BANCA SISTEMA Group

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

31 December 2022

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) as amended;
- Directive 2013/36/EU (CRD IV) "Supervisory Provisions for Banks" as amended.

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;
- 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 2022, the Banca Sistema Group comprises the Parent, Banca Sistema S.p.A., the subsidiaries KRUSO KAPITAL S.P.A. (formerly named ProntoPegno S.p.A. up to 20 October 2022), Largo Augusto Servizi e Sviluppo S.r.l., Specialty Finance Trust Holdings Limited (a company incorporated under English law which went into liquidation in December 2021), and the Greek company Ready Pawn Single Member S.A. For Pawn (hereinafter also referred to as ProntoPegno Greece), a subsidiary of Kruso Kapital S.p.A. and of the Spanish joint venture EBNSistema Finance S.l.u..

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) Template IFRS 9/Article 468-FL: Annex I	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)	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 - Securitisation
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 / EU IFRS 9 - FL	Quantitative
Section 5 - Counterparty risk	EU CCRA, EU CCR1, EU CCR2, 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, EU CR1A, 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 LIQ1, EU LIQ2, EU LIQA, EU LIQB	Qualitative & Quantitative

Please note that the disclosures 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” are not provided in this document, as they do not concern 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

On 18 January 2023, the Bank of Italy, following the measure of 5 May 2022, by which the Bank was notified of additional capital requirements with respect to the minimum capital ratios required by current regulations, informed the Bank not to adopt a new decision on capital as a result of the 2022 SREP (Supervisory Review and Evaluation Process) cycle; therefore the following Group's consolidated capital requirements shall remain valid for 2023:

- Common Equity Tier 1 ratio (CET1 ratio) 9.00%;
- Tier 1 ratio 10.50%;
- Total Capital ratio (TC ratio) 12.50%.

On 27 January 2023, a member of the Internal Control, Risk Management and Sustainability Committee was replaced, with Mr Pier Angelo Taverna, an independent and non-executive director, being appointed to replace Ms Francesca Granata, an independent and non-executive director, who is already a member of the Appointments Committee and the Remuneration Committee. The Board of Directors of Kruso Kapital (in which Banca Sistema holds a 75% equity interest) approved the start of the process to list the company on the Euronext Growth Market of Borsa Italiana S.p.A. The listing could take place in 2023 depending on market conditions.

On 27 February 2023, the Bank of Italy started an inspection at the Bank relating to the "Evolution of Liquidity Risk Exposure and Related Operational Safeguards", concluded on 31 March 2023.

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 Group's growth and development aims are achieved in line with capital and financial solidity requirements.

The RAF comprises monitoring and alert mechanisms and the related processes for prompt intervention in the event of discrepancies with defined targets.

In particular, the Risk Department establishes specific control parameters (Key Risk Indicators or KRIs) 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, 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 the risks arising from its operations is performed annually within the ICLAAP, i.e. the Bank's self-assessment process, which is conducted in accordance with the Group's internal rules and the results of which are analysed 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 risk profile.

The Internal Control System

The Group's Internal Control System plays a central role in the corporate organisation. This document is an essential source of knowledge for the management bodies ensuring full awareness of the situation and effective monitoring of corporate risks and their interrelations.

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 same operational structures and – 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 according 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 involved in the overall risk management and control activity, as defined in the latest 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, Risk Management and Sustainability Committee (CCIGRS)
  - Appointments Committee
  - Remuneration Committee
  - Ethics Committee
- The CEO/General Manager, who is assisted by the following company (non-board) committees:
  - Group Committee (Management Committee)
  - Risk and ALM Committee
  - Technical-Organisational Committee (CTO)
  - Crisis Management Committee
  - CEO Credit Committee (only cases exceeding the authority of the division heads)
  - Credit Coordination 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 Bank's organisation and in the management and coordination activities that the Bank exercises over the Group.

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;
  - the guidelines for the internal control system, ensuring that the system is consistent with the set strategic guidelines and risk appetite and is 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 its consistency with the RAF and timely adaptation in the event of significant changes in the strategic guidelines, the organisational structure and the business environment and promotes the full use of ICLAAP findings both for strategic purposes and in business decisions.

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, Risk Management and Sustainability Committee (CCIGRS);
- Appointments Committee;
- Remuneration Committee;
- Ethics Committee.

Governance bodies: CEO and General Manager

The Chief Executive Officer is responsible for the management of the Bank, 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 aimed at resolving any critical issues and in sharing information regarding the Bank in its entirety, the individual Divisions and the Kruso Kapital subsidiary.

This Committee ensures that decisions taken by the Chief Executive Officer, in exercising his/her delegated powers, are shared with the Bank's senior management. It 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 risk and the correlations between them; it validates the Contingency Capital Plan (CCP) and its periodic review. 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 the Board of Directors in all decisions concerning credit transactions submitted that exceed the authority of the division heads or the CEO. In particular, the CEO Credit Committee assesses and expresses a technical opinion on proposals concerning the granting and renewal of credit facilities. It is chaired by the Head of Factoring Receivables in his/her capacity as Group Credit Supervisor. The Committee meets on an ad hoc basis and whenever there are specific business or organisational needs or requirements.

Technical-Organisational Committee (CTO)

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. In carrying out these activities, it collects and examines the organisational proposals of the various functions, helping to 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. The Committee is chaired by the Chief Executive Officer, who convenes it in extraordinary situations, based on indications received from the Head of Business Continuity.

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. The Committee is convened by the Head of the Division/General Manager proposing the transaction.

Credit Coordination Committee

The Credit Coordination Committee meets to address credit-related matters and critical issues concerning the individual divisions and the Kruso Kapital subsidiary. It is convened on a monthly basis by the Head of Factoring Receivables, who chairs it and sets the agenda for the meetings.

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.

Control bodies: 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 who also chairs the SB; one member chosen from independent directors and the Head of Internal Audit. The SB's activities are governed by rules drawn up and approved by the SB itself. Every six months, the SB submits to the Board of Directors a report on the implementation of the OMM, highlighting any findings, the need to update the OMM, and the planning of activities to be carried out.

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 identifying, managing and monitoring all the 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 setting operational limits for the assumption of various types of risk.
- The **Compliance and Anti-Money Laundering Department** 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, defining the methods for their assessment (in cooperation with the Bank's other departments) and verifying that the internal procedures are suitable to prevent said risk. 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. 231/01 as well as the Data Protection Officer of Banca Sistema, in accordance with Regulation (EU) No. 679/2016. Finally, said Head acts as Secretary of the Ethics Committee.

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 submit to the corporate bodies, each according to 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.

Manager in charge of financial reporting

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 Kruso Kapital S.p.A. subsidiary, as approved by said company's Board of Directors, and uses it to prepare the Group's consolidated financial statements.

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 meet the applicable requirements such as professionalism and integrity (Article 10.3 of the Articles of Association) and any other requirement set forth by the regulations from time to time and the Articles of Association;
- 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.

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. Pier Angelo Taverna *(Independent)*

The following table summarises the number of positions held in other companies by members of the Board of Directors as at 31 December 2022:

Directors	Total number of positions held in other companies
Luitgard Spögler	1
Giovanni Puglisi	6
Gianluca Garbi	5
Carlotta De Franceschi	1
Daniele Pittatore	9
Pier Angelo Taverna	1
Daniele Bonvicini	0
Maria Leddi	3
Francesca Granata	3

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 2022:

Pillar 1 risks: typical banking risks, such as credit risk (which also includes counterparty risk), market risk, operational risk (which includes ICT risk), short-term liquidity risk (Liquidity Coverage Ratio - LCR) and long-term liquidity risk (Net Stable Funding Ratio - NSFR).

Pillar 2 risks are identified as:

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

Other Risks: country risk and Italy sovereign risk.

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

The Bank uses standard methods to determine the prudential capital requirement on Pillar 1 and 2 risks, 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 67% 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 of the transaction;
- Payment and 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. **Purchase 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 the final debtor's credit risk.

   The Group is present in the Spanish and Portuguese markets – through the company EBNSISTEMA Finance, which it controls jointly with the Spanish banking partner EBN Banco – operating mainly in the factoring segment for receivables owed by the Public Administration in the Iberian Peninsula, specialising in the purchase of receivables owed by public health entities.

   Among the products offered by the Factoring Division, in 2022 the Bank originated € 47 million in "Eco-Sisma bonus 110%" tax credits in connection with the implementation of the Relaunch Decree enacted in May 2020; the product is associated to the tax credit generated in connection with specific energy efficiency and anti-seismic safety works which can be deducted at a rate of 110% over five years.

   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. During 2022, the QuintoPuoi product (direct product) underwent strong commercial growth; operating processes were also reviewed and optimised, also by introducing robotics and process automation technologies and making significant investments in remote identification technologies, which led to over 40% of applications being approved with digital signatures in the last quarter. These investments made it possible to manage the additional volumes with a net increase of only 5 employees directly employed in the division, from 42 to 47. Sales development was also accompanied by specific marketing initiatives, with significant efficiencies achieved in the selection and use of leads, for which the overall expenditure was halved compared to 2021, while simultaneously improving the redemption rate by 84%, and in the development of the divisional brand identity, with the opening of five Quintopuoi-branded agencies in Turin, Catania, Bologna, Rome and Syracuse, with more planned for early 2023.

d. **Collateralised lending:** the Banca Sistema Group began working in the collateralised lending business in 2017, combining the credentials of a solid bank with the advantages of a specialist that is continuously willing to innovate and grow to offer greater value to customers, in terms of professionalism and timeliness. To take advantage of the growth prospects that have emerged since starting this business, in 2019, the Bank decided to transfer its collateralised lending business to a dedicated company named ProntoPegno S.p.A. Subsequently, on 20 October 2022, the change of the company name from ProntoPegno S.p.A. to Kruso Kapital S.p.A. was approved. The collateralised lending business will continue its operations and development under the ProntoPegno brand, which will continue to represent the collateralised lending product of Kruso Kapital and the Banca Sistema Group. In July 2020, Kruso Kapital S.p.A. (formerly named ProntoPegno S.p.A. up to 20 October 2022), 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. Consistent with its growth strategy for the business, in June 2021, Kruso Kapital completed the purchase of a portfolio of loans from the CR Asti Banking Group and opened two new branches in Brescia and Asti. The Pawnbroker of the Banca Sistema Group now has 13 branches located across the country. In addition to the Italian market, the Company is also focusing on expanding into foreign markets in order to become an international operator. The choice of the market in which to operate is obviously dictated by various factors that are assessed every time an opportunity for expansion arises, namely:
   - the macro-economic environment;
   - the opportunities and the size of the market;
   - the relevant regulatory aspects.

   These assessments have thus far led to the Bank's decision to do business in Greece, where, in April 2022, the company Ready Pawn Single Member S.A. For Pawn was established. The company began operations on 17 October. In April 2022, the acquisition of a loan portfolio from a financial company with a long history of providing collateralised credit in Naples was finalised and resulted in the acquisition of 1,400 new customers. On 27 October 2022, Kruso Kapital finalised the acquisition of 100% of the share capital of the auction house Art-Rite S.r.l. The acquisition is part of the growth and diversification strategy and aims to expand the range of potential customers. The transaction took legal effect on 2 November 2022. At present, the company has about 62,000 policies issued for about 33,000 customers and total loans of € 107 million, recording an increase of 3% over the third quarter (loans at 30 September were € 104 million). In 2022, outstanding loans grew by 21% compared to 2021 (annualised figure). New loans were € 115.3 million, while renewals amounted to € 64.2 million. During 2022, 42 auctions were conducted for a loan value

of € 2.09 million. The company also strengthened its back-office structure thanks to the creation of a call centre aimed at processing requests for information in the shortest possible time and continued to develop digital tools, such as the activation of the "DigitalPegno" app for online renewal of pledges and online bidding for assets being sold at auction.

e. **Medium-term corporate loans (covered by guarantee from SACE or the National Guarantee Fund - FNG):** with the outbreak of the pandemic crisis due to the spread of Covid-19, the Bank has also taken steps to act as an intermediary for the public resources made available during the emergency to support businesses, through the granting of SACE and MCC-guaranteed loans for a total of € 74 million in 2022 (€ 104 million in 2021), exclusively for its factoring customers.

f. **Financial instruments held on its own account:** this portfolio comprises 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 in financial instruments recorded in the banking book and held on its own account. Italian government security trading operations entail a credit risk exposure to central administrations.

g. **Exposures to supervised intermediaries:** 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, the correct performance of monitoring;
- monitors individual exposures, especially non-performing exposures, 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 Kruso Kapital subsidiary; at the collection meetings for each of 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 are transactions that generate an exposure equal to their positive fair value and an exchange of payments, financial instruments or commodities against payments and which have a market value that evolves over time depending on underlying variables. 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 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, which relates to transactions not yet settled after the due date that expose the Bank to the downside risk deriving from non-settlement of the same 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 2022, 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 ICT risks through the continuous exchange of information between the functions concerned by this risk, assuring consistency between the results of ICT risk assessment and the findings of 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 Liquidity Coverage Ratio (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 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 2022 constantly maintained a large quantity of securities and readily liquid assets hedging potential outflows of liquidity.

