus will be allocated.

The fulfilment of the aforesaid Conditions for access is assessed by the Board of Directors, with input from the Remuneration Committee, in accordance with the procedure described in the Policies.

f. Description of the ways in which the institution seeks to adjust remuneration to take account of long-term performance

f.1) an overview of the institution's policy on deferral, payout in instrument, retention periods and vesting of variable remuneration including where it is different among staff or categories of staff.

In 2020, the variable component of remuneration for "key personnel" will be paid as follows upon approval of the financial statements:

- for amounts equal to or lower than € 30,000, variable remuneration shall be paid entirely up-front and in cash, subject to the necessary approval of the Board of Directors and of the Shareholders' Meeting provided for in these Policies;
- for amounts greater than € 30,000 and up to € 438,000, 70% of the variable remuneration shall be paid up-front (50% in cash and 50% in shares of the Bank), and the remaining 30% (50% in cash and 50% in shares of the Bank) shall be deferred and paid at the end of the three-year deferral period;
- for amounts greater than € 438,000, 60% of the variable remuneration shall be paid up-front (50% in cash and 50% in shares of the Bank) and the remaining 40% (24% in cash and 76% in shares of the Bank) shall be deferred and paid at the end of the three-year deferral period.

(6) Pursuant to Title IV, Chapter 2, Section III, Paragraph 2, no. 4: *"Particularly high variable remuneration means the lower of: i) 25 per cent of the average total remuneration of Italian high earners, as indicated in the latest EBA report; and ii) 10 times the average total remuneration of the Bank's employees. The banks' remuneration policies shall indicate the level of variable remuneration that they consider to be particularly high, and they shall update this figure at least once every three years"*. An examination of the EBA Report on figures for the end of 2018 shows that the amount referred to in point i) above is € 438,000.

f.2) information of the institution's criteria for ex post adjustments (malus during deferral and clawback after vesting, if permitted by national law).

With a view to allowing the use of suitable ex-post adjustment mechanisms, during the deferral period, whether relating to variable remuneration in cash or shares, the Bank may reduce or cancel altogether the deferred portion of the remuneration to reflect actual performance throughout the whole three-year period, net of risks assumed or incurred, and/or to take into account the Bank's financial and liquidity position or any unexpected situations/extraordinary events (e.g. new risks, unexpected losses) or the beneficiary's individual conduct. For the purposes of applying the malus mechanisms, the Bank also considers any conduct by the Bank's personnel or credit intermediaries that has caused or contributed to causing significant damage to customers or a violation of the provisions contained in Title VI of the Consolidated Law on Banking or the related implementing provisions. In this sense, the deferred portions will be effectively paid subject to verification of compliance with the gates defined by the Remuneration Policy for the year of accrual thereof. In the event of failure to meet the gates, the Board of Directors, subject to the opinion of the Remuneration Committee and the Internal Control and Risk Management Committee, will decide to reduce those portions or cancel them altogether.

Any disciplinary measures applied by the Bank to employees during the deferral period shall be taken into consideration for evaluation purposes, in regard to individual conduct as per this paragraph, in particular conduct implying an impact on the risks actually taken or incurred, or to the following conduct:

- conduct that does not comply with the provisions of law, regulations, Articles of Association or the Bank's Code of Ethics or other codes of conduct that apply to the Bank, which results in a significant loss for the bank or for customers;
- other conduct that does not comply with the provisions of law, regulations, Articles of Association or any codes of ethics or conduct that apply to the Bank, in those cases provided for by the Bank;
- breach of the requirements set out in article 26, or, if the employee is an interested party, the breach of the requirements of article 53, paragraph 4 ff. of the Consolidated Law on Banking or of the requirements associated with remuneration and incentives;
- fraudulent conduct or gross negligence to the detriment of the Bank.

For the purposes of applying the malus mechanisms, the Bank also considers any conduct by the Bank's personnel or credit intermediaries that has caused or contributed to causing significant damage to customers or a violation of the provisions contained in Title VI of the Consolidated Law on Banking or the related implementing provisions.

Incentives that have already been granted and/or paid to employees are subject to claw-back (i.e. the incentives granted are no longer paid or those already paid must be refunded) when it is found that the beneficiaries are responsible for or involved in:

- conduct that does not comply with the provisions of law, regulations or Articles of Association that apply to the Bank or with the Code of Ethics adopted by the Bank or other codes of conduct applicable to the Bank, in those cases provided for by the Bank, which result in a significant loss for the Bank or for customers;
- other conduct that does not comply with the provisions of law, regulations or Articles of Association that apply to the Bank or with the Code of Ethics adopted, in those cases provided for by the Bank;
- breach of the requirements set out in article 26, or, if the employee is an interested party, the breach of the requirements of article 53, paragraph 4 ff. of the Consolidated Law on Banking or of the requirements associated with remuneration and incentives;
- fraudulent conduct or gross negligence to the detriment of the Bank;
- conduct that caused or contributed to causing significant damage to customers.

The period of application of the claw-back clauses for "Key personnel" is at least 5 years, and this period shall run from payment of the single (up-front or deferred) portion of variable remuneration.

Upon the occurrence of the aforementioned events, following the adoption of a disciplinary measure, the Bank activates the decision-making process aimed at assessing the reductions to be applied, involving the bodies and departments in charge of defining the remuneration for the individual personnel categories.

f.3) where applicable, shareholding requirements that may be imposed on key personnel.

There are no additional shareholding requirements with respect to the retention periods applicable for the shares relating to previous years. With the 2022 Policies, the deferral will take place only through cash amounts.

g. The description of the main parameters and rationale for any variable components scheme and any other non-cash benefit in accordance with point (f) of Article 450(1) CRR

g.1) Information on the specific performance indicators used to determine the variable components of remuneration and the criteria used to determine the balance between different types of instruments awarded, including shares, equivalent ownership interests, share-linked instruments, equivalent non-cash instruments, options and other instruments.

The remuneration paid to the Group's personnel includes a fixed component, which is paid to all employees, a "benefit" component and a variable component that is paid to the "key personnel", that may be applied to personnel other than key personnel of the Bank. The variable component of remuneration (hereinafter also referred to as the "Bonus"):

- is paid to personnel classifiable as "key personnel" when certain set targets are achieved (without prejudice to the provisions of the Policy); – may also be paid to personnel other than "key personnel";
- is based on performance indicators measured net of risks and consistently with the measures used for management purposes by the Risk Department (the so-called ex-ante risk adjustment);
- is subject to attaining specific performance targets both at Group, Business Division/Department/Subsidiary and personal level.

h. Upon demand from the relevant Member State or competent authority, the total remuneration for each member of the management body or senior management, in accordance with point (j) of Article 450(1) CRR

Reference is made to the tables at the foot of Section II of the Remuneration Report.

i. Information on whether the institution benefits from a derogation laid down in Article 94(3) CRD in accordance with point (k) of Article 450(1) CRR

The Banca Sistema Group does not benefit from the application of the derogation referred to in Article 94(3) of the CRD.

QUANTITATIVE DISCLOSURE

TEMPLATE EU REM1 – REMUNERATION AWARDED FOR THE FINANCIAL YEAR

(Amounts in thousands of Euro)

		Management Body - supervisory function	Management Body - management function	Other senior management	Other key personnel
Fixed Remuneration	Number of key personnel members	12	1	12	20
	Total fixed remuneration	883	924	2,023	2,317
	Of which: cash-based	883	874	2,023	2,317
	(Not applicable in the EU)				
	Of which: shares or equivalent ownership interests	0	0	0	0
	Of which: share-linked instruments or equivalent non-cash instruments	0	0	0	0
	Of which: other instruments	0	0	0	0
	(Not applicable in the EU)				
	Of which: other forms	0	50	138	168
	(Not applicable in the EU)				
Variable remuneration	Number of key personnel members	8	1	12	20
	Total variable remuneration		490	467	250
	Of which: cash-based		194	293	250
	Of which: deferred		47	52	
	Of which: shares or equivalent ownership interests		296	174	0
	Of which: deferred		149	52	0
	Of which: share-linked instruments or equivalent non-cash instruments		0	0	0
	Of which: deferred		0	0	0
	Of which: other instruments		0	0	0
	Of which: deferred		0	0	0
	Of which: other forms		0	0	0
	Of which: deferred		0	0	0
Total remuneration (2 + 10)		**883**	**1,414**	**2,490**	**2,567**

TEMPLATE EU REM2: SPECIAL PAYMENTS TO STAFF WHOSE PROFESSIONAL ACTIVITIES HAVE A MATERIAL IMPACT ON INSTITUTIONS' RISK PROFILE (KEY PERSONNEL)

	Management Body - supervisory function	Management Body - management function	Other senior management	Other key personnel
Guaranteed variable remuneration awards				
Guaranteed variable remuneration awards – Number of key personnel members	0	0	0	0
Guaranteed variable remuneration awards – Total amount	0	0	0	0
Of which guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap	0	0	0	0
Severance payments awarded in previous periods, that have been paid out during the financial year				
Severance payments awarded in previous periods, that have been paid out during the financial year – Number of key personnel members	0	0	0	0
Severance payments awarded in previous periods, that have been paid out during the financial year – Total amount	0	0	0	0
Severance payments awarded during the financial year				
Severance payments awarded during the financial year – Number of key personnel members	0	0	0	0
Severance payments awarded during the financial year – Total amount	0	0	0	0
- of which paid during the financial year	0	0	0	0
- of which deferred	0	0	0	0
- of which severance payments paid during the financial year, that are not taken into account in the bonus cap	0	0	0	0
- of which highest payment that has been awarded to a single person	0	0	0	0

TEMPLATE EU REM3 - DEFERRED REMUNERATION

(Amounts in thousands of Euro)