The Net Stable Funding Ratio (NSFR) is defined as 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 related mitigation measures to be implemented.

(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.

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 2022, no interest rate risk hedging instruments were used.

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 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 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 liquidity management 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 2022, 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 both to direct experiences of the parties in question, or to their perceptions, 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.

Awareness of the difficulties in quantifying reputational risks has led the Bank to intensify its efforts to implement suitable measures to mitigate such risks and improve the quality of its 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:

- level of the top management bodies' awareness of the relevance of this aspect;
- promotion of a culture of ethics and correct conduct at all levels of the company;
- suitable management of relations with all stakeholders;
- suitability of the risk management and mitigation systems;
- 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 with diversified 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, Risk Management and Sustainability Committee, and of the Board of Directors, together with the Board of Statutory Auditors.

The Risk Department 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	Description	Recipient	Frequency
Credit Risk Report	Report presenting the main critical issues of the Bank's loans and receivables portfolio (i.e. Watchlist, evolution of past due loans, Top 10 factoring exposures, SME portfolio runoff, securitisation performance, etc.)	Risk and ALM Committee	Monthly
RAF	Report containing the risk indicators defined in the RAF	Risk and ALM Committee / Internal Control, Risk Management and Sustainability Committee / Board of Directors / Bank of Italy	Annual
Risk Reporting	Report containing overall level of Bank risk	Risk and ALM Committee / Internal Control, Risk Management and Sustainability Committee / Board of Directors / Bank of Italy	Quarterly
Assessment of the loans and receivables portfolio (Impairment)	Report containing generic and specific assessment of the loans and receivables portfolio	Risk and ALM Committee / Internal Control, Risk Management and Sustainability Committee / Board of Directors	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 / Internal Control, Risk Management and Sustainability Committee / Bank of Italy	Annual
Backtesting LPIs	Report containing the Verification of Default Interest Collection Rates on enforced injunctions	Risk and ALM Committee	Quarterly

Stress testing

The Risk Department performs stress tests to assess the impacts, including on capital adequacy, 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 capital adequacy in response to variations in just one risk factor;

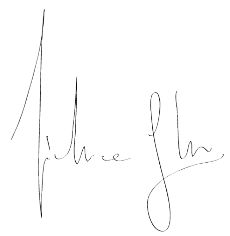
b. scenario analyses, used to simulate the impact of an adverse shock on assets causing a set of risk factors to change simultaneously. The Risk Department monitors capital adequacy on a monthly basis, partly on the basis of the stress scenarios. The results of the stress scenarios are reported to top 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 “2022 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 2022, the Banca Sistema Group comprises the Parent, Banca Sistema S.p.A., with registered office in Milan, the subsidiaries Kruso Kapital S.p.A. (formerly named ProntoPegno S.p.A. up to 20 October 2022), Largo Augusto Servizi e Sviluppo S.r.l., the Greek company Ready Pawn Single Member S.A. FOR PAWN (hereinafter also referred to as ProntoPegno Greece), a subsidiary of Kruso Kapital S.p.A. and Specialty Finance Trust Holdings Limited (a company incorporated under UK Law placed in liquidation in December 2021).

At the accounting level, compared to the situation as at 31 December 2021, the scope of consolidation has changed with the inclusion of ProntoPegno Greece and Art-Rite S.r.l. while in terms of method, 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.

At a prudential level, however, the auction house Art-Rite S.r.l. is not included in the scope of consolidation, since it is not part of the Group; with regard to the method, it should be noted that EBNSistema has been consolidated using the proportional method.

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 based on the regulatory scope of consolidation	Carrying amounts of accounting entries				Not subject to capital requirements or deduction from capital
			Subject to credit risk	Subject to CCR	Subject to securitisation	Subject to market risk	
Business activities							
Cash and cash equivalents	126,589	132,719	132,719				
Financial assets measured at fair value through other comprehensive income	558,384	558,384	558,384				
Financial assets measured at amortised cost	3,530,678	3,530,684	3,505,521	25,163			
a) Loans and receivables with banks	34,917	34,923	34,923				
b) Loans and receivables with customers	3,495,761	3,495,761	3,470,598	25,163			
Hedging derivatives	-	-	-				
Value adjustment of macro-hedged financial assets (+/-)	-	-	-				
Equity investments	970	1,090					(1,090)
Property and equipment	43,374	43,363	43,363				
Intangible assets	34,516	33,152	760				(32,393)
of which: Goodwill	33,526	33,526	1,170				(32,355)
Tax assets	24,861	24,872	22,633				(2,239)
a) current	2,136	2,147	2,147				
b) deferred	22,725	22,725	20,486				(2,239)
Non-current assets held for sale and disposal groups	40	40	40				
Other assets	77,989	78,033	78.033				
Total assets	**4,397,401**	**4,402,337**	**4,341,453**	**25,163**	**-**	**-**	**(35,721)**

(Amounts in thousands of Euro)

	Carrying amounts as reported in published financial statements	Carrying amounts based on the regulatory scope of consolidation	Carrying amounts of accounting entries				Not subject to capital requirements or deduction from capital
			Subject to credit risk	Subject to CCR	Subject to securitisation	Subject to market risk	
Liabilities							
Financial liabilities measured at amortised cost	3,916,974	3,917,040		865,878	-	-	3,051,162
a) due to banks	622,865	622,932					622,932
b) due to customers	3,056,210	3,056,210		865,878			2,190,332
c) securities issued	237,899	237,899					237,899
Tax liabilities	17,023	17,030					17,030
a) current	236	242					242
b) deferred	16,787	16,787					16,787
Liabilities associated with disposal groups	13	13					13
Other liabilities	166,896	171,670					171,670
Post-employment benefits	4,107	4,101					4,101
Provisions for risks and charges:	36,492	36,492					36,492
a) commitments and guarantees issued	24	24					24
c) other provisions for risks and charges	36,468	36,468					36,468
Valuation reserves	(24,891)	(24,891)					(24,891)
Equity instruments	45,500	45,500					45,500
Reserves	155,037	155,058					155,058
Share premium	39,100	39,100					39,100
Share capital	9,651	9,651					9,651
Treasury shares (-)	(559)	(559)					(559)
Equity attributable to non-controlling interests (+/-)	10,024	10,058					10,058
Profit for the year	22,034	22,074					22,074
Total liabilities	**4,397,401**	**4,402,337**	**-**	**865,878**	**-**	**-**	**3,536,459**

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)	**4,366,616**	**4,341,453**	**-**	**25,163**	**-**
Liabilities carrying amount under the regulatory scope of consolidation (as per template EU LI1)	**865,878**	**-**	**-**	**865,878**	**-**
Total net amount under the regulatory scope of consolidation	**5,232,494**	**4,341,453**	**-**	**891,041**	**-**
Off-statement of financial position amounts	**845,416**	**593,717**		**251,699**	
Differences in valuations	-	-			
Differences due to different netting rules, other than those already included in row 2	-				
Differences due to the treatment of value adjustments	-	-			
Differences due to the use of credit risk mitigation (CRM) techniques	(1,153,212)	(90,277)	-	(1,062,935)	
Differences due to credit conversion factors	(585,058)	(585,058)			
Differences due to securitisations involving risk transference	-				
Other differences	(34,544)	(34,544)	-	-	
Exposure amounts considered for regulatory purposes	**4,305,096**	**4,225,291**	**-**	**79,805**	**-**

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	
Banca Sistema S.p.A.	Full consolidation	X					Credit institution
Kruso Kapital S.p.A.	Full consolidation	X					Financial corporations
Specialty Finance Trust Holdings Limited	Full consolidation	X					Financial corporations
Largo Augusto Servizi e Sviluppo S.r.l.	Full consolidation	X					Ancillary services undertaking
Ready Pawn Single Member S.A. For Pawn	Full consolidation	X					Financial corporations
Art-Rite S.r.l.	Full consolidation					X	Auction house
EBN Finance S.l.u.	Equity Consolidation		X				Financial corporations
BS IVA SPV S.r.l.	Full consolidation	X					Special purpose vehicle
Quinto Sistema Sec. 2019 S.r.l.	Full consolidation	X					Special purpose vehicle
Quinto Sistema Sec. 2017 S.r.l.	Full consolidation	X					Special purpose vehicle

SECTION 3 – OWN FUNDS

QUALITATIVE DISCLOSURE

Consolidated own funds, risk-weighted assets, and capital ratios as at 31 December 2022 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.

Starting in the second quarter of 2022, the Group decided to use the mitigating parameter (equal to 40%) for calculating the FVOCI filter for exposures to central authorities, in line with the provisions of Article 468 CRR; this temporary treatment was valid until the end of 2022. It should be noted that the neutralisation of all or part of the reserve (HTCS) on government bonds will be the topic of discussion in the European Trilogue, on which Ecofin has already proposed a 100% neutralisation. This change, if approved, would enter into force with its publication in the Official Journal in autumn 2023.

Since the conditions for inclusion provided for by Article 26(2) of Regulation (EU) no. 575 of 26 June 2013 (CRR) have been met, the profit for the year net of the amount of the estimated dividend, equal to a payout of 25% of the Parent Company's profit, was included in Common Equity Tier 1 capital. 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-sector employees	Public-sector employees
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	Patrimonio Netto
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")

	Ordinary shares	Subordinated Tier 1 bonds	Subordinated Tier 1 bonds
If convertible, fully or partially	N/A	N/A	YES
If convertible, conversion rate	N/A	N/A	DISCRETIONARY
If convertible, mandatory or optional conversion	N/A	N/A	Discrezionale
If convertible, specify instrument type convertible into	N/A	N/A	Discrezionale
If convertible, specify issuer of the 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	31/12/2022		31/12/2021	
	Amounts	Source based on reference numbers/letters of the statement of financial position under the regulatory scope of consolidation	Amounts	Source based on reference numbers/letters of the statement of financial position under the regulatory scope of consolidation
Common Equity Tier 1 Capital: instruments and reserves				
Capital instruments and the related share premium accounts	48,751	160/170	48,751	160/170
of which: ordinary shares	48,751		48,751	
of which: Instrument type 2				
of which: Instrument type 3				
Retained earnings	155,132	150	137,586	150
Accumulated other comprehensive income (and other reserves, including unrealised gains and losses pursuant to the applicable accounting regulation)	(25,727)	150/120	(825)	150/120
Funds for general banking risk	-		-	
Amount of the qualifying items referred to in Article 484(3) and the related share premium accounts subject to phase out from CET1	-		-	
Minority interests (amount allowed in consolidated Common Equity Tier 1)	8,734	190	8,017	190
Independently reviewed interim profits net of any foreseeable charge or dividend	16,807	200	17,461	200
Common Equity Tier 1 (cet1) capital before regulatory adjustments	**203,696**		**210,989**	
Common Equity Tier 1 (CET1): regulatory adjustments				
Additional value adjustments	(558)		(451)	
Intangible assets (net of the relevant tax liabilities)	(32,393)	100	(32,415)	100
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38(3) are met)	-		-	
Fair value reserves related to gains or losses on cash flow hedges	-		-	
Negative amounts resulting from the calculation of expected loss amounts	-		-	
Any increase in equity that results from securitised assets	-		-	
Gains or losses on liabilities measured at fair value due to changes in creditworthiness	-		-	
Defined-benefit pension fund assets	-		-	
Own Common Equity Tier 1 instruments held directly or indirectly by the institution	(604)	180/30	(45)	180/30
Holdings by the institution of CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to increase artificially the own funds of the institution	-		-	

(Amounts in thousands of Euro)

Capital items	31/12/2022		31/12/2021	
	Amounts	Source based on reference numbers/letters of the statement of financial position under the regulatory scope of consolidation	Amounts	Source based on reference numbers/letters of the statement of financial position under the regulatory scope of consolidation
Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions)	-		-	
Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions)	-		-	
Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	(1,090)		-	
of which: qualifying holdings outside the financial sector	(1,090)		-	
of which: securitisation positions	-		-	
of which: free deliveries	-		-	
Deferred tax assets arising from temporary differences (amount above 10% threshold, net of the related tax liability where the conditions in Article 38(3) are met)	(2,239)		-	
Amount exceeding the 17,65% threshold	-		-	
of which: direct or indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-		-	
of which: deferred tax assets arising from temporary differences	-		-	
Losses for the current financial year	-		-	
Foreseeable tax charges relating to CET1 items except where the institution suitably adjusts the amount of CET1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses	-		-	
Qualifying AT1 deductions that exceed the AT1 items of the institution	-		-	
Other regulatory adjustments	8,161		(2,001)	
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(28,722)**		**(34,913)**	
Common Equity Tier 1 (cet1)	**174,974**		**176,076**	
Additional Tier 1 (AT1): instruments				
Capital instruments and the related share premium accounts	45,500	140	45,500	140
of which classified as equity pursuant to the applicable accounting framework	-		-	
of which classified as liabilities pursuant to the applicable accounting regulation	-		-	
Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	-		-	

(Amounts in thousands of Euro)

Capital items	31/12/2022		31/12/2021	
	Amounts	Source based on reference numbers/letters of the statement of financial position under the regulatory scope of consolidation	Amounts	Source based on reference numbers/letters of the statement of financial position under the regulatory scope of consolidation
Amount of qualifying items referred to in Article 494a(1) subject to phase out from AT1	-		-	
Amount of qualifying items referred to in Article 494b(1) subject to phase out from AT1	-		-	
Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	-		-	
of which: instruments issued by subsidiaries subject to phase out	-		-	
Additional Tier 1 (at1) capital before regulatory adjustments	**45,500**		**45,500**	
Additional Tier 1 (AT1) capital: regulatory adjustments				
Own AT1 instruments held directly or indirectly by the institution	-		-	
Holdings by the institution of AT1 instruments of financial sector entities, where those entities have reciprocal cross holdings with the institution designed to increase artificially the own funds of the institution	-		-	
Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions)	-		-	
Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions)	-		-	
Qualifying T2 deductions that exceed the T2 items of the institution	-		-	
Other regulatory adjustments to AT1 capital	-		-	
Total regulatory adjustments to additional Tier 1 (AT1) capital	**-**		**-**	
Additional Tier 1 (AT1) capital	**45,500**		**45,500**	
Tier 1 capital (T1 = CET1 + AT1)	**220,474**		**221,576**	
Tier 2 (T2) capital: instruments				
Capital instruments and the related share premium accounts	-		-	
Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	-		-	
Amount of qualifying items referred to in Article 494a (2) subject to phase out from T2	-		-	
Amount of qualifying items referred to in Article 494b (2) subject to phase out from T2	-		-	

(Amounts in thousands of Euro)

Capital items	31/12/2022		31/12/2021	
	Amounts	Source based on reference numbers/letters of the statement of financial position under the regulatory scope of consolidation	Amounts	Source based on reference numbers/letters of the statement of financial position under the regulatory scope of consolidation
Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	193	190	113	190
of which: instruments issued by subsidiaries subject to phase out	-		-	
Credit risk adjustments	-		-	
Tier 2 (T2) capital before regulatory adjustments	**193**		**113**	
Tier 2 (T2) capital: regulatory adjustments				
Direct, indirect or synthetic holdings by an institution of own T2 instruments and subordinated loans	-		-	
Holdings by the institution of T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to increase artificially the own funds of the institution	-		-	
Direct or indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions)	-		-	
Direct or indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions)	-		-	
Qualifying eligible liabilities deductions that exceed the eligible liabilities items of the institution (negative amount)	-		-	
Other regulatory adjusments to T2 capital	-		-	
Total regulatory adjustments to Tier 2 (T2) capital	**-**		**-**	
Tier 2 (T2) capital	**193**		**113**	
Total capital (TC = T1 + T2)	**220,668**		**221,690**	
Total risk exposure amount	**1,385,244**		**1,517,568**	
Capital ratios and requirements including buffers				
Common Equity Tier 1 (as a percentage of risk exposure)	12.6313%		11.6025%	
Tier 1 capital (as a percentage of risk exposure)	15.9159%		14.6007%	
Total capital (as a percentage of risk exposure)	15.9299%		14.6082%	
Institution CET1 overall capital requirements	9.0120%		7.7510%	
of which: capital conservation buffer requirement	2.5000%		2.5000%	
of which: countercyclical capital buffer requirement	0.0125%		0.0006%	
of which: systemic risk buffer requirement	0.0000%		0.0000%	

(Amounts in thousands of Euro)

Capital items	31/12/2022		31/12/2021	
	Amounts	Source based on reference numbers/letters of the statement of financial position under the regulatory scope of consolidation	Amounts	Source based on reference numbers/letters of the statement of financial position under the regulatory scope of consolidation
of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer requirement	0.0000%		0.0000%	
of which: additional own funds requirements to address the risks other than the risk of excessive leverage	2.0000%		0.7500%	
Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements	**8.1313%**		**3.8515%**	
Amounts below the thresholds for deduction (before risk weighting)				
Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-		-	
Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions)	-		-	
Deferred tax assets arising from temporary differences (amount below 17.65% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	-		9,172	
Applicable caps on the inclusion of provisions in Tier 2				
Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-		-	
Cap on inclusion of credit risk adjustments in T2 under standardised approach	-		-	
Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	-		-	
Cap on inclusion of credit risk adjustments in T2 under based on internal ratings-based approach	-		-	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)				
Current cap on CET1 instruments subject to phase out arrangements	-		-	
Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-		-	
Current cap on AT1 instruments subject to phase out arrangements	-		-	
Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-		-	
Current cap on T2 instruments subject to phase out arrangements	-		-	
Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-		-	

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

(Amounts in thousands of Euro)

	31/12/2022		
	Statement of Financial Position as in published financial statements as at period end	Under regulatory scope of consolidation as at period end	Reference
Assets - Breakdown by asset classes according to the statement of financial position in the published financial statements			
Cash and cash equivalents	126,589	132,719	
Financial assets measured at fair value through other comprehensive income	558,384	558,384	
Financial assets measured at amortised cost	3,530,678	3,530,684	
a) Loans and receivables with banks	34,917	34,923	
b) loans and receivables with customers	3,495,761	3,495,761	
Hedging derivatives	-	-	
Value adjustment of macro-hedged financial assets (+/-)	-	-	
Equity investments	970	1,090	20a
Property and equipment	43,374	43,363	
Intangible assets	34,516	33,152	8
of which: goodwill	33,526	33,526	
Tax assets	24,861	24,872	21
a) current	2,136	2,147	
b) deferred	22,725	22,725	
Non-current assets held for sale and disposal groups	40	40	
Other assets	77,989	78,033	
Total assets	4,397,401	4,402,337	
Liabilities - Breakdown by asset classes according to the statement of financial position in the published financial statements			
Financial liabilities measured at amortised cost	3,916,974	3,917,040	
a) due to banks	622,865	622,932	
b) due to customers	3,056,210	3,056,210	
c) securities issued	237,899	237,899	
Tax liabilities	17,023	17,030	
a) current	236	242	
b) deferred	16,787	16,787	
Liabilities associated with disposal groups	13	13	
Other liabilities	166,896	171,670	
Post-employment benefits	4,107	4,101	
Provisions for risks and charges:	36,492	36,492	
a) commitments and guarantees issued	24	24	
c) other provisions for risks and charges	36,468	36,468	

(Amounts in thousands of Euro)

	31/12/2022		
	Statement of Financial Position as in published financial statements as at period end	**Under regulatory scope of consolidation as at period end**	**Reference**
Own Funds			
Valuation reserves	(24,891)	(24,891)	3
Equity instruments	45,500	45,500	
Reserves	155,037	155,058	2
Share premium	39,100	39,100	1
Share capital	9,651	9,651	1
Treasury shares (-)	(559)	(559)	16
Equity attributable to non-controlling interests (+/-)	10,024	10,058	5
Profit for the year	22,034	22,074	5a
Total liabilities	**4,397,401**	**4,402,337**	

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 2022.

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 (BIA) 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.
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.

For the current year, the Bank submits the requested ICAAP/ILAAP report on figures as at 31 December 2022 by 30 April 2023 as required by the deadline set out in Bank of Italy Circular No. 285.

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)

	31/12/2022	30/06/2022	31/12/2021
Available own funds			
Common Equity Tier 1 (CET1) capital	174,974	176,302	176,076
Tier 1 capital (T1)	220,474	221,802	221,576
Total capital	220,668	221,940	221,690
Risk-weighted exposure amounts			
Total risk-weighted exposure amount	1,385,244	1,356,889	1,517,568
Capital ratios (as a percentage of RWA)			
Common Equity Tier 1 ratio (%)	12.6313%	12.9931%	11.6025%
Tier 1 ratio (%)	15.9159%	16.3464%	14.6007%
Total capital ratio (%)	15.9299%	16.3565%	14.6082%
Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)			
Additional CET1 SREP requirements (%)	2.0000%	2.0000%	1.4000%
of which: to be made up of CET1 capital (percentage points)	2.0000%	2.0000%	0.7500%
of which: to be made up of Tier 1 capital (percentage points)	2.0000%	2.0000%	1.0500%
Total SREP own funds requirements (%)	10.0000%	10.0000%	9.4000%
Combined buffer requirement (as a percentage of RWA)			
Capital conservation buffer (%)	2.5000%	2.5000%	2.5000%
Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)			
Institution specific countercyclical capital buffer (%)	0.0125%	0.0005%	0.0006%
Systemic risk buffer (%)			
Global Systemically Important Institution buffer (%)			
Other Systemically Important Institution buffer			
Combined buffer requirement (%)	2.5125%	2.5005%	2.5006%
Overall capital requirements (%)	12.5125%	12.5005%	11.9006%
CET1 available after meeting the total SREP own funds requirements (%)	8.1313%	8.4931%	3.8515%

(Amounts in thousands of Euro)

	31/12/2022	30/06/2022	31/12/2021
Leverage ratio			
Leverage ratio total exposure measure	4,377,779	3,932,805	3,709,841
Leverage Ratio	5.0362%	5.6398%	5.9727%
Additional own funds requirements to address risks of excessive leverage (as a percentage of leverage ratio total exposure amount)			
Additional own funds requirements to address the risk of excessive leverage (%)			
of which: to be made up of CET1 capital (percentage points)			
Total SREP leverage ratio requirements (%)[5]	3.0000%	3.0000%	3.0000%
Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)			
Leverage ratio buffer requirement (%)			
Overall leverage ratio requirement (%)	3.0000%	3.0000%	3.0000%
Liquidity Coverage Ratio			
Total high-quality liquid assets (HQLA) (Weighted value - average)	342,041	428,208	454,232
Cash outflows - Total weighted value	333,250	371,827	328,520
Cash inflows - Total weighted value	152,701	142,624	135,952
Total net cash outflows (adjusted value)	182,183	229,203	192,567
Liquidity Coverage Ratio (%)	221.3825%	193.5783%	253.2268%
Net Stable Funding Ratio			
Total available stable funding	2,599,332	2,758,686	2,746,427
Total required stable funding	1,952,717	1,913,376	1,936,880
NSFR ratio (%)	133.1136%	144.1789%	141.7965%

(5) The values indicated represent the minimum SREP requirement.

TEMPLATE EU OV1: OVERVIEW OF TOTAL RISK EXPOSURE AMOUNTS

The following table shows the composition of the RWA as at 30 June 2022 and 31 December 2022 and the related own funds requirements as at 31 December 2022.

(Amounts in thousands of Euro)

	RWEA		Risk weighted exposure amounts (RWEAs)
	31/12/2022	30/06/2022	31/12/2022
Credit risk (excluding CCR)	1,183,041	1,172,331	94,643
Of which the standardised approach	1,183,041	1,172,331	94,643
Of which the foundation IRB (FIRB) approach	-	-	-
Of which: slotting approach	-	-	-
Of which: equities under the simple risk-weighted approach	-	-	-
Of which the advanced IRB (AIRB) approach	-	-	-
CCR	13,390	1,166	1,071
Of which the standardised approach	-	-	-
Of which internal model method (IMM)	-	-	-
Of which exposures to a CCP	5,335	1,166	427
Of which, CVA	1,958	-	157
Of which other CCR	6,096	-	488
Settlement risk	-	-	-
Securitisation exposures in the non-trading book (after the cap)	-	-	-
Of which SEC-IRBA approach	-	-	-
Of which SEC-ERBA (including IAA)	-	-	-
Of which SEC-SA approach	-	-	-
Of which 1250%/ deduction	-	-	-
Position, foreign exchange and commodities risks (Market risk)	-	0	-
Of which the standardised approach	-	0	-
Of which IMA	-	-	-
Large exposures	-	-	-
Operational risk	188,813	183,392	15,105
Of which basic indicator approach	188,813	183,392	15,105
Of which the standardised approach	-	-	-
Of which advanced measurement approach	-	-	-
Amounts below the thresholds for deduction (subject to 250% risk weight)	44,872	39,441	3,590
Total	**1,385,244**	**1,356,889**	**110,820**

Effective 30/06/2022, as a result of 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.