	Deferred and retained remuneration	Total amount of deferred remuneration awarded for previous performance periods	Of which due to vest in the financial year	Of which vesting in subsequent financial years	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e. changes of value of deferred remuneration due to the changes of prices of instruments)	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
Management Body – supervisory function									
Cash-based									
Shares or equivalent ownership interests									
Share-linked instruments or equivalent non-cash instruments									
Other instruments									
Other forms									
Management Body – management function	1,300	283	1,017	-	-	-	-	-	
Cash-based	562	141	420	-	-	-	-	-	
Shares or equivalent ownership interests	738	141	597	-	-	-	-	-	
Share-linked instruments or equivalent non-cash instruments	-			-	-	-	-	-	
Other instruments	-			-	-	-	-	-	
Other forms	-			-	-	-	-	-	
Other senior management	372	138	235	-	-	-	-	-	
Cash-based	132	15	117	-	-	-	-	-	
Shares or equivalent ownership interests	240	123	117	-	-	-	-	-	
Share-linked instruments or equivalent non-cash instruments	-			-	-	-	-	-	
Other instruments	-			-	-	-	-	-	
Other forms	-			-	-	-	-	-	
Other key personnel	97	70	27	-	-	-	-	-	
Cash-based	14	-	14	-	-	-	-	-	
Shares or equivalent ownership interests	84	70	14	-	-	-	-	-	
Share-linked instruments or equivalent non-cash instruments	-			-	-	-	-	-	
Other instruments	-			-	-	-	-	-	
Other forms	-			-	-	-	-	-	
Total Amount	**1,769**	**490**	**1,279**	**-**	**-**	**-**	**-**	**-**	

TEMPLATE EU REM4 – REMUNERATION OF 1 MILLION EUR OR MORE PER YEAR

€	Key personnel that are high earners as set out in Article 450(i) CRR
1,000,000 to below 1,500,000	1
1,500,000 to below 2,000,000	
2,000,000 to below 2,500,000	
2,500,000 to below 3,000,000	
3,000,000 to below 3,500,000	
3,500,000 to below 4,000,000	
4,000,000 to below 4,500,000	
4,500,000 to below 5,000,000	
5,000,000 to below 6,000,000	
6,000,000 to below 7,000,000	
7,000,000 to below 8,000,000	

TEMPLATE EU REM5 – INFORMATION ON REMUNERATION OF STAFF WHOSE PROFESSIONAL ACTIVITIES HAVE A MATERIAL IMPACT ON INSTITUTIONS' RISK PROFILE (KEY PERSONNEL)

(Amounts in thousands of Euro)

	Management body remuneration			Business areas						
	Management Body - supervisory function	Management Body - management function	Total Management Body	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	All other	Total
Total number of key personnel members	12	1					13	7	12	45
Of which: members of the management body	12									12
Of which: other senior management		1					13			14
Of which: other key personnel								7	12	19
Total remuneration of key personnel	883	1,414					2,605	989	1,453	7,344
Of which: variable remuneration		490					467	108	142	1,207
Of which: fixed remuneration	883	924					2,138	881	1,311	6,137

SECTION 17 – LEVERAGE

QUALITATIVE DISCLOSURE

Starting from 1 January 2015, the Leverage Ratio was introduced with the objective of containing the degree of Banks' debt entering a minimum level to hedge overall exposures by means of own funds. The minimum level of the ratio was set at 3% by the Basel Committee.

The Leverage Ratio is calculated as the ratio between the Tier 1 Capital and the overall exposure.

As at 31 December 2021, a leverage ratio equal to 5.97%, above the minimum regulatory level proposed by the Basel Committee, was recorded. The ratio is currently reported quarterly to the Bank of Italy for monitoring purposes.

In the context of the Covid-19 pandemic crisis, Regulation 2020/873 introduced changes relating to the determination of the leverage ratio. Article 500b allows for certain central bank exposures to be excluded from the total exposure measure until 27 June 2021, namely a) coins and banknotes constituting legal currency in the jurisdiction of the central bank; and b) assets representing claims on the central bank, including reserves held at the central bank. On 10 November 2020, the Bank of Italy publicly declared the existence of exceptional circumstances justifying the application of this article.

The bank considers its leverage risk to be low, partly given that about 17% of the total assets used to calculate the ratio consists of the treasury portfolio that is wholly comprised of Italian Government Securities having an overall duration of less than three years. The short duration of the portfolio guarantees both limited changes in the fair value of the securities and, in the event of significant negative changes in fair value, the possibility of deciding whether to keep the security until maturity, de facto cancelling any losses that might be realised.

The following tables show the leverage ratio at 31 December 2021, and the breakdown of total exposure into the main categories, as required by the relevant articles of the CRR.