For 2023, the Supervisory Authority decided not to take a new decision regarding capital as a result of the 2022 SREP cycle; therefore, these values will remain valid for 2023.

Starting in the second quarter of 2022, the Bank decided to use the mitigating parameter (equal to 40%) for calculating the FVOCI filter for exposures to central authorities, in line with the provisions of Article 468 CRR; this temporary treatment was valid until the end of 2022. It should be noted that the neutralisation of all or part of the reserve (HTCS) on government bonds will be the topic of discussion in the European Trilogue, on which Ecofin has already proposed a 100% neutralisation. This change, if approved, would enter into force with its publication in the Official Journal in autumn 2023.

TEMPLATE EU IFRS9 – FL: COMPARISON OF INSTITUTIONS' OWN FUNDS AND CAPITAL AND LEVERAGE RATIOS WITH AND WITHOUT THE APPLICATION OF TRANSITIONAL ARRANGEMENTS FOR IFRS 9 OR ANALOGOUS ECLS, AND WITH AND WITHOUT THE APPLICATION OF THE TEMPORARY TREATMENT IN ACCORDANCE WITH ARTICLE 468 OF THE CRR

(Amounts in thousands of Euro)

	31/12/2022	30/06/2022	31/12/2021
Available capital (amounts)			
Common Equity Tier 1 (CET1) capital	174,974	176,302	176,076
CET1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	174,974	176,302	176,076
CET1 capital as if the temporary treatment of unrealised gains and losses measured at fair value through OCI (other comprehensive income) in accordance with Article 468 of the CRR had not been applied	165,214	170,197	176,076
Tier 1 Capital	220,474	221,802	221,576
Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	220,474	221,802	221,576
Tier 1 capital as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied	210,714	215,697	221,576
Total capital	220,668	221,940	221,690
Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	220,668	221,940	221,690
Total capital as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied	210,907	215,835	221,690
Risk-Weighted Assets (amounts)			
Total risk-weighted assets	1,385,244	1,356,889	1,517,568
Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	1,385,244	1,356,889	1,517,568
Capital ratios			
CET1 (as a percentage of risk exposure amount)	12.6313%	12.9931%	11.6025%
CET1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	12.6313%	12.9931%	11.6025%
CET1 (as a percentage of risk exposure amount) as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied	11.9478%	12.5432%	11.6025%
Tier 1 (as a percentage of risk exposure amount)	15.9159%	16.3464%	14.6007%
Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	15.9159%	16.3464%	14.6007%
Tier 1 (as a percentage of risk exposure amount) as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied	15.2382%	16.3464%	14.6007%
Total capital (as a percentage of risk exposure amount)	15.9299%	16.3565%	14.6082%
Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	15.9299%	16.3565%	14.6082%
Total capital (as a percentage of risk exposure amount) as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied	15.2522%	15.9066%	14.6082%

(Amounts in thousands of Euro)

	31/12/2022	30/06/2022	31/12/2021
Leverage ratio			
Leverage ratio total exposure measure	4,377,779	3,932,805	3,709,841
Leverage ratio	5.0362%	5.6398%	5.9727%
Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	5.0362%	5.6398%	5.9727%
Leverage ratio as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied	4.7920%	5.4846%	5.9727%

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 2022, only repurchase agreements with the Compensation and Guarantee Fund and with Nomura Financial Products Europe GMBH are outstanding.

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)	-	-		1.4	-	-	-	-
EU - Simplified SA-CCR (for derivatives)	-	-		1.4	-	-	-	-
SA-CCR (for derivatives)	-	-		1.4	-	-	-	-
IMM (for derivatives and SFTs)			-	-	-	-	-	-
of which securities financing transactions netting sets			-		-	-	-	-
of which derivatives and long settlement transactions netting sets			-		-	-	-	-
of which from contractual cross-product netting sets			-		-	-	-	-
Financial collateral simple method (for SFTs)					-	-	-	-
Financial collateral comprehensive method (for SFTs)					50,400	30,481	30,481	6,096
VaR for SFTs					-	-	-	-
TOTAL AS AT 31/12/2022					**50,400**	**30,481**	**30,481**	**6,096**

TEMPLATE EU CCR2 – TRANSACTIONS SUBJECT TO OWN FUNDS REQUIREMENTS FOR CVA RISK

(Amounts in thousands of Euro)

	31/12/2022	
	Valore dell'esposizione	RWA
Total transactions subject to the advanced method	**-**	**-**
(i) VaR component (including the 3× multiplier)		-
(ii) stressed VaR component (including the 3× multiplier)		-
Transactions subject to the standardised method	**30,481**	**1,958**
based on the Original Exposure Method	-	-
Total transactions subject to own funds requirements for CVA risk	**30,481**	**1,958**

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	Overall exposure value
Central governments or central banks	-	-	-	-	-	-	-	-	-	-	-	-
Regional government or local authorities	-	-	-	-	-	-	-	-	-	-	-	-
Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-
International organisations	-	-	-	-	-	-	-	-	-	-	-	-
Institutions	-	-	-	-	54,642	-	-	-	-	-	-	54,642
Corporates	-	-	-	-	-	-	-	-	-	-	-	-
Retail	-	-	-	-	-	-	-	-	-	-	-	-
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-
Other exposures	-	-	-	-	-	-	-	-	-	-	-	-
Total as at 31/12/2022	**-**	**-**	**-**	**-**	**54,642**	**-**	**-**	**-**	**-**	**-**	**-**	**54,642**

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	-	-	-	-	-	-	-	-
Cash - other currencies	-	-	-	-	-	-	-	-
Sovereign national debt	-	-	-	-	-	-	-	1,067,177
Other sovereign debt	-	-	-	-	-	-	-	-
Public agency debt	-	-	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-	-	50,400
Equity instruments	-	-	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-	-	-
Total as at 31/12/2022	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,117,577**

TEMPLATE EU CCR8: EXPOSURES TO CCPS

(Amounts in thousands of Euro)

	31/12/2022	
	Exposure value	**RWEA**
Exposures to QCCPs (total)		**5,335**
Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which:	24,161	4,832
i) OTC derivatives	-	-
ii) exchange-traded derivatives	-	-
iii) SFTs	24,161	4,832
iv) netting sets where cross-product netting has been approved	-	-
Segregated initial margin	-	
Non-segregated initial margin	-	-
Prefunded default fund contributions	25,163	503
Unfunded default fund contributions	-	-
Exposures to NON-QCCPs (total)		-
Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which:	-	-
i) OTC derivatives	-	-
ii) exchange-traded derivatives	-	-
iii) SFTs	-	-
iv) netting sets where cross-product netting has been approved	-	-
Segregated initial margin	-	
Non-segregated initial margin	-	-
Prefunded default fund contributions	-	-
Unfunded default fund contributions	-	-

SECTION 6 – CAPITAL BUFFERS

QUALITATIVE DISCLOSURE

Below is the disclosure on the "Countercyclical Capital Buffer", prepared on the basis of the ratios applicable as at 31 December 2022 and of Commission Delegated Regulation (EU) 2015/1555 of 28 May 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 CRR. As set out in Article 140(1) of Directive 2013/36/EU (CRD IV), the institution-specific 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 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. Based on the analysis of the reference indicators, the Bank of Italy decided to set the countercyclical capital buffer rate (relating to exposures to Italian counterparties), also for the first quarter of 2023, at 0%.

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		Securitisation exposures value for non-trading book	Overall exposure value	Own funds requirements				Risk-weighted exposure amounts	Own fund requirements weights	Countercyclical buffer rate
	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			Relevant credit risk exposures - Credit risk	Relevant credit exposures – Market risk	Relevant credit exposures – Securitisation positions in the non-trading book	Total			
Italy	1,610,063	-	-	-	-	1,610,063	73,330	-	-	73,330	916,631	91.9721%	0.0000%
United Kingdom	10,106	-	-	-	-	10,106	808	-	-	808	10,106	1.0140%	1.0000%
Sweden	1,026	-	-	-	-	1,026	82	-	-	82	1,026	0.1029%	1.0000%
Romania	710	-	-	-	-	710	57	-	-	57	710	0.0712%	0.5000%
Norway	338	-	-	-	-	338	27	-	-	27	338	0.0339%	2.0000%
Bulgaria	167	-	-	-	-	167	13	-	-	13	164	0.0165%	1.0000%
Czech Republic	63	-	-	-	-	63	5	-	-	5	63	0.0063%	1.5000%
Other	67,606	-	-	-	-	67,606	5,408	-	-	5,408	67,603	6.7831%	
Total	**1,690,078**	**-**	**-**	**-**	**-**	**1,690,078**	**79,731**	**-**	**-**	**79,731**	**996,640**	**100.0000%**	**0.0125%**

TEMPLATE EU CCYB1: GEOGRAPHICAL DISTRIBUTION OF CREDIT EXPOSURES RELEVANT FOR THE CALCULATION OF THE COUNTERCYCLICAL BUFFER (ALL COUNTRIES)

(Amounts in thousands of Euro)

Breakdown by country	General credit exposures		Relevant credit exposures – Market risk		Securitisation exposures value for non-trading book	Overall exposure value	Own funds requirements				Risk-weighted exposure amounts	Own fund requirements weights	Countercyclical buffer rate
	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			Relevant credit risk exposures - Credit risk	Relevant credit exposures – Market risk	Relevant credit exposures – Securitisation positions in the non-trading book	Total			
Italy	1,610,063	-	-	-	-	1,610,063	73,330	-	-	73,330	916,631	91.9721%	0.0000%
Germany	34,028	-	-	-	-	34,028	2,722	-	-	2,722	34,028	3.4143%	0.0000%
Spain	13,602	-	-	-	-	13,602	1,088	-	-	1,088	13,602	1.3648%	0.0000%
United Kingdom	10,106	-	-	-	-	10,106	808	-	-	808	10,106	1.0140%	1.0000%
France	6,876	-	-	-	-	6,876	550	-	-	550	6,876	0.6900%	0.0000%
United States of America	3,691	-	-	-	-	3,691	295	-	-	295	3,691	0.3704%	0.0000%
Switzerland	3,520	-	-	-	-	3,520	282	-	-	282	3,520	0.3532%	0.0000%
United Arab Emirates	2,106	-	-	-	-	2,106	168	-	-	168	2,106	0.2113%	0.0000%
Sweden	1,026	-	-	-	-	1,026	82	-	-	82	1,026	0.1029%	1.0000%
Austria	934	-	-	-	-	934	75	-	-	75	934	0.0938%	0.0000%
Greece	931	-	-	-	-	931	74	-	-	74	931	0.0934%	0.0000%
Belgium	873	-	-	-	-	873	70	-	-	70	873	0.0876%	0.0000%
Romania	710	-	-	-	-	710	57	-	-	57	710	0.0712%	0.5000%
India	472	-	-	-	-	472	38	-	-	38	472	0.0473%	0.0000%
Norway	338	-	-	-	-	338	27	-	-	27	338	0.0339%	2.0000%
Bulgaria	167	-	-	-	-	167	13	-	-	13	164	0.0165%	1.0000%
Brazil	144	-	-	-	-	144	12	-	-	12	144	0.0145%	0.0000%
Poland	116	-	-	-	-	116	9	-	-	9	116	0.0116%	0.0000%
Turkey	95	-	-	-	-	95	8	-	-	8	95	0.0095%	0.0000%
The Netherlands	85	-	-	-	-	85	7	-	-	7	85	0.0085%	0.0000%
Ireland	72	-	-	-	-	72	6	-	-	6	72	0.0072%	0.0000%
Czech Republic	63	-	-	-	-	63	5	-	-	5	63	0.0063%	1.5000%
Slovenia	55	-	-	-	-	55	4	-	-	4	55	0.0055%	0.0000%
Albania	4	-	-	-	-	4	0	-	-	0	1	0.0001%	0.0000%
Portugal	1	-	-	-	-	1	0	-	-	0	1	0.0001%	0.0000%
Total	**1,690,078**	**-**	**-**	**-**	**-**	**1,690,078**	**79,731**	**-**	**-**	**79,731**	**996,640**	**100.0000%**	

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

(Amounts in thousands of Euro)

Total risk exposure amount (RWA)	1,385,244
Institution specific countercyclical capital buffer rate	0.0125%
Institution-specific countercyclical capital buffer requirement	**173**

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 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". The above-mentioned Bank of Italy Circular defines "credit-impaired" financial assets as all on- and off-statement of financial position credit exposures to debtors that fall into the "non-performing" categories. Impaired credit exposures are broken down into the categories of "bad exposures", "unlikely to pay" or "past-due and/or overdrawn exposures". The main definitions are given below.