QUANTITATIVE DISCLOSURE

TEMPLATE EU LR1 – LRSUM: SUMMARY RECONCILIATION OF ACCOUNTING ASSETS AND LEVERAGE RATIO EXPOSURES

(Amounts in thousands of Euro)

	Applicable amount 31.12.2021
Total assets as per published financial statements	3,708,891
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation	
(Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference)	-
(Adjustment for temporary exemption of exposures to central banks (if applicable))	-18,452
(Adjustment for fiduciary assets recognised in the statement of financial position pursuant to the applicable accounting framework but excluded from the total exposure measure in accordance with point (i) of Article 429a(1) CRR)	-
Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting	-
Adjustment for eligible cash pooling transactions	-
Adjustments for derivative financial instruments	-
Adjustment for securities financing transactions (SFTs)	718
Adjustment for off-statement of financial position items (ie conversion to credit equivalent amounts of off-statement of financial position exposures)	46,728
(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital)	-
(Adjustment for exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) CRR)	-
(Adjustment for exposures excluded from the total exposure measure in accordance with point (j) of Article 429a(1) CRR)	
Other adjustments	-28,043
Total exposure measure	**3,709,841**

TEMPLATE EU LR2 – LRCOM: LEVERAGE RATIO COMMON DISCLOSURE

(Amounts in thousands of Euro)

On-statement of financial position exposures (excluding derivatives and SFTs)	31.12.2021
On-statement of financial position items (excluding derivatives, SFTs, but including collateral)	3,713,263
Gross-up for derivatives collateral provided where deducted from the statement of financial position assets pursuant to the applicable accounting framework	0
(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	0
(Adjustment for securities received under securities financing transactions that are recognised as an asset)	0
(General credit risk adjustments to on-statement of financial position items)	0
(Asset amounts deducted in determining Tier 1 capital)	-32,415
Total on-statement of financial position exposures (excluding derivatives and SFTs)	**3,680,848**
Replacement cost associated with SA-CCR derivatives transactions (ie net of eligible cash variation margin)	0
Derogation for derivatives: replacement costs contribution under the simplified standardised approach	0
Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	0
Derogation for derivatives: potential future exposure contribution under the simplified standardised approach	0
Exposure determined under Original Exposure Method	0
(Exempted CCP leg of customer-cleared trade exposures) (SA-CCR)	0
(Exempted CCP leg of customer-cleared trade exposures) (simplified standardised approach)	0
(Exempted CCP leg of customer-cleared trade exposures) (Original Exposure Method)	0
Adjusted effective notional amount of written credit derivatives	0
(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0
Total derivatives exposures	**0**
Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions	0
(Netted amounts of cash payables and cash receivables of gross SFT assets)	0
Counterparty credit risk exposure for SFT assets	718
Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429e(5) and 222 CRR	0
Agent transaction exposures	0
(Exempted CCP leg of customer-cleared SFT exposure)	0
Total securities financing transaction exposures	**718**
Off-statement of financial position exposures at gross notional amount	0
(Adjustments for conversion to credit equivalent amounts)	0
(General provisions deducted in determining Tier 1 capital and specific provisions associated with off-statement of financial position exposures)	0
Off-statement of financial position exposures	**46,728**
(Exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) CRR)	0
(-) Central bank exposures exempted in accordance with point (n) of Article 429(1) CRR	-18,452

On-statement of financial position exposures (excluding derivatives and SFTs)	31.12.2021
(Exposures exempted in accordance with point (j) of Article 429a (1) CRR (on and off statement of financial position))	0
(Excluded exposures of public development banks (or units) - Public sector investments)	0
(Excluded exposures of public development banks (or units) - Promotional loans)	0
(Excluded passing-through promotional loan exposures by non-public development banks (or units))	0
(Excluded guaranteed parts of exposures arising from export credits)	0
(Excluded excess collateral deposited at triparty agents)	0
(Excluded CSD related services of CSD/institutions in accordance with point (o) of Article 429a(1) CRR)	0
(Excluded CSD related services of designated institutions in accordance with point (p) of Article 429a(1) CRR)	0
(Reduction of the exposure value of pre-financing or intermediate loans)	0
(Total exempted exposures)	**-18,452**
Tier 1 Capital	**221,576**
Total exposure measure	**3,709,841**
Leverage ratio (%)	5.973%
Leverage ratio (excluding the impact of the exemption of public sector investments and promotional loans) (%)	5.973%
Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) (%)	5.943%
Regulatory minimum leverage ratio requirement (%)	3.000%
Additional own funds requirements to address the risk of excessive leverage (%)	0.000%
- of which: to be made up of CET1 capital	0.000%
Leverage ratio buffer requirement (%)	0.000%
Overall leverage ratio requirement (%)	3.000%

TEMPLATE EU LR3 – LRSPL: SPLIT-UP OF ON-STATEMENT OF FINANCIAL POSITION EXPOSURES (EXCLUDING DERIVATIVES, SFTS AND EXEMPTED EXPOSURES)

(Amounts in thousands of Euro)

	CRR leverage ratio exposures 31.12.2021
Total on-statement of financial position exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**3,669,171**
Trading book exposures	0.026
Banking book exposures, of which:	3,669,171
Covered bonds	-
Exposures treated as sovereigns	1,127,980
Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	588,809
Institutions	89,348
Secured by mortgages of immovable properties	2,245
Retail exposures	1,021,199
Corporates	504,286
Exposures in default	255,555
Other exposures (eg equity, securitisations, and other non-credit obligation assets)	79,751

SECTION 19 – RISK MITIGATION TECHNIQUES

QUALITATIVE DISCLOSURE

The strategies pursued by the Banking Group require that credit lines be preferably backed by appropriate guarantees and instruments to mitigate risk. Given their capacity to spread credit risk, when managed in conjunction with customer knowledge, guarantees become the primary and most effective instrument for effectively mitigating risk.

The Banca Sistema Group has implemented the requirements set forth in Regulation (EU) 575/2013 for the purposes of recognising the effects of mitigating credit risk due to collateral and personal guarantees in place for credit protection.

As a result of government measures to support the economy during the Covid-19 emergency, guarantees issued by public entities such as SACE have become increasingly important over the last financial year.

Collateral, as at 31 December 2021, included "credit lines opening on a current account secured by collateral" transactions amounting to approximately € 89 million.

QUANTITATIVE DISCLOSURE

TEMPLATE EU CR3 – CRM TECHNIQUES OVERVIEW: DISCLOSURE OF THE USE OF CREDIT RISK MITIGATION TECHNIQUES

(Amounts in thousands of Euro)

	Unsecured carrying amount	Secured carrying amount			
			of which secured by collateral	of which secured by financial guarantees	
					of which secured by credit derivatives
Loans and advances	1,802,507	1,208,180	1,011,188	196,993	-
Debt securities	630,096	0	0	0	
Total	2,432,603	1,208,180	1,011,188	196,993	-
- of which non-performing exposures	297,810	17,262	11,121	6,140	-
- of which defaulted	297,810	17,262	11,121	6,140	0

SECTION 22 – REPORTING AND DISCLOSURE OF EXPOSURES SUBJECT TO MEASURES APPLIED IN RESPONSE TO THE COVID-19 CRISIS (EBA/GL/2020/07)

QUALITATIVE DISCLOSURE

By means of a communication dated 30 June 2020, the Bank of Italy implemented the EBA Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis (EBA/GL/2020/07). The purpose of the guidelines is to monitor, on a European level and in a harmonised manner, the moratoria granted to support customers in response to the COVID-19 crisis as well as to provide an accurate understanding of the risk profile of the supervised institutions, consistent with FINREP consolidated reporting information. To this end, institutions are required to disclose information on:

- exposures subject to legislative and non-legislative moratoria applied in light of the COVID-19 crisis (EBA/GL/2020/02);
- exposures subject to forbearance measures applied in response to the COVID-19 crisis;
- new exposures covered by public guarantee schemes introduced in Member States.

QUANTITATIVE DISCLOSURE

Table 4: Disclosure of loans and advances subject to legislative and non-legislative moratoria

(Amounts in thousands of Euro)

	Gross carrying amount						
		Performing			Non performing		
			Of which: forborne exposures	Of which: instruments with a significant increase in credit risk after initial recognition but which are performing (Stage 2)		Of which: forborne exposures	Of which: unlikely to pay that are not past due or are past due less than 90 days
Loans and advances subject to moratoria	9,307	3,546	0	2,507	5,761	0	0
- of which: to households	0	0	0	0	0	0	0
- of which: secured by residential real estate put up as collateral	0	0	0	0	0	0	0
- of which: to non-financial corporations	9,307	3,546	0	2,507	5,761	0	0
- of which: to SMEs	3,360	3,360	0	2,507		0	0
collateral	0		0	0		0	0

(Amounts in thousands of Euro)

	Accumulated impairment and accumulated negative changes in fair value due to credit risk							Gross carrying amount
		Performing			Non performing			Flows into non-performing exposures
			Of which: forborne exposures	Of which: instruments with a significant increase in credit risk after initial recognition but which are performing (Stage 2)		Of which: forborne exposures	Of which: unlikely to pay that are not past due or are past due less than 90 days	
Loans and advances subject to moratoria	-1,370	-45	0	- 12	-1,325	0	0	0
- of which: to households	0	0	0	0	0	0	0	0
- of which: secured by residential real estate put up as collateral	0	0	0	0	0	0	0	0
- of which: to non-financial corporations	-1,370	-45	0	- 12	-1,325	0	0	0
- of which: to SMEs	-39	-39	0	- 12	0	0	0	0
collateral	0	0	0	0	0	0	0	0

Table 5: Breakdown of loans and advances subject to legislative and non-legislative moratoria by remaining duration of moratoria

(Amounts in thousands of Euro)

	Number of debtors	Gross amount							
			Of which: legislative moratoria	of which past due	Remaining duration of moratoria				
					<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
Loans and advances for which a moratorium has been offered	34	10,460							
Loans and advances for which a moratorium has been granted	34	10,460	10,460	1,152	9,307				
of which: to households									
of which: secured by residential real estate put up as collateral									
of which: to non-financial corporations			10,460	1,152	9,307				
of which: to SMEs			4,308	948	3,360				
of which: secured by non-residential real estate put up as collateral									

Table 6: Information on new loans and advances subject to newly implemented public guarantee schemes introduced in response to the COVID-19 crisis

(Amounts in thousands of Euro)