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. Exposures whose anomalous situation is attributable to factors related to "country risk" are not included.

This class also includes:

a. the exposure to local institutions (municipalities and provinces) in state of financial difficulty for the portion subject to the applicable liquidation procedure;
b. receivables acquired from third parties in which the main debtors are non-performing, regardless of the portfolio's accounting allocation;
c. exposures to entities that qualify for classification as bad exposures and have one or more credit lines that meet the definition of non-performing exposures with forbearance measures.

Unlikely to pay

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

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 are verified by considering the exposures of the reporting bank as well as any exposures to the same debtor of the other intermediaries included in the prudential scope of consolidation. Exposures in equity instruments are excluded.

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 “Financial Instruments: Recognition and Measurement” 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”:
  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.
- Fair value 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 (Stage 1); on the estimation of the Lifetime ECL, i.e. on the calculation of expected credit losses resulting from the default of the counterparty during the residual maturity of the instrument (Stage 2);
- on the estimation of lifetime ECLs i.e. on the calculation of expected losses calculated with reference to the entire contractual lifetime of the exposure being valued (Stage 3).

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 7^{th} 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 subjected 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 2022

(Amounts in thousands of Euro)

	Gross carrying amount/nominal amount of forborne exposures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
	Performing forborne exposures	Non-performing forborne exposures			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	**206**	**3,469**	**3,469**	**3,469**	**(0)**	**(258)**	**1,410**	**1,410**
Central banks	-	-	-	-	-	-	-	-
General governments	206	503	503	503	(0)	(48)	-	-
Credit institutions	-	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-
Non-financial corporations	-	2,966	2,966	2,966	-	(210)	1,410	1,410
Households	-	-	-	-	-	-	-	-
Debt instruments	-	-	-	-	-	-	-	-
Loan commitments	-	-	-	-	-	-	-	-
Total as at 31/12/2022	**206**	**3,469**	**3,469**	**3,469**	**(0)**	**(258)**	**1,410**	**1,410**

TEMPLATE EU CQ3: CREDIT QUALITY OF PERFORMING AND NON-PERFORMING EXPOSURES BY PAST DUE DAYS AT 31 DECEMBER 2022

(Amounts in thousands of Euro)

	Gross carrying amount/nominal 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 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 year ≤ 5 years	Past due > 5 year ≤ 7 years	Past due > 7 years	Of which defaulted
Cash balances at central banks and other demand deposits	**147,274**	**147,274**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Loans and advances	**2,616,731**	**2,312,360**	**304,372**	**284,829**	**52,004**	**5,962**	**12,293**	**14,140**	**125,049**	**42,791**	**32,591**	**284,829**
Central banks	1,309	276	1,033	-	-	-	-	-	-	-	-	-
General governments	1,026,752	731,708	295,044	187,705	32,154	1,723	5,086	10,501	93,101	27,029	18,111	187,705
Credit institutions	17,297	17,297	-	11	10	1	-	-	-	-	-	11
Other financial corporations	79,616	79,613	3	2,231	2,231	-	-	-	1	-	-	2,231
Non-financial corporations	459,143	456,314	2,828	72,719	12,001	1,920	1,698	302	29,304	14,302	13,191	72,719
Of which SMEs	238,211	237,332	879	20,702	4,488	130	1,343	181	3,803	952	9,805	20,702
Households	1,032,614	1,027,151	5,463	22,162	5,609	2,317	5,509	3,337	2,643	1,459	1,288	22,162
Debt instruments	**1,234,767**	**1,234,767**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Central banks	-	-	-	-	-	-	-	-	-	-	-	-
General governments	1,234,767	1,234,767	-	-	-	-	-	-	-	-	-	-
Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-	-	-	-	-
Non-financial corporations	-	-	-	-	-	-	-	-	-	-	-	-
Off-statement of financial position exposures	**544,004**			**44,261**								**44,261**
Central banks	-			-								-
General governments	251,960			31,052								31,052
Credit institutions	2,446			-								-
Other financial corporations	83,609			-								-
Non-financial corporations	205,206			13,200								13,200
Households	782			9								9
TOTAL AS AT 31/12/2022	**4,542,776**	**3,694,401**	**304,372**	**329,090**	**52,004**	**5,962**	**12,293**	**14,140**	**125,049**	**42,791**	**32,591**	**329,090**

TEMPLATE EU CQ5[6]: 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	3,636	3,567	3,567	3,636	(1,246)	-
Mining and quarrying	106	-	-	106	(0)	-
Manufacturing	50,703	6,575	6,575	50,703	(6,324)	-
Electricity, gas, steam and air conditioning supply	10,063	6	6	10,063	(122)	-
Water supply	27,592	14,994	14,994	27,592	(5,831)	-
Construction	33,694	9,182	9,182	33,694	(2,966)	-
Wholesale and retail trade	79,707	17,207	17,207	79,707	(13,181)	-
Transport and storage	5,447	714	714	5,447	(279)	-
Accommodation and food service activities	17,645	834	834	17,645	(295)	-
Information and communication	5,165	3,062	3,062	5,165	(1,680)	-
Financial and insurance activities	250	211	211	250	(34)	-
Real estate activities	718	39	39	718	(5)	-
Professional, scientific and technical activities	9,969	9,469	9,469	9,969	(7,561)	-
Administrative and support service activities	18,489	2,325	2,325	18,489	(1,521)	-
Public administration and defense, compulsory social security	11	-	-	11	(0)	-
Education	289	63	63	289	(1)	-
Human health services and social work activities	35,575	1,847	1,847	35,575	(1,380)	-
Arts, entertainment and recreation	193,369	2,489	2,489	193,369	(1,629)	-
Other services	39,433	137	137	39,433	(184)	-
Total as at 31/12/2022	**531,862**	**72,719**	**72,719**	**531,862**	**(44,240)**	**-**

(6) Template EU CQ5: refers only to non-financial corporations

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 year ≤ 5 years	Of which past due > 5 year ≤ 7 years	Of which past due > 7 years
Gross carrying amount	**2,901,560**	**2,616,731**	**304,372**	**284,829**	**52,004**	**232,825**	**5,962**	**12,293**	**14,140**	**125,049**	**42,791**	**32,591**
Of which: secured	1,228,747	1,204,164	3,656	24,582	6,834	17,748	3,927	5,588	3,316	4,789	107	22
Of which: secured with Immovable property	2,271	2,271	-	-	-	-	-	-	-	-	-	-
Of which instruments with LTV higher than 60% and lower or equal to 80%	966	966		-	-	-						
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	**(7,619)**	**(2,195)**	**(44)**	**(5,424)**	**(1,939)**	**(3,485)**	**(134)**	**(319)**	**(386)**	**(2,618)**	**(21)**	**(6)**
Collateral												
Of which value capped at the value of exposure	1,020,936	1,005,423	3,650	15,513	3,789	11,724	2,180	5,179	2,825	1,440	86	15
Of which immovable property	2,270	2,270	-	-	-	-	-	-	-	-	-	-
Of which value above the cap	28,675	28,650	-	25	25	-	2,180	5,179	2,825	1,440	86	15
Of which: Immovable property	1,955	1,955	-	-	-	-	-	-	-	-	-	-
Financial guarantees received	**246,905**	**243,486**	**1**	**3,418**	**1,106**	**2,313**	**1,414**	**67**	**102**	**731**	-	-
Accumulated partial write-off	-	-	-	-	-	-	-	-	-	-	-	-

PERFORMING AND NON-PERFORMING EXPOSURES AND RELATED PROVISIONS AT 31 DECEMBER 2022 (EU CR1 UNDER REG. 2021/637)- 1/2

(Amounts in thousands of Euro)

	Gross carrying amount/nominal amount					
	Performing exposures			Non-performing exposures		
		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	147,274	147,274	-	-	-	-
Loans and advances	2,616,731	2,503,936	112,795	284,829	-	284,745
Central banks	1,309	1,309	-	-	-	-
General governments	1,026,752	1,025,126	1,626	187,705	-	187,621
Credit institutions	17,297	17,297	-	11	-	11
Other financial corporations	79,616	79,545	71	2,231	-	2,231
Non-financial corporations	459,143	453,800	5,342	72,719	-	72,719
Of which SMEs	238,211	233,375	4,836	20,702	-	20,702
Households	1,032,614	926,858	105,756	22,162	-	22,162
Debt securities	1,234,767	1,234,767	-	-	-	-
Central banks	-	-	-	-	-	-
General governments	1,234,767	1,234,767	-	-	-	-
Credit institutions	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-
Non-financial corporations	-	-	-	-	-	-
Off-statement of financial position exposures	544,004	537,241	6,763	44,261	-	44,261
Central banks	-	-	-	-	-	-
General governments	251,960	251,960	-	31,052	-	31,052
Credit institutions	2,446	2,446	-	-	-	-
Other financial corporations	83,609	83,609	-	-	-	-
Non-financial corporations	205,206	198,443	6,763	13,200	-	13,200
Households	782	782	-	9	-	9
Total as at 31/12/2022	**4,542,776**	**4,423,218**	**119,558**	**329,090**	**-**	**329,005**

PERFORMING AND NON-PERFORMING EXPOSURES AND RELATED ADJUSTMENTS AND PROVISIONS AT 31 DECEMBER 2022 (EU CR1 UNDER REG. 2021/637)- 2/2

(Amounts in thousands of Euro)

	Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collaterals and financial guarantees received	
	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			
Cash balances at central banks and other demand deposits	(4)	(4)	-	-	-	-		-	-
Loans and advances	(6,489)	(4,496)	(1,993)	(61,728)	-	(61,728)	-	1,248,909	18,931
Central banks	(1)	(1)	-	-	-	-	-	-	-
General governments	(2,140)	(2,100)	(39)	(15,489)	-	(15,488)	-	-	-
Credit institutions	(2)	(2)	-	0	-	0	-	-	-
Other financial corporations	(30)	(30)	0	(7)	-	(7)	-	929	-
Non-financial corporations	(2,785)	(1,507)	(1,278)	(41,455)	-	(41,455)	-	240,826	3,418
Of which SMEs	(1,829)	(553)	(1,276)	(9,626)	-	(9,626)	-	150,932	1,004
Households	(1,530)	(855)	(675)	(4,777)	-	(4,777)	-	1,007,154	15,513
Debt securities	(689)	(689)	-	-	-	-	-	-	-
Central banks	-	-	-	-	-	-	-	-	-
General governments	(689)	(689)	-	-	-	-	-	-	-
Credit institutions	-	-	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-	-
Non-financial corporations	-	-	-	-	-	-	-	-	-
Off-statement of financial position exposures	(24)	(24)	-	-	-	-		269	-
Central banks	-	-	-	-	-	-		-	-
General governments	(0)	(0)	-	-	-	-		20	-
Credit institutions	(2)	(2)	-	-	-	-		-	-
Other financial corporations	-	-	-	-	-	-		9	-
Non-financial corporations	(22)	(22)	-	-	-	-		175	-
Households	(0)	(0)	-	-	-	-		65	-
Total as at 31/12/2022	**(7,202)**	**(5,209)**	**(1,993)**	**(61,728)**	**-**	**(61,728)**	**-**	**1,249,178**	**18,931**

TEMPLATE EU CR1-A: MATURITY OF EXPOSURES

(Amounts in thousands of Euro)

	Net exposure value					
	On demand	<= 1 year	> 1 year <= 5 years	>5 years	No stated maturity	Total
Loans and advances	656,531	772,282	540,409	864,122		2,833,343
Debt securities	-	13,994	612,482	607,602		1,234,078
Total as at 31/12/2022	**656,531**	**786,276**	**1,152,891**	**1,471,723**		**4,067,421**

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

(Amounts in thousands of Euro)

	31/12/2022
	Gross carrying amount
Initial stock of non-performing loans and advances	**315,072**
Inflows to non-performing portfolios	69,488
Outflows from non-performing portfolios	(99,731)
Outflows due to write-offs	-
Outflow due to other situations	(99,731)
Final stock of non-performing loans and advances	**284,829**

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

(Amounts in thousands of Euro)

	Valore contabile lordo	Relativi recuperi netti accumulati
Initial stock of non-performing loans and advances	**315,072**	
Inflows to non-performing portfolios	69,488	
Outflows from non-performing portfolios	(99,731)	
Outflow to performing portfolio	(32,770)	
Outflow due to loan repayment, partial or total	(66,961)	
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	**284,829**	

At 31 December 2022, the Large Exposures of the Parent (exposures equal to or greater than 10% of Own Funds) consist of 27 positions for a sum of:

- Carrying amount € 3,540,524 (thousands)
- Weighted value € 434,210 (thousands)

SECTION 9 – ENCUMBERED ASSETS

QUALITATIVE DISCLOSURE

The encumbered assets of the Bank include debt instruments used as collateral in repurchase agreements. The encumbered assets also include trade receivables as security c/o the Central Bank via ABACO and the QC receivables securitised in the vehicle "QUINTO SISTEMA SEC. 2017 S.R.L".

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 2022 budget.

As at 31 December 2022, encumbered debt instruments amounted to approximately € 635.9 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)

	31/12/2022							
	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	**1,721,185**	**635,894**			**2,453,153**	**263,876**		
Equity instruments	-	-	-	-	5,343	-	5,343	-
Debt securities	635,894	635,894	635,894	635,894	263,876	263,876	263,876	263,876
of which covered bonds	-	-	-	-	-	-	-	-
of which: securitisations	-	-	-	-	-	-	-	-
of which issued by general governments	635,894	635,894	635,894	635,894	263,876	263,876	263,876	263,876
of which issued by financial corporations	-	-	-	-	-	-	-	-
of which issued by non-financial corporations	-	-	-	-	-	-	-	-
Other assets	1,081,930	-			2,130,238	-		

TEMPLATE EU AE2 - COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED

(Amounts in thousands of Euro)

	Total collateral received and own debt securities issued			
	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	-	-	-	-
Loans on demand	-	-	-	-
Equity instruments	-	-	-	-
Debt securities	-	-	-	-
of which covered bonds	-	-	-	-
of which securitisations	-	-	-	-
of which issued by general governments	-	-	-	-
of which issued by financial corporations	-	-	-	-
of which issued by non-financial corporations	-	-	-	-
Loans and advances other than loans on demand	-	-	-	-
Other collateral received	-	-	-	-
Own debt securities issued other than own covered bonds or securitisations	-	-	-	-
Own covered bonds and asset-backed securities issued and not yet pledged			-	-
Total assets, collateral received and own debt securities issued	**1,721,185**	**447,975**		

TEMPLATE AE3: SOURCES OF ENCUMBRANCE

(Amounts in thousands of Euro)

	31/12/2022	
	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	**1,299,175**	**1,694,117**

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 2022, 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" / "Standard & Poor's" 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	RWAs density
Central governments or central banks	1,641,768	1,571	1,814,472	-	47,410	2.6129%
Regional government or local authorities	317,260	-	317,260	-	60,297	19.0056%
Public sector entities	468,640	250,390	468,640	40	82,202	17.5390%
Multilateral development banks	-	-	39,203	-	-	0.0000%
International organisations	-	-	-	-	-	0.0000%
Supervised brokers	82,678	75,000	82,678	-	16,536	20.0000%
Corporates	463,505	189,513	263,185	7,174	215,755	79.8032%
Retail	1,025,982	34,457	926,664	1,190	369,678	39.8422%
Secured by mortgages on immovable property	2,270	-	2,270	-	795	35.0000%
Exposures in default	221,918	42,787	219,626	-	316,263	144.0009%
Exposures associated with particularly high risk	-	-	-	-	-	0.0000%
Covered bonds	-	-	-	-	-	0.0000%
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	0.0000%
Collective investment undertakings	-	-	-	-	-	0.0000%
Equity instruments	5,338	-	5,338	-	5,338	100.0000%
Other items	77,551	-	77,551	-	68,769	88.6755%
Total as at 31/12/2022	**4,306,909**	**593,717**	**4,216,887**	**8,404**	**1,183,041**	**27.9991%**

TEMPLATE EU CR5 - STANDARDISED APPROACH

(Amounts in thousands of Euro)

Exposure classes	Risk weight														Total	Of which unrated
	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Other		
Central governments or central banks	1,793,985	-	-	-	-	-	-	-	-	2,537	-	17,949	-	-	-	1,814,472	1,814,472
Regional government or local authorities	15,774	-	-	-	301,486	-	-	-	-	-	-	-	-	-	-	317,260	317,260
Public sector entities	99,503	-	-	-	358,719	-	-	-	-	10,458	-	-	-	-	-	468,680	468,680
Multilateral development banks	39,203	-	-	-	-	-	-	-	-	-	-	-	-	-	-	39,203	39,203
International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions	-	-	-	-	82,678	-	-	-	-	-	-	-	-	-	-	82,678	82,678
Corporates	-	-	-	-	45,533	-	5,742	-	-	219,083	-	-	-	-	-	270,359	219,083
Retail	-	-	-	-	-	811,075	-	-	116,779	-	-	-	-	-	-	927,854	927,854
Secured by mortgages on immovable property	-	-	-	-	-	2,270	-	-	-	-	-	-	-	-	-	2,270	2,270
Exposures in default	-	-	-	-	-	-	-	-	-	26,351	193,275	-	-	-	-	219,626	219,626
Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Covered bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Units or shares in collective investment undertakings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity instruments	-	-	-	-	-	-	-	-	-	5,338	-	-	-	-	-	5,338	5,338
Other exposures	7,978	-	-	-	1,005	-	-	-	-	68,568	-	-	-	-	-	77,551	77,551
Total as at 31/12/2022	**1,956,443**	**-**	**-**	**-**	**789,422**	**813,345**	**5,742**	**-**	**116,779**	**332,336**	**193,275**	**17,949**	**-**	**-**	**-**	**4,225,291**	**4,174,015**

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 2022, 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 updated the Business Impact Analysis;
- has updated the Business Continuity Plan;
- has performed at least annual Disaster Recovery and Business Continuity tests for the Bank’s Critical Platforms and
- has planned a periodic update of the IT security policy;

- has planned a review of the operational plan of IT initiatives;
- has planned at least annual review of ICT Risks;
- has planned annual ICT cost adequacy analysis.

The Group, given the gradual exit from the health emergency and in keeping with the regulatory framework that envisaged the end of facilitated access to remote working on 31 August, decided to revert its operating model to one based on full presence, and from 1 September all employees resumed their activities in the offices and branches. Starting from 1 October – again in line with the new legal provisions that have since come into force – a flexible operational model was restored with the introduction of remote working arrangements envisaged until the end of 2022.

QUANTITATIVE DISCLOSURE

On the basis of the approach illustrated above, the capital requirement covering operational risk at 31 December 2022 was € 15.1 million.

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

(Amounts in thousands of Euro)

Banking activities	Relevant indicator			Own funds requirements	Risk weighted exposure amount
	Year-3	Year-2	Last year		
Banking activities subject to basic indicator approach (BIA)	**93,992**	**101,199**	**106,909**	**15,105**	**188,813**
Banking activities subject to standardised (TSA) / alternative standardised (ASA) approaches	-	-	-	-	-
Subject to TSA	-	-	-		
Subject to ASA	-	-	-		
Banking activities subject to advanced measurement approaches (AMA)	-	-	-	-	-

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	Plus (+)	Losses (-)
Financial assets measured at fair value through other comprehensive income	338		5,000	338		5,000					
Financial assets at fair value through profit or loss											
Equity investments			970			970					
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 € 970 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.It should be noted that the carrying value of the investments is appropriately adjusted to take into account the pro-rata result of the Spanish Joint Venture as at 31 December 2022.

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; similarly, interbank funding transactions are predominantly at a fixed rate.

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 quarterly 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 "*bucketed*" according to the contractual maturity chosen by the customer. For a better measurement of interest rate risk, the Bank has implemented a new model for the allocation of on-demand items for the retail segment (which replaces the clustering set out in Circular 285, Annex C).It also updated the QC prepayment model.

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.

For the purpose of calculating the interest rate risk of the banking book, the Bank of Italy provides that in determining internal capital under ordinary conditions, reference may be made to the hypothetical change in rates equal to +/- 200 basis points on the economic value, respecting the criteria defined in the EBA Guidelines on the management of interest rate risk arising from non-trading activities. 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.

As for the determination of internal capital under stressed conditions, the application of the standardised shock scenarios 1 to 6, as defined in the EBA Guidelines, with the application of the EBA floor for negative shocks, is considered.

The table below shows that the bank's assets and liabilities, compared to last year, are sensitive to an increase in interest rates and that the scenario with the highest capital absorption is Parallel up +200 bps. This sensitivity to rising rates is mainly due to the macroeconomic scenario and the resulting restrictive economic policy choices of the ECB.

In line with the year 2021, the change in the economic value of equity is greater than the change in net interest income, andthe riskiness value (the Supervisory outlier test), although higher than last year, is well below the regulatory limit of 20%.

TEMPLATE EU IRRBB1: INTEREST RATE RISKS OF NON-TRADING BOOK ACTIVITIES

(Amounts in thousands of Euro)

Supervisory shock scenarios	Changes of the economic value of equity		Changes of the net interest income	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Parallel up	(24,360)	(16,536)	(5,466)	(4,865)
Parallel down	10,251	5,099	5,466	4,865
Steepener	1,036	(6,541)		
Flattener	(5,067)	4,307		
Short rates up	(11,900)	(629)		
Short rates down	12,405	4,131		

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 and Atlantis SPV: securitisation of factored VAT receivables, for the former (still outstanding) and securitisation of loans from enforceable injunctions, for the latter (no longer outstanding).

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 Remuneration Committee was appointed on 24 May 2021, but its current composition was established on 20 May 2022, following the resignation of Director Marco Giovannini. As of 31 December 2022, it consists of three non-executive directors, two of whom are independent:

- Francesca Granata (Chairperson of the Committee, independent Director, non-executive),
- Giovanni Antonino Puglisi (Director and Deputy Chairperson of the Bank, non-executive),
- Daniele Pittatore (Independent and non-executive director).

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 Committee regulation.

In 2022, the Remuneration Committee met 7 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 include 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 43 persons have been identified for 2022, as detailed in Annex 1 of the 2022 Remuneration Policies Document.

b. Information relating to the design and structure of the remuneration system for identified staff.

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, 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 the 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; personnel in charge of assessing creditworthiness and personnel responsible for handling complaints. The Board 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; 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 the Policies 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, Risk Management and Sustainability 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, Risk Management and Sustainability 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, Risk Management and Sustainability 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.

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 2022 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 2022, 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 Human Capital Department and the Manager in charge of financial reporting, 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, the Human Capital Department and the Manager in charge of financial reporting, fixed remuneration is commensurate with key responsibilities and with the commitment associated with the role performed. “Department allowances”, as defined by the Board of Directors during the approval of the Remuneration Policies Document of the relevant year, are granted on an annual basis to the Parent's Heads of the Control Departments (Internal Audit Department, Risk Department, and Compliance and Anti-Money Laundering Department). This allowance is paid to each employee assigned by the Bank to the role of Head of one of the afore-mentioned Parent departments in relation to the implicit responsibilities associated with the role and therefore, insofar as being closely linked to this role assignment, it shall cease to be paid in the event of assignment to another role also on the Bank's initiative.

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 2022 and also valid for 2023 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 of the Remuneration Policies Document, in order to ensure its sustainability on a capital and financial level.

The so-called “Bonus Pool” represents part of the consolidated personnel expense, which is approved by the Bank's competent management bodies at the end of the budgeting process for the relevant year. This component, planned by cost centre (Division/Corporate Centre/Group), is measured by means of the so-called ”funding curve” against the achievement of the income results set in the budget, and it can decrease or increase, within the limit of predefined thresholds, according to the actual degree of achievement of those results and with a minimum level achieved equal to 75% of the Group's gross profit (excluding the bonus pool).

Furthermore, consistently with the principle of financial sustainability, the Bonus Pool budgeted for each Division is then adjusted, as final balance, according to the actual result achieved by the same Division against the budget, in addition to a specific weighting linked to the actual achievement of the result attained by the Group.

The actual availability of the Bonus Pool is in any case conditional, in the calculation of the final balance, upon prior compliance with the capital and liquidity requirements consistent with the RAF (''gates''), in particular, joint compliance – at the end of the relevant year – with the first-level threshold, as defined in the RAF, for the TCR and LCR.

Failure to meet even one of the aforementioned parameters will result in the Bonus Pool not being activated and consequently no bonus will be allocated.

Verification of compliance with the gates and the amount of the Bonus Pool actually available falls under the responsibility of the Board of Directors, upon consultation with the competent departments (Finance Department, Risk Department, Manager in charge of financial reporting, Human Capital Department), subject to the opinion of the Remuneration Committee.

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.

In detail, the Board of Directors' proposal to the Shareholders' Meeting will indicate at least the following information: (i) the departments to which those persons affected by the decision belong and their number, for each department; (ii) the reasons underlying the proposed increase; (iii) the implications, even in a forward-looking perspective, for the Company's ability to continue to comply with all applicable prudential rules.