	Gross amount		Maximum amount of the guarantee that can be considered	Gross carrying amount
		of which: subject to forbearance measures	Public guarantees received	Flows into non-performing exposures
New loans and advances subject to public guarantee schemes	156,627			
of which: to households	2,500			
of which: secured by residential real estate put up as collateral	0			
of which: to non-financial corporations	154,127			
of which: to SMEs	57,116			
of which: secured by non-residential real estate put up as collateral	0			

SECTION 23 – LIQUIDITY RISK

QUALITATIVE DISCLOSURE

For the purposes of supervisory regulations, the Group applies the calculation methods and frequencies specified in the regulations (Circular no. 285) to calculate the indicators relating to short-term liquidity (LCR – Liquidity Coverage Ratio), structural liquidity (NSFR – Net Stable Funding Ratio) and the Additional Liquidity Monitoring Metrics (ALMM).

QUANTITATIVE DISCLOSURE

Both the LCR and NSFR regulatory indicators are well above the minimum regulatory requirements.

In accordance with Commission Delegated Regulation (EU) 2015/61, which requires banks to adopt rules to comply with the “liquidity coverage requirement”, the Bank has established the ratio of the High Quality Liquid Asset (HQLA) buffer to “net liquidity outflows” over a 30 calendar day stress period as the indicator.

The liquidity buffer which contributes to the LCR indicator, since 99% of it is made up of government bonds, is highly liquid on the main financial trading markets, even in periods of stress.

TEMPLATE EU LIQ1 – QUANTITATIVE INFORMATION OF LCR

(Amounts in thousands of Euro)

	Total unweighted value (average)				Total weighted value (average)			
Quarter ending on (DD Month YYYY)	**31.12.2021**	**30.09.2021**	**30.06.2021**	**31.03.2021**	**31.12.2021**	**30.09.2021**	**30.06.2021**	**31.03.2021**
Number of data points used in the calculation of averages	-	-	-	-	-	-	-	-
HIGH-QUALITY LIQUID ASSETS								
Total high-quality liquid assets (HQLA)					433,089	395,881	340,886	419,368
CASH - OUTFLOWS								
Retail deposits and deposits from small business customers, of which:	1,061,052	1,020,079	1,031,776	1,069,930	19,265	18,650	17,876	14,857
- Stable deposits	186,351	218,027	214,690	174,086	9,318	10,901	10,735	8,704
- Less stable deposits	73,418	54,759	49,237	42,721	9,948	7,749	7,141	6,152
Unsecured wholesale funding	621,346	547,621	515,279	398,498	318,889	253,415	264,949	188,813
- Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-	-	-	-	-	-	-
- Non-operational deposits (all counterparties)	621,346	547,436	515,081	398,282	318,889	253,230	264,752	188,597
- Unsecured debt	-	186	198	215	-	186	198	215
- Secured wholesale funding					-	-	-	-
Additional requirements	15,526	255,909	245,212	241,936	2,835	25,449	24,358	27,688
- Outflows related to derivative exposures and other collateral requirements	-	-	-	-	-	-	-	-
- Outflows related to loss of funding on debt products	-	-	-	-	-	-	-	-
- Credit and liquidity facilities	15,526	255,909	245,212	241,936	2,835	25,449	24,358	27,688
Other contractual funding obligations	6,687	13,311	12,186	32,248	6,687	13,311	12,186	32,248
Other contingent funding obligations	-	-	-	-	-	-	-	-
TOTAL CASH OUTFLOWS					**347,676**	**310,824**	**319,368**	**263,605**
CASH - INFLOWS								
Secured lending (e.g. reverse repos)	-	-	-	-	-	-	-	-
Inflows from fully performing exposures	342,555	242,955	281,956	278,490	181,508	127,639	148,019	153,210
Other cash inflows	935	394	2,475	2,513	539	79	495	503

	Total unweighted value (average)				Total weighted value (average)			
Quarter ending on (DD Month YYYY)	**31.12.2021**	**30.09.2021**	**30.06.2021**	**31.03.2021**	**31.12.2021**	**30.09.2021**	**30.06.2021**	**31.03.2021**
(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					-	-	-	-
(Excess inflows from a related specialised credit institution)					-	-	-	-
TOTAL CASH INFLOWS	**343,490**	**243,349**	**284,431**	**281,003**	**182,048**	**127,718**	**148,514**	**153,712**
- Fully exempt inflows	-	-	-	-	-	-	-	-
- Inflows subject to 90% cap	-	-	-	-	-	-	-	-
- Inflows subject to 75% cap	343,490	243,349	284,431	281,003	182,048	127,718	148,514	153,712
TOTAL ADJUSTED VALUE								
Liquidity buffer					**433,089**	**395,881**	**340,886**	**419,368**
Total net cash outflows					**165,629**	**183,106**	**170,854**	**109,893**
Liquidity coverage ratio					**261.5%**	**216.2%**	**199.5%**	**381.6%**

TEMPLATE EU LIQ2: NET STABLE FUNDING RATIO

(Amounts in thousands of Euro)