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** – The "Bonus Pool" is measured by means of the so-called "funding curve" against the achievement of the income results set in the budget, and it can decrease or increase, within the limit of predefined thresholds, according to the actual degree of achievement of those results and with a minimum level achieved equal to 75% of the Group's gross profit (excluding the bonus pool). Furthermore, consistently with the principle of financial sustainability, the Bonus Pool budgeted for each Division is then adjusted, as final balance, according to the actual result achieved by the same Division against the budget, in addition to a specific weighting linked to the actual achievement of the result attained by the Group;
- **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 TCR and 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.

Pursuant to Part One, Title IV, Chapter 2, Section I, paragraph 7, of Circular 285, as most recently updated on 24 November 2022 (37th update), in application of the principle of proportionality, Banca Sistema qualifies as a "smaller and less complex bank" as it recognised, in its separate financial statements, assets of less than € 5 billion (calculated as the average of the four years immediately preceding the current financial year) and does not belong to a group with consolidated assets equal to or greater than € 30 billion.

The Bank indicates 25% of average total remuneration of Italian high earners, as shown in the latest EBA report (published in January 2023) and relating to data processed at the end of 2021, as being a particularly high level of variable remuneration[7].

In 2022, 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 € 50,000, 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 € 50,000 and up to € 435,000 or where the condition referred to in the previous point is not met: or 70% up-front and in cash; or for the remaining 30% deferred in the first and second subsequent year with payment according to the pro-rata criterion equal to 15%;
- for amounts greater than € 435,000: or 60% up-front and in cash; or for the remaining 40% deferred in the first and second subsequent year with payment according to the pro-rata criterion equal to 20%.

(7) 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 2021 shows that the amount referred to in point i) above is € 424,260.

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 longterm 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 2022, 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 € 50,000, 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;
- amounts greater than € 50,000 and up to € 435,000 or where the condition referred to in the previous point is not met: 70% up-front and in cash or for the remaining 30% deferred in the first and second subsequent year with payment according to the pro-rata criterion equal to 15%;
- for amounts greater than € 435,000: 60% up-front and in cash or for the remaining 40% deferred in the first and second subsequent year, with payment according to the pro-rata criterion equal to 20%.

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 the Bank's financial and liquidity position, to take into account 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, Risk Management and Sustainability 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, 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, 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.

With the 2022 Policies, the deferral will take place only through monetary quotas.

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

		Management Body - supervisory function	Management Body - management function	Other senior management	Other key personnel
Fixed Remuneration	Number of key personnel members	11	1	12	18
	Total fixed remuneration	655,411	919,000	2,010,101	2,137,690
	Of which: cash-based	655,411	874,000	1,885,001	1,999,090
	(Not applicable in the EU)				
	Of which: shares or equivalent ownership interests	-	-	-	-
	Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
	Of which: other instruments	-	-	-	-
	(Not applicable in the EU)				
	Of which: other forms	-	45,000	125,100	138,600
	(Not applicable in the EU)				
Variable remuneration	Number of key personnel members	8	1	12	18
	Total variable remuneration	98,500	675,078	435,264	254,773
	Of which: cash-based	98,500	675,078	435,264	254,773
	Of which: deferred	-	270,031	81,893	0
	Of which: shares or equivalent ownership interests	-	-	-	-
	Of which: deferred	-	-	-	-
	Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
	Of which: deferred	-	-	-	-
	Of which: other instruments	-	-	-	-
	Of which: deferred	-	-	-	-
	Of which: other forms	-	-	-	-
	Of which: deferred	-	-	-	-
Total remuneration (2+10)		**753,911**	**1,594,078**	**2,445,365**	**2,392,463**

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

	Management Body Management Body - strategic super-vision function	Management Body - management function	Other senior man-agement	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				
- of which deferred				
- of which severance payments paid during the financial year, that are not taken into account in the bonus cap				
- of which highest payment that has been awarded to a single person				

TEMPLATE EU REM3 - DEFERRED REMUNERATION

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	981,251	376,400	604,851	-	-	-	231,776	286,064
Cash-based	235,501	90,336	145,165	-	-	-	90,336	
Shares or equivalent ownership interests	745,750	286,064	459,686	-	-	-	141,440	286,064
Share-linked instruments or equivalent non-cash instruments	-			-	-	-	-	-
Other instruments	-			-	-	-	-	-
Other forms	-			-	-	-	-	-
Other senior management	366,300	124,500	241,800	-	-	-	77,250	62,250
Cash-based	183,150	62,250	120,900	-	-	-	62,250	
Shares or equivalent ownership interests	183,150	62,250	120,900	-	-	-	15,000	62,250.00
Share-linked instruments or equivalent non-cash instruments	-			-	-	-	-	-
Other instruments	-			-	-	-	-	-
Other forms	-			-	-	-	-	-
Other key personnel	-	-	-	-	-	-	-	-
Cash-based	-	-	-	-	-	-	-	
Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
Share-linked instruments or equivalent non-cash instruments	-			-	-	-	-	-
Other instruments	-			-	-	-	-	-
Other forms	-			-	-	-	-	-
Total Amount	**1,347,551**	**500,900**	**846,651**	**-**	**-**	**-**	**-**	**-**

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)

	Management body remuneration			Business areas						
	Management body - strategic supervision 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	11	1	12				12	7	11	42
Of which: members of the management body	11		11							11
Of which: other senior management		1	1				12	-	-	13
Of which other key personnel members	-	-	-					7	11	18
Total remuneration of key personnel	753,911	1,594,078	2,347,989				2,445,365	978,234	1,414,229	7,185,817
Of which variable remuneration	98,500	675,078	773,578				435,264	97,594	157,178	1,463,614
Of which: fixed remuneration	655,411	919,000	1,574,411				2,010,101	880,640	1,257,051	5,722,203

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 5.04%, 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.

It should be noted that until 31 March 2022, the less significant banks excluded certain exposures to central banks from the total exposure measure used to calculate the leverage ratio.

The bank considers its leverage risk to be low, partly given that about 29.2% 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 two years.

The following tables show the leverage ratio at 31 December 2022, 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	
	31/12/2022	**30/06/2022**
Total assets as per published financial statements	4,397,401	3,845,442
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation	4,936	11,121
(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))	-	-
(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)	23,024	938
Adjustment for off-statement of financial position items (ie conversion to credit equivalent amounts of off-statement of financial position exposures)	38,658	118,829
(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	(86,240)	(43,526)
Total exposure measure	**4,377,779**	**3,932,805**

TEMPLATE EU LR2 - LRCOM: LEVERAGE RATIO COMMON DISCLOSURE

(Amounts in thousands of Euro)

	CRR leverage ratio exposures	
	31/12/2022	30/06/2022
On-statement of financial position exposures (excluding derivatives and SFTs)		
On-statement of financial position items (excluding derivatives, SFTs, but including collateral)	4,350,729	3,845,442
Gross-up for derivatives collateral provided where deducted from the statement of financial position assets pursuant to the applicable accounting framework	-	-
(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-	-
Adjustment for securities received under securities financing transactions that are recognised as an asset	-	-
(General credit risk adjustments to on-statement of financial position items)	-	-
(Asset amounts deducted in determining Tier 1 capital)	(34,631)	(32,404)
Total on-statement of financial position exposures (excluding derivatives and SFTs)	**4,316,098**	**3,813,038**
Derivative exposures		
Replacement cost associated with SA-CCR derivatives transactions (ie net of eligible cash variation margin)	-	-
Derogation for derivatives: replacement costs contribution under the simplified standardised approach	-	-
Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	-	-
Derogation for derivatives: potential future exposure contribution under the simplified standardised approach	-	-
Exposure determined under Original Exposure Method	-	-
(Exempted CCP leg of customer-cleared trade exposures) (SA-CCR)	-	-
(Exempted CCP leg of customer-cleared trade exposures) (simplified standardised approach)	-	-
(Exempted CCP leg of customer-cleared trade exposures) (Original Exposure Method)	-	-
Adjusted effective notional amount of written credit derivatives	-	-
(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
Total derivatives exposures	**-**	**-**
Securities financing transaction (SFT) exposures		
Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions	-	-
(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
Counterparty credit risk exposure for SFT assets	23,024	938
Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429e(5) and 222 CRR	-	-
Agent transaction exposures	-	-
(Exempted CCP leg of customer-cleared SFT exposure)	-	-
Total securities financing transaction exposures	**23,024**	**938**

(Amounts in thousands of Euro)

	CRR leverage ratio exposures	
	31/12/2022	**30/06/2022**
Other off-statement of financial position exposures		
Off-statement of financial position exposures at gross notional amount	593,741	939,925
(Adjustments for conversion to credit equivalent amounts)	(555,083)	(821,096)
(General provisions deducted in determining Tier 1 capital and specific provisions associated with off-statement of financial position exposures)		
Off-statement of financial position exposures	**38,658**	**118,829**
Excluded exposures		
(Exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) CRR)	-	-
(Exposures exempted in accordance with point (j) of Article 429a (1) CRR (on and off statement of financial position))	-	-
(Excluded exposures of public development banks (or units) - Public sector investments)	-	-
(Excluded exposures of public development banks (or units) - Promotional loans)	-	-
(Excluded passing-through promotional loan exposures by non-public development banks (or units))	-	-
(Excluded guaranteed parts of exposures arising from export credits)	-	-
(Excluded excess collateral deposited at triparty agents)	-	-
(Excluded CSD related services of CSD/institutions in accordance with point (o) of Article 429a(1) CRR)	-	-
(Excluded CSD related services of designated institutions in accordance with point (p) of Article 429a(1) CRR)	-	-
(Reduction of the exposure value of pre-financing or intermediate loans)	-	-
(Total exempted exposures)	**-**	**-**
Capital and total exposure measure		
Tier 1 capital	**220,474**	**221,802**
Total exposure measure	**4,377,779**	**3,932,805**
Leverage ratio		
Leverage ratio (%)	5.0362%	5.6398%
Leverage ratio (excluding the impact of the exemption of public sector investments and promotional loans) (%)	5.0362%	5.6398%
Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) (%)	5.0362%	5.6398%
Regulatory minimum leverage ratio requirement (%)	3.0000%	3.0000%
Additional own funds requirements to address the risk of excessive leverage (%)	0.0000%	0.0000%
of which: to be made up of CET1 capital	0.0000%	0.0000%
Leverage ratio buffer requirement (%)	0.0000%	0.0000%
Overall leverage ratio requirement (%)	3.0000%	3.0000%
Choice on transitional arrangements and relevant exposures		
Choice on transitional arrangements for the definition of the capital measure		

(Amounts in thousands of Euro)

	CRR leverage ratio exposures	
	31/12/2022	30/06/2022
Disclosure of mean values		
Mean of daily values of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivable	-	-
Quarter-end value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables	-	-
Total exposures (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	4,377,779	3,932,805
Total exposures (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	4,377,779	3,932,805
Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	5.0362%	5.6398%
Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	5.0362%	5.6398%

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	
	31/12/2022	30/06/2022
Total on-statement of financial position exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**4,350,729**	**3,874,854**
Trading book exposures	-	0
Banking book exposures, of which:	4,350,729	3,874,854
Covered bonds	-	-
Exposures treated as sovereigns	1,643,347	1,376,720
Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	785,900	621,286
Institutions	107,759	66,586
Secured by mortgages of immovable properties	2,270	2,153
Retail exposures	1,025,982	1,053,358
Corporates	464,392	403,780
Exposures in default	221,918	227,288
Other exposures (eg equity, securitisations, and other non-credit obligation assets)	99,161	123,683

SECTION 19 – RISK MITIGATION TECHNIQUES

INFORMATIVA QUALITATIVA

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.