(In currency amount)	Unweighted value by residual maturity				Weighted value
	No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
Available stable funding (ASF) Items					
Capital items and instruments	221,576	-	-	113	221,690
- Own funds	221,576	-	-	113	221,690
- Other capital instruments		-	-	-	-
Retail deposits		380,141	189,238	463,236	995,028
- Stable deposits		283,750	103,284	248,099	615,782
- Less stable deposits		96,391	85,953	215,137	379,246
Wholesale funding:		1,047,442	85,689	1,146,914	1,510,455
- Operational deposits		-	-	-	-
- Other wholesale funding		1,047,442	85,689	1,146,914	1,510,455
Interdependent liabilities		-	-	-	-
Other liabilities:	-	56,777	-	19,255	19,255
- NSFR derivative liabilities	-				
- All other liabilities and capital instruments not included in the above categories		56,777	-	19,255	19,255
Total available stable funding (ASF)					**2,746,427**

(In currency amount)	Unweighted value by residual maturity				Weighted value
	No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
Required stable funding (RSF) Items					
Total high-quality liquid assets (HQLA)					59,942
Assets encumbered for a residual maturity of one year or more in a cover pool		-	-	-	-
Deposits held at other financial institutions for operational purposes		-	-	-	-
Performing loans and securities:		887,089	377,391	1,277,582	1,383,002
- Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut		-	-	-	-
- Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions		20,462			20,462
- Performing loans to non- financial corporate customers, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:		110,929	182,876	1,008,084	978,156
- With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		50,116	65,233	827,900	674,714
- Performing residential mortgages, of which:		-	-	-	-
- With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		-	-	-	-
- Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-statement of financial position products		755,699	194,514	269,497	402,800

(In currency amount)	Unweighted value by residual maturity				Weighted value
	No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
Interdependent assets		-	-	-	-
Other assets:	-	-	-	493,086	493,086
- Physical traded commodities				-	-
- Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs		-	-	-	-
- NSFR derivative assets		-			-
- NSFR derivative liabilities before deduction of variation margin posted		-			-
- All other assets not included in the above categories		-	-	493,086	493,086
Off-statement of financial position items		413	271	14,842	850
Total RSF					**1,936,880**
Net Stable Funding Ratio (%)					141.80%

COUNTRY-BY-COUNTRY REPORTING

The 4th update of Bank of Italy Circular no. 285/2013, under Title III, Chapter 2, transposes the rules on country-by-country reporting, introduced by Article 89 of Directive 2013/36/EU ("CRD IV"), into Italian law. In line with this provision, the Bank is required to disclose annually qualitative and quantitative information, as an annex to the financial statements or on its website. For this reason, the information indicated in letters a), b) and c) of Annex A to Part One, Title III, Chapter 2, with reference to the situation at 31 December 2021, needs to be disclosed.

In detail:

a. Name of the company and nature of its activities;

b. Turnover;

c. Number of employees on a full-time equivalent basis;

d. Profit or loss before tax;

e. Tax on profit or loss;

f. Public subsidies received.

Banca Sistema operates in Italy. Therefore, the information required by the regulations set out in the table below only applies to Italy.

The required information is provided below

a. **Name of the company and nature of its activities**

The Banca Sistema Group is composed of the following companies:

- Banca Sistema S.p.A. – Parent of the Banca Sistema Group - Banking
- Specialty Finance Trust Holdings Limited – Ancillary services undertaking – Based in London – a company incorporated under UK Law placed in liquidation in December 2021
- Largo Augusto Servizi e Sviluppo S.r.l. – Ancillary services undertaking
- ProntoPegno S.p.A. – Banking
- EBNSistema Finance S.L. – Spanish joint venture

b. **Turnover**

The turnover of a bank is the "total income" reported in "item 120" of the income statement. Therefore, the turnover reported by the Banca Sistema Group at 31 December 2021 was **€ 107,954 thousand**.

c. **Number of employees on a full-time equivalent basis**

This section illustrates the ratio between the total number of hours worked in 2021 by all employees of the Banca Sistema Group, excluding overtime, and the total number of hours per year under the national collective bargaining agreement for a full-time employee.

Total hours worked in 2021/Total hours per year under the national collective bargaining agreement (CCNL) for a full-time employee

In 2021, the number of employees calculated on this basis was **313**.

d. **Profit or loss before tax**

"Profit or loss before tax" refers to item 290 of the income statement under Circular no. 262.

Pre-tax profit from continuing operations: **€ 34,459 thousand**.

e. **Tax on profit or loss**

"Tax on profit or loss" refers to item 300 of the income statement under Circular no. 262 and Income taxes: **€ (10,916) thousand.**

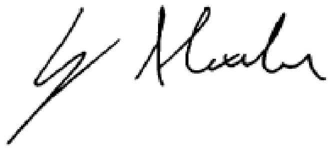
f. **Public subsidies received**

"Public subsidies received" includes subsidies received directly from public administrations. This item does not include transactions executed by central banks for financial stability purposes or transactions aimed at facilitating the transmission mechanism of monetary policy. Similarly, transactions that fall under the state aid schemes approved by the European Commission have not been considered. Public subsidies received: the Group did not receive any public subsidies during 2021.