INFORMATIVA QUANTITATIVA

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	1,712,774	1,267,840	1,020,936	246,905	-
Debt securities	1,234,078	-	-	-	
Total as at 31/12/2022	**2,946,851**	**1,267,840**	**1,020,936**	**246,905**	**-**
Of which non-performing exposures	204,170	18,931	15,513	3,418	-
Of which: defaulted	204,170	18,931			

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

TEMPLATE 1: INFORMATION ON LOANS AND ADVANCES SUBJECT TO LEGISLATIVE AND NON-LEGISLATIVE MORATORIA (1 of 2)

(Amounts in thousands of Euro)

	Gross carrying amount						
		Performing			Non-performing		
			Of which: forborne exposures	Of which: Stage 2		Of which: forborne exposures	of which: unlikely to pay that are not past due or are past due ≤90 days
Loans and advances subject to moratoria	**2,916**	**2,670**	**-**	**2,537**	**246**	**-**	**-**
of which: to households	-	-	-	-	-	-	-
of which: collateralised by residential immovable property	-	-	-	-	-	-	-
of which: non-financial corporations	2,916	2,670	-	2,537	246	-	-
of which: SMEs	2,916	2,670	-	2,537	246	-	-
of which: collateralised by commercial immovable property	-		-	-	-	-	-

TEMPLATE 1: INFORMATION ON LOANS AND ADVANCES SUBJECT TO LEGISLATIVE AND NON-LEGISLATIVE MORATORIA (2 of 2)

(Amounts in thousands of Euro)

	Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							Gross amount
		Performing			Non-performing			Flows into non-performing exposures
			Of which: forborne exposures	Of which: Stage 2		Of which: forborne exposures	of which: unlikely to pay that are not past due or are past due ≤90 days	
Loans and advances subject to moratoria	**(1,325)**	**(1,277)**	**-**	**(1,273)**	**(47)**			
of which: to households	-	-	-	-	-	-	-	
of which: collateralised by residential immovable property	-	-	-	-	-	-	-	
of which: non-financial corporations	(1,325)	(1,277)	-	(1,273)	(47)	-	-	
of which: SMEs	(1,325)	(1,277)	-	(1,273)	(47)	-	-	
of which: collateralised by commercial immovable property	-	-	-	-	-	-	-	

TABLE 2: BREAKDOWN OF LOANS AND ADVANCES SUBJECT TO LEGISLATIVE AND NON-LEGISLATIVE MORATORIA BY RESIDUAL MATURITY 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 moratorium was offered	**6**	**2,916**							
Loans and advances subject to moratorium (granted)	**6**	**2,916**	**2,916**	**2,916**	**2,916**				
of which: to households		-	-	-	-	-	-	-	-
of which: collateralised by residential immovable property		-	-	-	-	-	-	-	-
of which: non-financial corporations		2,916	2,916	2,916	2,916	-	-	-	-
of which: SMEs		2,916	2,916	2,916	-	-	-	-	-
of which: collateralised by commercial immovable property		-	-	-	-	-	-	-	-

TABLE 3: 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 amount
		Of which: forborne	Public guarantees received	Flows into non-performing exposures
New loans and advances subject to public guarantee schemes	**151,416**	**-**	**20,166**	
of which: to households	-			
of which: collateralised by residential immovable property	-			
of which: non-financial corporations	151,416	-	20,166	
of which: SMEs	-			
of which: collateralised by commercial immovable property	-			

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 85% 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 YYY)	**31/12/2022**	**30/09/2022**	**30/06/2022**	**31/03/2022**	**31/12/2022**	**30/09/2022**	**30/06/2022**	**31/03/2022**
Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
High-quality liquid assets								
Total high-quality liquid assets (HQLA)					**342,041**	**393,552**	**428,208**	**432,185**
Cash - Outflows								
Retail deposits and deposits from small business customers, of which:	1,011,539	1,023,228	1,033,672	1,035,454	15,338	16,139	16,981	17,234
Stable deposits	174,020	180,180	190,523	194,348	8,701	9,009	9,526	9,717
Less stable deposits	47,448	50,639	52,618	52,680	6,637	7,130	7,455	7,517
Unsecured wholesale funding	498,679	542,151	581,489	583,894	288,464	301,255	314,968	308,412
Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-	-	-	-	-	-	-
Non-operational deposits (all counterparties)	498,351	541,821	581,074	583,576	288,136	300,925	314,552	308,095
Unsecured debt	328	330	416	318	328	330	416	318
Secured wholesale funding					-	-	-	-
Additional requirements	25,987	57,809	113,775	166,459	3,488	6,998	12,472	17,629
Outflows related to derivative exposures and other collateral requirements	-	-	-	-	-	-	-	-
Outflows related to loss of funding on debt products	-	-	-	-	-	-	-	-
Credit and liquidity facilities	25,987	57,809	113,775	166,459	3,488	6,998	12,472	17,629
Other contractual funding obligations	25,961	25,845	27,406	17,907	25,961	25,845	27,406	17,907
Other contingent funding obligations	-	-	-	-	-	-	-	-
Total cash outflows					**333,250**	**350,237**	**371,827**	**361,183**

(Amounts in thousands of Euro)

	Total unweighted value (average)				Total weighted value (average)			
Quarter ending on (DD Month YYY)	**31/12/2022**	**30/09/2022**	**30/06/2022**	**31/03/2022**	**31/12/2022**	**30/09/2022**	**30/06/2022**	**31/03/2022**
Cash - Inflows								
Secured lending (e.g. reverse repos)	-	-	-	-	-	-	-	-
Inflows from fully performing exposures	296,553	262,882	272,915	262,698	151,884	135,751	141,484	137,565
Other cash inflows	1,989	1,692	1,750	2,115	816	1,128	1,140	1,185
(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	**298,543**	**264,574**	**274,665**	**264,812**	**152,701**	**136,879**	**142,624**	**138,750**
Fully exempt inflows	-	-	-	-	-	-	-	-
Inflows subject to 90% cap	-	-	-	-	-	-	-	-
Inflows subject to 75% cap	298,543	264,574	274,665	264,812	152,701	136,879	142,624	138,750
Total adjusted value								
Liquidity buffer					**342,041**	**393,552**	**428,208**	**432,185**
Total net cash outflows					**182,183**	**214,992**	**229,203**	**222,433**
Liquidity coverage ratio (%)					**221.3825%**	**213.2978%**	**193.5783%**	**202.6443%**

TEMPLATE EU LIQ2: NET STABLE FUNDING RATIO

(Amounts in thousands of Euro)

(In currency amount)	31/12/2022				
	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	220,806	-	-	193	220,999
Own funds	220,806	-	-	193	220,999
Other capital instruments		-	-	-	-
Retail deposits		402,208	351,013	302,649	1,008,672
Stable deposits		312,815	249,665	234,401	768,758
Less stable deposits		89,393	101,348	68,248	239,914
Wholesale funding:		1,961,802	77,927	917,584	1,247,649
Operational deposits		-	-	-	-
Other wholesale funding		1,961,802	77,927	917,584	1,247,649
Interdependent liabilities		-	-	-	-
Other liabilities:	-	-	-	122,012	122,012
NSFR derivative liabilities	-				
All other liabilities and capital instruments not included in the above categories		-	-	122,012	122,012
Total available stable funding (ASF)					**2,599,332**

(Amounts in thousands of Euro)

(In currency amount)	31/12/2022				
	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)					2,550
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:		1,062,963	219,770	1,301,304	1,510,770
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		20,635	14	881	2,952
Performing loans to non- financial corporate customers, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:		197,942	85,361	998,892	1,100,110
With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		76,403	74,172	879,945	915,842
Performing residential mortgages, of which:		25	31	1,302	-
With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		21	26	1,149	-
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		844,361	134,364	300,229	407,708
Interdependent assets		-	-	-	-

(Amounts in thousands of Euro)

(In currency amount)	31/12/2022				
	Unweighted value by residual maturity				Weighted value
	No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
Other assets:		12,045	-	394,607	406,653
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		12,045	-	394,607	406,653
Off-statement of financial position items		83	94	334,148	32,745
Total rsf					**1,952,717**
Net stable funding ratio (%)					**133.1136%**

(Amounts in thousands of Euro)

(In currency amount)	30/09/2022				
	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	217,114	-	-	148	171,614
Own funds	217,114	-	-	148	171,614
Other capital instruments		-	-	-	-
Retail deposits		382,759	195,229	357,240	901,752
Stable deposits		321,282	165,184	314,720	776,862
Less stable deposits		61,477	30,045	42,520	124,889
Wholesale funding:		1,526,406	369,429	960,756	1,477,110
Operational deposits		-	-	-	-
Other wholesale funding		1,526,406	369,429	960,756	1,477,110
Interdependent liabilities		-	-	-	-
Other liabilities:	-	1,451	67	115,070	115,103
NSFR derivative liabilities	-				
All other liabilities and capital instruments not included in the above categories		1,451	67	115,070	115,103
Total available stable funding (ASF)					**2,665,579**

(Amounts in thousands of Euro)

(In currency amount)	30/09/2022				
	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)					2,571
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:		1,063,599	368,350	1,268,334	1,434,061
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		1,570	-	-	157
Performing loans to non- financial corporate customers, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:		73,002	186,169	1,018,778	1,030,896
With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		65,232	74,731	914,685	869,548
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		989,028	182,182	249,556	403,008
Interdependent assets		-	-	-	-

(Amounts in thousands of Euro)

(In currency amount)	30/09/2022				
	Unweighted value by residual maturity				Weighted value
	No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
Other assets:		11,761	-	405,314	417,075
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		11,761	-	405,314	417,075
Off-statement of financial position items		167	80	332,831	32,660
Total RSF					**1,886,367**
Net stable funding ratio (%)					**141.3075%**

(Amounts in thousands of Euro)

(In currency amount)	30/06/2022				
	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	221,802	-	-	138	221,940
Own funds	221,802	-	-	138	221,940
Other capital instruments		-	-	-	-
Retail deposits		381,888	184,742	440,398	974,521
Stable deposits		332,351	150,778	393,255	852,228
Less stable deposits		49,537	33,963	47,143	122,293
Wholesale funding:		974,622	617,860	855,588	1,471,549
Operational deposits		-	-	-	-
Other wholesale funding		974,622	617,860	855,588	1,471,549
Interdependent liabilities		-	-	-	-
Other liabilities:	-	100	16	90,668	90,676
NSFR derivative liabilities	-				
All other liabilities and capital instruments not included in the above categories		100	16	90,668	90,676
Total available stable funding (ASF)					**2,758,686**

(Amounts in thousands of Euro)

(In currency amount)	30/06/2022				
	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)					118,152
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:		858,875	537,895	1,210,567	1,381,373
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		8,648	-	-	865
Performing loans to non- financial corporate customers, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:		55,955	183,748	922,750	878,470
With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		49,904	83,342	807,718	713,587
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		794,272	354,147	287,817	502,039
Interdependent assets		-	-	-	-

(Amounts in thousands of Euro)

(In currency amount)	30/06/2022				
	Unweighted value by residual maturity				Weighted value
	No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
Other assets:		12.150	739	400.389	413.277
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		12.150	739	400.389	413.277
Off-statement of financial position items		274	260	10.845	574
Total RSF					**1.913.376**
Net stable funding ratio (%)					**144,1789%**

(Amounts in thousands of Euro)

(In currency amount)	31/03/2022				
	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	218,149	-	-	118	218,266
Own funds	218,149	-	-	118	218,266
Other capital instruments		-	-	-	-
Retail deposits		330,806	196,335	503,696	1,000,982
Stable deposits		284,318	172,863	431,970	866,291
Less stable deposits		46,488	23,473	71,726	134,690
Wholesale funding:		1,406,432	293,870	894,532	1,315,267
Operational deposits		-	-	-	-
Other wholesale funding		1,406,432	293,870	894,532	1,315,267
Interdependent liabilities		-	-	-	-
Other liabilities:	-	1,229	-	70,895	70,895
NSFR derivative liabilities	-				
All other liabilities and capital instruments not included in the above categories		1,229	-	70,895	70,895
Total available stable funding (ASF)					**2,605,410**

(Amounts in thousands of Euro)

(In currency amount)	31/03/2022				
	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)					101,778
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:		827,472	462,242	1,181,609	1,344,644
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		1,789	-	-	179
Performing loans to non- financial corporate customers, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:		67,793	161,014	912,622	888,528
With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		62,381	63,663	770,757	702,434
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		757,890	301,228	268,988	455,937
Interdependent assets		-	-	-	-

(Amounts in thousands of Euro)

(In currency amount)	31/03/2022				
	Unweighted value by residual maturity				Weighted value
	No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
Other assets:		902,712	-	502,745	502,745
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		902,712	-	502,745	502,745
Off-statement of financial position items		509	8,883	9,748	961
TOTAL RSF					**1,950,129**
NET STABLE FUNDING RATIO (%)					**133.6020%**

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 2022, 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 almost exclusively 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 – Financial company - 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
- Kruso Kapital S.p.A - financial company
- EBNSistema Finance S.l.u. - financial company
- Ready Pawn Single Member S.A. For Pawn ("Pronto Pegno Greece"), subsidiary of Kruso Kapital S.p.A. - a financial company

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 2022 was: € 105,928 thousand.

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

This section illustrates the ratio between the total number of hours worked in 2022 by all employees of the Banca Sistema Group, excluding overtime, and the total number of hours per year under the national collective bargaining agreement (ex CCNL) for a full-time employee.

In 2022, the number of employees calculated on this basis was **286**.

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: **€ 33,172 thousand.**

e. **Tax on profit or loss**

"Tax on profit or loss" refers to item 300 of the income statement under Circular no. 262. Income taxes: **€ (10,659) thousand.**

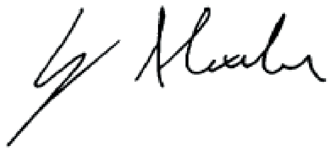
f. **Public subsidies received**

"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 2022.

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 2022" 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).