STATEMENT OF THE MANAGER IN CHARGE OF FINANCIAL REPORTING

The Manager in charge of financial reporting, Alexander Muz, hereby declares that, pursuant to Art. 154-bis, paragraph 2, of the Consolidated Law on Finance, the accounting information contained in this "Disclosure by Institutions pursuant to Regulation (EU) no. 575/2013 – 31 December 2021" corresponds to the company's documents, books and accounting records.

Alexander Muz
Manager in charge
of financial reporting



GLOSSARY

The definitions of the main technical terms used in the document are provided below.

Categories of financial instruments provided for by IAS 39
Trading assets, which include the assets acquired to be sold in the short term, or also belonging to instrument portfolios managed on a single basis in order to realise profits in the short term; assets measured at fair value, for which the IAS allow the assets which the entity nevertheless decides to recognise at fair value to be classified in that category with the change in value recognised in the income statement in compliance with certain case studies provided for by IAS 39; held-to-maturity investments, non-derivative financial assets with established maturity date and fixed or determinable payment schedule for which the actual intention and ability to hold them to maturity exists; loans and receivables, non-derivative assets with fixed or determinable payments, not quoted in an active market; available-for-sale financial assets.

CET1
Common Equity Tier 1 capital.

Common equity tier 1 ratio (CET1 Ratio)
This is the ratio between Common equity tier 1 (CET1) capital and total risk-weighted assets.

CRM
Credit Risk Mitigation.

Default
The declared inability to honour one's own debts and/or payment of interest thereon.

IAS/IFRS
The IAS (International Accounting Standards) are issued by the International Accounting Standards Board (IASB). The standards issued after July 2002 are named IFRS (International Financial Reporting Standards).

IASB (International Accounting Standard Board)
The IASB (in the past, named IASC) is responsible for issuing the IAS/IFRS.

ICAAP
The regulation of "Pillar 2" requires that banks implement the processes and instruments of the Internal Capital Adequacy Assessment Process (ICAAP) to determine the internal capital levels sufficient to cope with any type of risk, even those not covered by the overall minimum capital requirement ("Pillar 1"), within the scope of an assessment of the current and foreseeable exposure which takes into account the strategies and the developments in the economic and business environment.

Impairment
With reference to a financial asset, a situation of impairment occurs when the carrying amount of said asset is greater than the estimate of its recoverable amount.

Leverage Ratio
In the banking sector, leverage is generally defined as the ratio between the net equity of the bank and its total assets.

Non performing
A term generally referring to irregular loans.

Probability of Default (PD)
This represents the probability that the debtor will default over a one-year time horizon.

Rating
An evaluation of a company's quality or of its debt-security issues based on the financial soundness and outlook of the company.
Said evaluation is performed by specialised agencies or by the bank based on internal models.

Credit risk
This represents the risk that an unexpected change of the creditworthiness of a counterparty, of the guarantees thereby provided, or even the margins thereby used in case of insolvency, may generate an unexpected change in the bank's credit quality.

Market risk
Risks deriving from fluctuations in the value of the financial instruments traded on the market (shares, bonds, derivatives, securities denominated in foreign currency) and of financial instruments whose value is connected with market variables (loans to customers as regards the interest rate component, deposits in euro and in foreign currency, etc.).

Liquidity risk
The possibility that the entity is unable to meet its own payment obligations due to its inability to liquidate assets or obtain adequate funding from the market (funding liquidity risk) or due to the difficulty/impossibility of easily converting financial assets into cash without significantly and negatively affecting their price due to insufficient depth of the financial market or temporary market disruptions (market liquidity risk).

Operational risk
Operational risk is the risk of loss arising from inadequate or non-functioning processes, human resources or systems, or from external events. Operational risk includes legal risk, i.e. the risk of losses deriving from statutory or regulatory violations, from contractual or non-contractual liability, or from other disputes, ICT risk (Information and Communication Technology), and model risk. Strategic and reputational risks are not included.

Risk Management
Activity of acquiring, measuring, assessing, and globally managing the various types of risk and their hedging.

RWA (Risk Weighted Assets)
On- and off-statement of financial position assets (derivatives and guarantees) that are classified and weighted according to different ratios tied to the risks, pursuant to the banking regulations issued by regulatory bodies to calculate the solvency ratios.

GLOSSARY

The definitions of the main technical terms used in the document are provided below.

Tier 1
Tier 1 capital includes the Common Equity Tier 1 capital (CET1) and the Additional Tier 1 capital (AT1).

Tier 1 ratio
This is the ratio between Tier 1 Capital, which includes the Common Equity Tier 1 Capital (CET1) and the Additional Tier 1 Capital (AT1), and the total of risk-weighted assets.

Tier 2
Tier 2 Capital is largely composed of eligible subordinated liabilities.

Total capital ratio
Capital ratio referring to the sum of constituent components of Own Funds (Tier 1 and Tier 2).